

The Lowy Institute is an independent, non-partisan, international policy think tank based in Sydney. Its objective is to deepen the debate in Australia about international policy and to generate new ideas and dialogue on international developments.

# CHANGING UTTERLY?

## AUSTRALIA'S INTERNATIONAL POLICY IN AN UNCERTAIN AGE

*Editor: Professor William Tow*

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**LOWY INSTITUTE**  

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**FOR INTERNATIONAL POLICY**

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# INTRODUCTION

*Allan Gyngell*

In 1969, the year I joined the Department of External Affairs as a fresh young graduate, I bought a book called *New Directions in Australian Foreign Policy*. Its introduction begins:

“Australia is now entering an entirely new stage in her political history – a stage where practically nothing looks familiar, where lessons from the past are almost invariably misleading...”<sup>1</sup>

It is a thought that recurs regularly in the way Australians look at the world. It was present in the first-ever report to Parliament by an External Affairs Minister, Billy Hughes back in 1937 and it has cropped up ever since in the rhetoric of politicians and the soberer language of officials. And the presentiment of change is with us again. “Nobody should underestimate how much the world changed on 11 September 2001” said the normally cautious Prime Minister, John Howard.<sup>2</sup> Academic commentators have joined in the game “After Bali”, one of them wrote in the press, “Australian foreign and security policy changed utterly”.

But how far is the world different at this time? And what does it mean for the way Australia should act in it, for the priorities we should choose, the tactics we should adopt?

Those are some of the questions this volume tries to answer. The papers in it were first presented at a conference hosted by the Lowy Institute for

International Policy in Sydney in November 2003. We wanted a broad theme that would match the breadth of the Institute's mandate, which is to produce high quality research on, and fresh options for, Australia's international policy and to inform and deepen the public debate about these matters.

Some of what appears on the surface to be a debate about foreign policy in Australia turns out on closer inspection to be something else entirely – a discussion about Australia's national identity and the way we see ourselves in relation to others. That is an important question but it isn't really amenable to foreign policy analysis. At the other end of the spectrum lie the narrow, particular, tactical issues of how foreign policy should respond in specific circumstances to specific events: for example, what should be in or out of various proposals for free trade agreements, or how Australia should vote on a particular UN resolution.

But in the space between those two poles a number of lively discussions have been taking place in recent years about the strategic direction of Australian policy. They have included such matters as whether the Australian Defence Force should be structured around the defence of Australia or participation in coalitions with our allies; the nature of Australian trade policy – whether the country should seek Preferential Trade Agreements or concentrate on strengthening the multilateral system; the changing role and relevance of international law and of multilateral organisations like the United Nations; and the relative importance of Asia and the United States in our foreign policy.

For the most part, however, the participants in these debates have come from different backgrounds and have brought with them different ways of looking at the world: economists, farmers and business people in the trade debate, former defence personnel or defence industry people on the strategic side, lawyers on the subject of international law, and so on. There has been little cross-fertilisation between the debates and little sense that beneath them all sits the same large question: just how much has the world changed in ways that affect how Australia has to act in it?

In one way, of course, the international environment always changes. Even during long periods of relative stability in the central balance such as the Cold War, economic uncertainties like the oil price shock of the 1970s, or political changes like the great wave of decolonization in Asia and Africa, constantly reshape the world we have to deal with.

Even so, the Australian propensity to see change rather than continuity in the international environment is noteworthy. Something in our national culture does it to us. Historians like David Walker in *Anxious Nation*<sup>3</sup> and practitioners like Rawdon Dalrymple in *Continental Drift*,<sup>4</sup> have given us some insights into why this should be so, but it is a subject that deserves further reflection. The answer lies in something more than the fear of dispossession held by a small population occupying a large land mass.

Over the past couple of years a view has been expressed by policy advisers in Canberra that a disconnect has arisen between those who make foreign policy and advise on it, and those who are outside the system and commenting upon it. This view holds that many of the academics and journalists and think tankers are caught in a time warp, pursuing old debates that are no longer relevant.

In particular, a serious charge has emerged from some quarters that the familiar narrative about Australia in the world – a story we have been telling ourselves for decades now about Australia's slow coming to terms with the countries of its own region – has become stale and irrelevant because the world no longer works that way. That geography has been sidelined, to some extent at least, by technology, whether in the form of information or transport or weapons. That the threats are different in a post-September 11 world and can come from anywhere. You can sometimes hear an even starker version of this view, which is that the old narrative was never anything much more than an ideological construct imposed on the Australian community by a narrow elite.

Are such charges true? The answer is of great importance to Australia. Unless we understand the nature of the world we inhabit we will certainly not be able to deal adequately with it. So it seemed to the Lowy Institute

to be a useful idea – and highly relevant to our function and interests – to examine these questions at greater length.

In the first section of this book, Professor William Tow from Griffith University and Mark Thirlwell from the Lowy Institute try to set out just what has happened; to gauge the degree of change from the perspective, respectively, of international relations and the international economic system.

The next three contributors – Hugh White from the Australian Strategic Policy Institute, John Edwards from HSBC and Ashton Calvert, the Secretary of the Department of Foreign Affairs and Trade – specifically address the implications of these systemic changes for Australian policy. Chris Reus-Smit draws together some major themes emanating from Section I and provides useful cross-comparisons where their propositions leave Australia in an era of intensifying globalisation and strategic risk. Our conference keynote speaker, New South Wales Premier Bob Carr, applies a number of salient historical perspectives about history and how it changes to place the proceedings in context.

We then turn in Section II to the important question of whether Australia sees this new world in the same way as our neighbours in Asia and our allies in the United States. Mark Hong, from the Singapore Institute of Defence and Strategic Studies and Peter Hartcher, a Visiting Fellow at the Lowy Institute, write about the world views of Asia and Washington.

Finally, Section II concludes with three experienced observers of Australian policy – Ross Garnaut, Rawdon Dalrymple and Bob O’Neill – summing up some of the implications of the earlier contributions.

Although they are not presented specifically in these pages, the formal and informal comments from the 60 or so participants from academia, government and business who took part in the conference in November 2003 were important in shaping the papers as they appear here. So as well as thanking the individual contributors to these pages I thank all who took part in the day’s events. And I thank none more than the editor of this

compendium, Bill Tow, who played a vital part in the conference and whose expertise and energy has now helped create a single work from a series of individual papers. In the same vein, Kylie Williams, the Institute’s Executive Assistant, toiled incessantly over successive transcripts and chapter drafts, coordinating key logistical tasks needed to turn out this publication and provided the necessary esprit de corps to see the project through to its successful completion.

Neither the conference nor the volume emanating from it constitutes part of a quest for a “Grand Unified Theory” that might end international policy debate in Australia. No such thing exists, and the Lowy Institute’s mandate is to increase debate, not narrow it. But we hope that the chapters that follow will make it easier for Australians to understand the forces working on the international environment and help them come closer to deciding for themselves just what has changed and what has not, and what this means for the way Australia grapples with the complex world beyond its shores.

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#### NOTES

- <sup>1</sup> Max E. Teichmann, *New Directions in Australian Foreign Policy* (Harmondsworth: Penguin, 1969), p. 7.
- <sup>2</sup> Howard’s observation was offered the day after a terrorist bomb was detonated at the Marriott Hotel in central Jakarta. See <http://edition.cnn.com/2003/WORLD/asiapcf/auspac/08/12/australia.terrorism>.
- <sup>3</sup> Walker, *Anxious Nation: Australia and the Rise of Asia 1850-1939* (St Lucia: University of Queensland Press, 1969).
- <sup>4</sup> Dalrymple, *Continental Drift: Australia’s Search for a Regional Identity* (Aldershot: Ashgate Publishing Group, 2003).

## CHAPTER ONE

### The Changing Structure of World Politics

*William Tow*

More than a decade after the end of the Cold War, we are still searching for the most appropriate metaphor to describe contemporary world politics. There is no shortage of candidates: “clash of civilisations”, “back to the future”, “end of history”, “globalisation”, “strategic restraint” and “distant proximities” have all recently emerged in the lexicon of international relations theory to contest the well-worn but still extensively debated concepts of “power balancing”, “hegemony” and “liberal institutionalism”. Indeed, the field of international relations has been characterised by one of its better-known critics as “a chaotic system of indeterminacy, irregularity, and unpredictability”.<sup>1</sup> Certainly not predicting the end of the Soviet Union or the degree of impact those forces behind September 11 would have on world politics in our times could be interpreted as an indictment of the aspirations of those scholars who insist that international relations can be characterised as a reliable mode of scientific inquiry. But this is probably too harsh. We are all international relations “theorists” in our own way because each of us, explicitly or tacitly, develops and sustains a set of opinions about why policy evolves in ways that it does and how it works in the so-called “international system”.

The brief of this chapter is to address the “changing structure of world politics”. This task is made more difficult because no broad consensus exists over what constitutes “structure” in international relations (IR). Three broad theoretical perspectives have dominated modern IR theory.

The so-called “realist” school of thought envisions the world as a basically ruthless and dangerous place, devoid of benign and universal authority, rife with rivalries between states constantly dissatisfied with the distribution of resources and power, and laden with those states’ mutual apprehensions about each other’s intentions. This vision is contested by a more liberal perspective that suggests that states or other actors in the international system should forge an international community based on democratic, socio-economic norms that spur international cooperation, increased prosperity and sustainable peace. In an international relations context, both realism and liberalism share a preoccupation with gains (relative or absolute), order (through coercion or consensus) and the state as the most fundamental and important unit of the international system. A third major approach or “grand theory” of IR can be labelled as “structuralism”. Structuralism incorporates Marxist theory but it incorporates other variants as well. “Social constructivist” and certain “reflectivist” theories differ from Marxism, for example, by arguing that “scientific” or “positivist” approaches to explaining what constitutes IR is less important than what we understand IR to be in opting for a specific frame of reference to describe and act upon it. Although socialism’s very relevance to this field has been subject to much revision and debate, its portrayal of the state as nothing more than a transitory, historically specific component of social relations has seriously influenced many of those in IR who deal with such issues as development politics and international political economics.<sup>2</sup>

All three of these approaches have accrued similar sorts of criticism: they are too simplistic to be viewed as truly “scientific” explanations of world politics; they deny the objectivity of other viewpoints; and, most importantly for those of us attending this conference, they are often too abstract for application to “real world” situations. Invariably, theoretical variants to the three classic approaches have been derived which purport to address their deficiencies. None of these, however, can be viewed as distinct theoretical alternatives to the three major approaches cited above, in terms of offering distinctive blueprints as to how the structure of world politics should be conceptualised.

In summary, Realists are primarily concerned with the inevitability of classical power politics dominating international relations. Liberals are intrigued by the relative ineffectiveness of material – and particularly military – power in structuring international stability relative to institution and community building. Structuralists are often interested in redistributing wealth and power as a means of rectifying what they see as the subjugation of international society into predetermined and destructive modes of behaviour or the perpetuation of class disparities by global capitalism. Three key challenges are now materialising that will test these international relations theories' relative applicability to analysis of the changing structure of world politics: (1) American hegemony; (2) the diminishment of state-centricism; and (3) changes in the development and control of critical resources and technology. Each of these challenges and their implications for Australian foreign policy will be briefly considered.

#### AMERICAN HEGEMONY

American power has assumed centre-stage in most contemporary discussions of international relations. The most salient facts are hardly disputed: America's vast defence budget that equals those of the next fifteen biggest spenders combined; its sole capacity to project significant military power around the world; the yawning gap between its military technology and that of any other state: an economy twice as large as either Japan's or China's (a Chinese citizen's per capita income will only be 38 percent of her or his US counterpart by 2025) and an overall research and development base that was 60 times larger than that of Russia at the turn of the century.<sup>3</sup> The European Union exercises commensurate influence to Washington in international economic institutions such as the World Bank and represents a sizable market in its own right. But "Europe" as a political and socio-cultural entity remains limited as a regional institution, at best co-existing with, rather than exercising authority over, national governments. American underwriting of European stability by confronting the forces of fragmentation in the southeastern part of that continent and by safeguarding Persian Gulf oil lifelines are the dual lynchpins of the contemporary European strategic setting.

The debate over whether this American power is good or bad rests upon differing perceptions of how the US, particularly under the Bush administration, manages it. Proponents of American "unipolarity" point to an absence of costly hegemonic rivalries and to what they regard as the strong prospect that the United States will exercise hegemony more responsibly than any other great power by enhancing long-term prospects for international stability. Inherent in this is the US engagement of potential great-power challengers such as China and Russia in ways that will facilitate their own political moderation and smooth their entry into a benign international order. The opportunity the US now has to assist the developing world by promoting free trade, eradicating poverty, fighting AIDS and countering terrorism is also deemed a positive by product of American predominance.<sup>4</sup>

Critics of American power worry that the United States' material resources cannot be translated into an effective catalyst for world order without an attendant sensitivity toward values and interests that are different from its own. Chris Reus-Smit has recently noted that the Bush administration too readily equates preponderance with influence, too easily links legitimacy with the application of force, and too often associates America's value preferences with belief systems held by other cultures and states. He posits that, collectively, these misperceptions represent an overly simplistic view of an increasingly complex world and tend to intensify animosity against the United States in those countries the Bush administration would prefer to assist. Other international actors, he concludes, are far less dependent on US power and far more prone to support diverse values than this American president is prepared to acknowledge. The result is America's isolation from international norms and institutions that it was once instrumental in shaping.<sup>5</sup>

To apply the old adage: "the truth is somewhere in between". Clearly, the US and the Bush administration are now experiencing a steep and distasteful learning curve about the limits of power – even hegemonic power. The "Iraqification" process is well under way as the Bush administration searches for an exit strategy from that Persian Gulf country

in order to appease Congress and as American polling data reveals a substantial decrease in public support for President Bush's management of the war still raging in Iraq.

It is unthinkable, however, that American power will be totally withdrawn in that region. The United States' strategic interests in the Middle East are just too high. Between them, Saudi Arabia and Iraq contain around 36 percent of the world's currently produced oil supply, and the impending acceleration of Russian petroleum production is still insufficient to make up the difference if China's future oil consumption needs are taken into account. A quasi-Baathist Iraq, or one fragmented by internecine conflict among Shite, Sunni and Kurdish elements would be as inimical to Washington as would a new Iraq ruled by those inclined towards more fundamentalist dogma. Under these circumstances, the United States must exert whatever levels of capability are required to win a decisive and permanent balance of power for an indeterminant length of time. This policy course will gain bipartisan support within the American electorate and may be supported without qualification by nearly every European and Asian ally.

Consensus for the application of American power to other regional or international security contingencies, however, could be far more problematic. American interests may well be ambiguous or less than credible in the eyes of other actors within the international community. Intervening on behalf of Taiwan against a future Chinese invasion, involving American power in any future India-Pakistan confrontation, providing military assistance to Israel during a future Palestinian uprising or siding with one European power (e.g. Britain) at the expense of others in future intra-NATO or intra-European disputes are all illustrative. Concentrated and well-targeted missions against international terrorist groups, the application of US resources in response to a North Korean military strike against South Korea and/or Japan and the use of American assets as part of a peacekeeping force to neutralise acts of genocide will command uncontroversial support of the international community.

The implications for Australia of American power appear to have been evaluated fairly effectively by the Howard government. It is fashioning Australia's own defence budget and capabilities to strike a balance between defending its own homeland and peripheries while maintaining a limited ability to participate in distant, American-led coalition operations when its national interests predicate that such Australian participation is necessary. It learned, however, from the 1999 East Timor experience that Australian and American interests are not always congruent in terms of earmarking military and material resources to levels that the other might expect. It applied this lesson to an effective but qualified participation in the Iraq campaign four years later. Australian combat forces were removed before an Iraqi exit strategy became a growing quagmire for the Bush administration. They were spared further involvement by Howard's projection of a "Pacific strategy" designed to lock in an Australian geographic role, defined largely on Canberra's own terms, as a collaborator in emerging Western global strategy. The nightmare of a future Sino-American strategic confrontation over Taiwan remains real for this or future Australian governments. However, the more realistic prospect of a renewed Korean confrontation and American expectations of a substantial Australian "contribution" to any military effort on the Korean peninsula obviously warrants immediate attention from Australia's policy-planners relative to the price of supporting sustained American primacy in Northeast Asia.

#### INTERNATIONAL TRANSFORMATION: FROM STATE CENTRICISM TO WHAT?

The second major question confronting contemporary global policy-makers concerns the extent to which the ordering principles of contemporary international relations are demonstrating continuity or undergoing fundamental change. Since 1648, the structure of world politics has been based on the so-called Westphalian model: "a system of self-regarding, sovereign, territorial states, co-existing in a situation of anarchy without supreme authority".<sup>6</sup> Realists argue that little will change and that power balancing will produce something that looks very much like this system indefinitely.<sup>7</sup> Liberals or their "neo-liberal" brethren counter that democratic ideals, free trade practices and "strategic

restraint” underscored by institutional approaches that bind states through formal modes of cooperative behaviour are increasingly prevailing over power asymmetries, hegemonic interests and state-centric rivalries.<sup>8</sup> Neo-marxists and other structuralists anticipate that “progressive forces” will increasingly challenge the paramountcy of the state or the state’s embrace of globalisation under the guise of promoting a neo-liberal order.<sup>9</sup> Other forces are visibly challenging all three of these images, the notion of modernity in general and the idea that mainly Western theoretical perspectives are destined to triumph in the twenty-first century. The rise of Osama Bin Laden illustrates the prospect that a “world of tribes”, or a “fragmenting world” of international anarchy and many localised hierarchies, must now be factored in as a contending image of future world politics.<sup>10</sup> This may be viewed as a derivative of Huntington’s “clash of civilisations” thesis, but one devoid of easily demarcated units of analysis, that could supersede the sovereign states system still viewed by most as the operative model of world order.<sup>11</sup>

How are these perspectives applicable to “real world” policy considerations? Initially, one could surmise that the Western values and technology that constitute the forces of modernity are impregnable. Upon reflection, however, the outcome of any struggle between the West and the rest of the world is less obvious. Iraq has manifested serious rifts within the developed world over how legitimate strategic pre-emption or even humanitarian intervention is in a world where the costs of confronting or neutralising contending values and factions are rising. A sense of disenfranchisement among those who populate developing societies is growing, and much of the world is contesting the right of post-industrial societies to access most of the world’s resources, consume most of its wealth and, most importantly, dictate its beliefs.

Such developments contest the realist view of material power as essential within a uniform code of “rationality” and “national interest”. They also discredit neo-liberal and structuralist preoccupations with social contract and equity of resource distribution, respectively, as underlying drivers for political change. The “world of tribes” envisioned by today’s ethno-centric

and theocratic apostles comprises not so much a clash of civilisations but a conflict with the existing norms and institutions that they view as the roots of disparity of power and wealth. It offers alternative and extreme prescriptions for systemic transformation as much to destroy the current system they believe oppresses them as to implement their own dreams. The determination reflected by young martyrs pursuing their self-destructive visions of jihad, or by those demonstrators who invite widespread socio-political condemnation by contesting the right of global economic forums to exist and convene, illustrates the problem. Ultimately, globalisation may be its own worst enemy by providing zealots of various persuasions with the means to contest existing principles on a world stage in highly dramatic fashion and in front of an international media receptive to publicising spectacular acts of dissent. It remains to be seen to what extent the guardians of contemporary global society will succeed in either repelling or accommodating those who contest them.

Australia has aligned itself with those who largely champion the status quo, while encouraging the world’s alienated to accept that they have a stake in pursuing material gain through existing processes and institutions. Successive governments in Canberra have adopted different formulas for pursuing the objective of wealth and stability for their own citizens and for those of its allies, neighbours and other global actors. The Hawke/Keating governments embraced “middle power” or “niche” diplomacy to link Australia’s regional identity and global interests to its vigorous pursuit of multilateralism.<sup>12</sup> The Howard government modified this posture to “reinvigorate” an American alliance it perceived as jeopardised by its predecessor’s excessive concentration on the Asian region and its obsessive concerns about Australia’s strategic position within it.<sup>13</sup> Both approaches, however, were based on a conviction that Australia’s national interests were best served by adopting a supportive role for the preservation and advancement of the international order forged from the two great wars of the twentieth century and perpetuated by American power into the twenty-first.

The stigma now confronting Australian policy-makers is one of “guilt by association”. Their country’s strong endorsement and support of American

behaviour that many other international actors see as undercutting that very order that it previously sustained has created an image – justified or otherwise – of Australia as a deputy sheriff or minion to an American administration intent on challenging and subordinating all forces of change it regards as inimical to US interests. Australia thus has found itself, at intervals, isolated on questions of global warming, UN reform, human rights, international development assistance, and, ultimately, military intervention. Australia's leadership in the East Timor episode earned praise from Kofi Annan, who characterised Australia as a “model international citizen” but condemnation by an embarrassed Indonesia and a clearly sullen ASEAN, as an American proxy who was opportunistic at their expense. When Australia formed an “Anglosphere” based coalition with the US and UK to conduct the war against Iraq, Australia consciously assigned primacy to state-centric geopolitics over global institutionalism as a preferred means to eliminate Saddam Hussein as a factor in world politics, reduce the threat of WMD and blunt the threat of international terrorism to itself and to other Western societies. To what extent these objectives were realised is debatable; to what degree Australia further shifted away from its once sacrosanct ethos of behaving as a “good international citizen” and toward solidifying its posture of “pragmatic realism” is less uncertain. The ultimate price for affiliating with what journalist Thomas Friedman has termed a “NATO with attitude” has yet to be clearly ascertained.<sup>14</sup>

#### RESOURCES AND TECHNOLOGY

Stanley Hoffman has recently observed that economic globalisation poses a stark dilemma foreseen by the structuralist school of thought: a conflict between efficiency and fairness.<sup>15</sup> Technological specialisation is the purview of those firms who amalgamate in order to increase efficiency. This process leaves smaller states, less competitive or less able to cope with such amalgams, far behind in the quest for wealth and disenchanting with the dynamics that govern market forces. Predictably, such resentment leads to “...assaults against Western culture, which is denounced as an arrogant bearer of secular, revolutionary ideology” and a front for American hegemony.<sup>16</sup> No clearer answer to President Bush's agonised question

posited subsequent to the September 11 attacks as to “Americans are good people...why do they hate us?” could be advanced. Resource accumulation and technological advancement remain beyond reach for many poor countries, some of whom become “failed states” when their weak governmental infrastructures prove incapable of stemming a growing tide of social resentment. The liberal dream often proves to be too fragile in such polities because genuine civil society that might otherwise restore balance between authority and the governed is singularly absent.

Moreover, this is not a condition that is limited to resource-poor countries. One only need consider Saudi Arabia's current plight. It holds 25 percent of the world's global oil reserves but remains bound to a price-target strategy largely predicated by market forces beyond its control and not working to its long-term benefit. As Edward L Morse and James Richard have argued, the price of a barrel of oil has decreased in value in real terms over the past several decades. Shifting to a market-share strategy would play into the hands of new producers such as Russia, and is not a solution.<sup>17</sup> But even more insidious factors could undermine Saudi Arabia's once indomitable economy and its very survival as a relatively moderate Middle Eastern state: an intensification of opposition by Saudi intellectuals and conservative religious leaders to American policies in Israel and the rest of Islam and to what they perceive as the House of Saud's acquiescence to them; the maintenance of an uncompromising theocracy that contradicts the kingdom's face of physical modernity; the theocratic-philosophy education of its younger generation to an extent that its work force is largely uncompetitive; its per capita wealth reduction from US\$28,600 in 1981 to US\$6,800 in 2002.<sup>18</sup> The cumulative result of these mounting problems is a state system that is increasingly vulnerable to all of those varied forces hostile to it – militants, conservatives and liberals. The issues of technology, modernisation and political reform are less problematic than the ruling gerontocracy's failure to achieve political legitimacy. Under these circumstances, the long arm of Al Qaeda and its collaborators poses an increasingly serious threat to that polity's long-term survival.

Other resource/technology quandaries loom as critical determinants for the international system's future stability and prosperity. The term "water wars" has now assumed far more significance than merely recalling the title of a disastrous Kevin Costner movie. The diversion of river systems in Asia, the Middle East and elsewhere may be a primary catalyst for future conflict between states. Technology-created global warming is an established reality and could be the source of future agricultural grief that causes more famines or droughts or pollution levels more lethal to humankind than previously imaginable. Technologies such as desalinisation, and regulatory measures such as enforced use of public transportation systems, are available to temper the devastating effects of resource depletion but financial and cultural barriers impede progress in implementing them. Poor states (and some rich ones) will continue to burn coal, tolerate vast numbers of automobiles on their roadways, and ignore public health as more expedient than facing up to the very tough decisions that need to be made if long-term progress in resource management is to be realised.

As the world's fourteenth largest economy, Australia both enjoys the benefits accruing to a highly industrialised state and incurs a responsibility for applying its substantial resources and technology base to enhancing global stability and prosperity. Its per capita GDP of \$37,500 (2002 estimate converted from a US dollar figure) is commensurate with that of most West European economies.<sup>19</sup> Australia's North West Shelf LNG project is now primed to provide the major Asian economies with significant supplies of natural gas; the recently negotiated \$25 million Australia-China Natural Gas Technology Partnership Fund is an obvious case in point.<sup>20</sup>

Despite its relatively advanced economy, however, the country confronts some serious resource vulnerabilities, including soil erosion from overgrazing, a small demographic base concentrated in a relatively small proportion of the Australian continent, the threat of adverse water quality through salinisation of ground water, and a growing dependence on oil imports from 20 percent of its total supply in 2003 to a projected

50 percent by the year 2020.<sup>21</sup> According to a recent study commissioned by Australia's Commonwealth Scientific and Industrial Research Organisation (CSIRO), Australian technology is not as prominent in its overall national development as competitor countries, with a few exceptions such as biotechnology. There is also little cross-fertilisation of technology across sectors in Australia and a low patenting rate. These deficiencies exist despite a three-fold increase in the volume of Australian research and development output over the past two decades.<sup>22</sup>

These trends indicate that Australia's resource and technology challenges mirror those confronting the world at large in most critical sectors. The fundamental policy choice facing Australia's policy-planners is clear. They can embrace institutionalism at the regional and international levels to coordinate their country's future initiatives in resource and technology development as an active middle power proponent of global interdependence. Or, they can focus on more exclusivist, nationally oriented strategies to meet future resource imperatives and to develop greater technology capabilities. At present, compromise between these two strategies appears to be a preferred approach; collaborating with the EU and with other institutions in a number of "functional" or task-dominated policy sectors but imposing a visibly nationalist strategy, underwritten by bilateralism, in developing its trade politics and shaping its geopolitical interests and policies. The price Australia is paying for emphasising the latter approach in the "high politics" sectors of international relations – particularly in regard to assigning prominence to its alliance relations with the United States – is its noticeable exclusion from various and potentially critical institutional arrangements now emerging regionally (ASEAN plus three and ASEM) and its lack of influence within the most critical sectors of international policy. Illustrative of the latter are the Howard government's recent proposals to expand and reform the UN Security Council's membership – a body that rejected Australia's bid in 1996 to become a part of it and that will be devoid of Australian membership again in 2006 due to Canberra's reluctance to test its policies on forced migration and asylum seekers in that body.<sup>23</sup> Finding a reasonable balance between "good international citizenship" and "pragmatic realism" will constitute

one of Australia's greatest policy challenges in an era of significant international transformation.

#### CONCLUSION

Predicting and acting upon dynamically evolving structural changes in world politics is no less difficult today than in any other period in history when change has dominated the international landscape. This is true, notwithstanding the information and knowledge explosion that should logically facilitate our ability to understand and manage such change – and notwithstanding the challenges to world order by disaffected and militant forces. The three classic approaches to viewing international relations cited here will remain relevant, but simultaneously tenuous in postulating how our world should be managed and how to cope with the benefits and dangers that flow from any such order. What is even more certain is that we must continue to seek better explanations of why an enduring and consensual world order remains elusive, and to devise more effective solutions to overcome that condition.

As Australians, we are confronted with the stark truth that many inhabitants of the world will contest our values and preferences vigorously and, at times, violently. The challenge we face is how to work with our potential rivals and dissidents as well as with our friends to minimise such a prospect and to find, and to commend to our American ally, avenues for collaboration in building an international community appealing to a wider diversity of peoples. Such an approach will surely demand sacrifice and accommodation as well as unparalleled levels of creativity. The endgame, however, is no less than our collective survival and prosperity as a significant player in an enduring world order.

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#### NOTES

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<sup>3</sup> Stephen G. Brooks and William C. Wohlforth, *American Primacy in Perspective*, *Foreign Affairs* 81, no. 4 (July-August 2002), pp. 21-23 and Joseph Nye, *The Paradox of American Power* (Oxford and New York: Oxford University Press, 2002), pp. 1-40.

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<sup>5</sup> Reus-Smit, *The misleading mystique of America's material power*, *Australian Journal of International Affairs* 57, no. 3 (November 2003), pp. 427-429.

<sup>6</sup> Jacinta O'Hagan and Greg Fry, *The Future of World Politics* in Fry & O'Hagan, *Contending Images of World Politics* (Basingstoke: Macmillan, 2000), p. 247. This chapter constitutes one of the best summaries of contemporary challenges to world order now available to IR students.

<sup>7</sup> The argument is advanced in an expansive study by John Mearsheimer, *The Tragedy of Great Power Politics* (New York: W. W. Norton and Company, 2001).

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<sup>11</sup> Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order* (New York: Simon & Schuster 1996).

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<sup>13</sup> William T. Tow, *Australia and the United States*, in James Cotton and John Ravenhill, eds. *The National Interest in a Global Era* (South Melbourne: Oxford University Press in association with The Australian Institute of International Affairs, 2001), pp. 171-192.

<sup>14</sup> Thomas L. Friedman, *Club NATO: new democracies welcome, no fighting please*, 2002 at <http://www.theage.com.au/articles/2002/11/18/1037599359076.html>. Accessed in November 2003.

<sup>15</sup> Hoffman, *Clash of Globalizations*, *Foreign Affairs* 81, no. 4 (July/August 2002), p. 107.

<sup>16</sup> *Ibid.* p. 108.

<sup>17</sup> Morse and Richard Reply, *Foreign Affairs* 81, no. 6 (November/December 2002), pp. 177-178.

<sup>18</sup> Eric Rouleau, *Trouble in the Kingdom*, *Foreign Affairs* 81, no. 4 (July/August 2002), pp. 75-89.

<sup>19</sup> Central Intelligence Agency, *The World Factbook – Australia* at <http://www.cia/publications/factbook/geos/as.html>. Accessed in November 2003.

<sup>20</sup> Tim Colebatch, *Canberra, China in trade pact*, *The Age*, October 25, 2003 at <http://www.theage.com.au/handheld/articles/2003/10/24/1066974315634.htm>. Accessed in November 2003.

<sup>21</sup>Brian Robins, Dependency on oil imports to swell, Sydney Morning Herald, June 17, 2003 at <http://www.smh.com.au/articles/2003/06/16/1055615732034.html>. Accessed in November 2003. According to the Australian Bureau of Agriculture and Resource Economics (ABARE), oil output from the Gippsland Basin oil field has begun to decline. This will be partially offset by coal production and the increased use of natural gas and windpower for meeting national energy needs.

<sup>22</sup>See <http://www.csiro.au/csiro/connections/appendix/app8.html>. Accessed in November 2003.

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## CHAPTER TWO

### The Changing Structure of the International Economy

*Mark P Thirlwell*

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Did the end of the Cold War trigger a marked change in the international economic environment facing policymakers? And did the September 11 terrorist attacks prompt a further shift?

The fall of the Berlin Wall, when combined with the already existing forces of technological change and economic liberalisation in the advanced capitalist economies, contributed to an acceleration in the process of international economic integration that has resulted in the emergence of what can reasonably be described as a “new global economy”. September 11 has dampened some of the forces driving greater integration, but as yet is showing little signs of significantly reversing the process.

#### A NEW GLOBAL ECONOMY?

Past experience suggests economists are well-advised to remain cautious when asked to identify paradigm changes or regime shifts in the economic environment. For example, despite repeated attempts to write the obituary of the international business cycle – at the end of the long booms of the 1960s and 1990s – macroeconomic fluctuations remain with us. In the words of The Economist magazine “economies, like drunks, continue to move in wavy lines”.<sup>1</sup> Similarly, much of the so-called “New Era” thinking invoked to justify the run-up in stock prices at the close of the twentieth century looked foolish in the aftermath of what turned out to be the biggest asset price bubble in history.

That said, the international economic framework does undergo periods of important change, even if not quite as often as contemporary observers might imagine. In this light, the period around the end of the Cold War certainly seems to have been an important watershed. The fall of the Berlin Wall and the collapse of the Soviet Union brought some 400 million people into the world economy and the relinking of the formerly closed economies of the communist bloc into the international economy made “for the first time since the First World War, the world economy truly global”.<sup>2</sup>

Perhaps even more importantly, by comprehensively discrediting the key competing economic model, the end of the Cold War also secured victory for global capitalism over international socialism in the battle of ideas. So while the dominant economic narrative for the world economy between the end of World War II and the fall of the Berlin Wall was the competition between these two economic systems, the central economic story since then has been the tale of accelerating international economic integration, or “globalisation”.

Globalisation has been powered by sustained, technology-driven falls in transport and communications costs and has been supported and encouraged by economic policies that have emphasised trade and financial liberalisation.<sup>3</sup> The combination of these two factors has resulted in a trend rise in economic integration that has now become both broad and deep enough to justify claims that the post-Cold War world has witnessed the birth of a new age of global capitalism.

Of course, this is not to deny that many of the foundations of the current international economic environment were laid well before the Wall came down. For example, the Bretton Woods conference in 1944 helped create a significant part of today’s international policy framework, and the Thatcher-Reagan revolution that began in the early 1980s encouraged an international shift to economic liberalism as both leaders attempted to reclaim the “commanding heights” of their economies for the private sector. Finally, the launch of economic reform in China in 1978, followed by Deng Xiaoping’s injunction to one billion Chinese in 1982 that “to get rich is glorious” has clearly played a major role in shaping the current economic environment.

It is also worth remembering that this is the second age of “global capitalism”. The years between 1870 and 1914 witnessed an earlier period of international economic integration, one also marked by large flows of goods, capital and labour across international borders.<sup>4</sup> Still, today’s post-Cold War international economy looks sufficiently different from what has gone before to justify the description of a new global economy. Today’s global economy is marked by four key characteristics that distinguish it from its predecessors:

- the growing integration of markets for goods, services and financial assets;
- global re-orientation, or the way in which the economic “weight” of the global economy has started to tilt eastwards;
- new “rules of the game” – changes in the way in which the global economy is managed;
- the rise of “regionalism”, most evident in trade policy and the proliferation of preferential trade agreements.

#### MORE MARKET INTEGRATION

The growing economic integration – globalisation – of the international economy has perhaps been most evident in the increasing importance of merchandise trade – trade in goods.



Source: Findlay and O'Rourke (2003)

World merchandise exports as a share of global GDP peaked at less than 10 percent in the first age of global capitalism, and had fallen to a little over 5 percent by 1950. By 1998 this ratio had more than tripled from its

1950 value, and according to more recent World Bank estimates had roughly quadrupled by 2002.<sup>5</sup>

At the same time, the composition of merchandise trade has also changed. For example, in the first age of global capitalism trade was concentrated in primary products, which in 1913 accounted for more than 60 percent of merchandise exports. In contrast, by the 1990s merchandise trade was dominated by manufacturing, which accounted for about 75 percent of total goods exports.<sup>6</sup>

Moreover, it is not only goods markets that have become more internationally integrated. Services – many of which until recently have been categorised as “non-traded” – are now demonstrating increasing “tradeability”. As a result, the ratio of world exports of services to global GDP has more than tripled since 1980.<sup>7</sup>

The range of services affected by this trend is impressively large, and is still growing. The outsourcing of backroom IT, systems management, data transactions and call centres to India is an increasingly well-documented story. But Indian companies are also providing equity research for European and US investment banks, patients in the US are having their CAT scans read by doctors about 6,000 miles away in medical clinics in Israel, and Vietnamese architects are busy designing buildings for British clients.<sup>8</sup>

Financial markets have been at the centre of the trend towards greater integration in recent years. For example, by the mid-1990s gross foreign assets as a share of world GDP were more than triple their level in the first age of global capitalism, and more than double the level of the early 1980s.<sup>9</sup> Moreover, as well as this big quantitative change, there have also been significant qualitative shifts. The range of destinations for overseas investments has become broader in terms of both sectors and – to a lesser extent – countries.

Another significant feature of the post-Cold War global economy is the way in which market integration has increasingly been driven by multinational corporations (MNCs) and foreign direct investment (FDI).

Of course, neither is strictly “new”. FDI from the UK and Western Europe into the US, Australia and South America played a key role in the first age of global capitalism, and MNCs in one form or another have been around at least since the days of the Hudson Bay, Muscovy and East India Companies. But recent years have seen their role in international trade and production become steadily more important. For example, when measured as a share of world GDP, the stock of FDI has roughly tripled since 1980. This FDI stock now forms the production base for about 64,000 MNCs which between them control some 900,000 foreign affiliates. In turn, these foreign affiliates generated about US\$18 trillion of sales in 2002, or well over double the value of world exports in that year.<sup>10</sup>



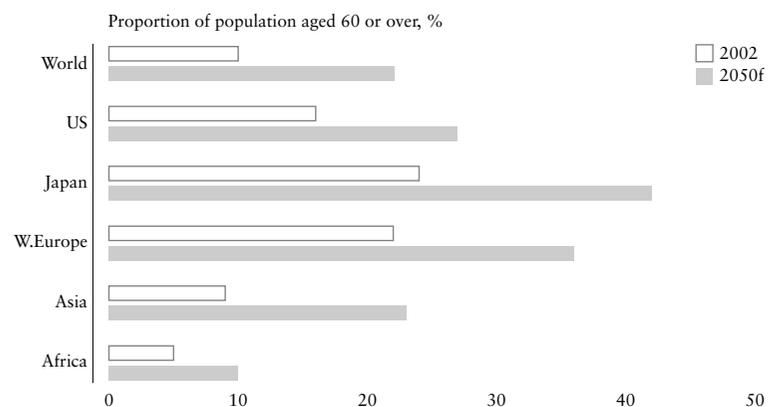
Source: World Investment Report (2003)

A closely related development is the growing nexus between FDI, MNCs and international trade, as seen in the rise of international vertical specialisation, whereby the “nature of trade has changed to the point where countries increasingly specialise in producing particular stages of a good, rather than making a complete good from start to finish.”<sup>11</sup>

Over recent years this type of trade has become an increasingly important feature of international trade in East Asia in particular. For example, take the case of Li and Fung Ltd, one of Hong Kong’s largest export trading companies. In an article in the Harvard Business Review, Chairman Victor Fung described how an order for garments from a

European retailer might be transmitted through the company’s international supply chain.<sup>12</sup> Once the order is received in Hong Kong, yarn is sourced from Korea and then shipped to Taiwan, where it is woven and dyed. A Japanese company’s zippers are used, but produced in factories located in China. Yarn and zippers are both shipped to Thailand to produce the final garments. So while the label on the finished item might say “made in Thailand”, production is international. And any disruption to final demand will ripple through not one but several regional economies.

Finally, a partial exception to this story of growing market integration is the labour market. While the general trend has been towards freeing up goods, services and financial markets, the international policy impetus in terms of migration has been to move towards stricter controls. True, there has been a marked rise in the world stock of migrants – up from 75 million people to 175 million over the past 40 years – but as a share of world population the figure has remained relatively flat.<sup>13</sup>



Source: United Nations population division

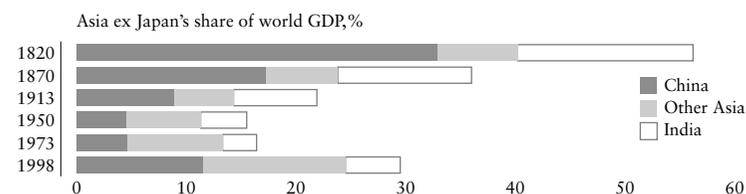
Whether labour market integration will continue to lag other markets is an interesting question, given the demographic challenges facing significant proportions of the world economy over the next half century. The steady “greying” of the world’s population and the growing imbalance in age structure between the developed and developing world could create

both demand and supply pressures for greater international labour mobility (although greater international trade could provide a partial substitute). Already, more than 20 percent of the population in Western Europe and Japan are aged over 60, compared to less than 10 percent in Asia and around 5 percent in Africa.<sup>14</sup>

#### GLOBAL RE-ORIENTATION

A second major trend in the post-Cold War international economy is the way in which economic integration is contributing to a shifting geographic distribution of economic “weight”.

In 1820, before the first age of global capitalism got under way, China and India between them accounted for almost half of world GDP. By 1913, however, the two countries’ share of world output had fallen to less than one-fifth. As a result, the first age of global capitalism was one in which the international economy was predominantly an “Atlantic” one.<sup>15</sup> In contrast, the current wave of globalisation is prompting a revival in the relative importance of Asia. Of course, this process began before the end of the Cold War, with the economic rise of Japan. But global re-orientation has really started to gain momentum over the past decade with the growing economic weight of China and – on the horizon – India.



Source: Maddison (2003)

There is nothing particularly new about the international economy having to come to terms with rising economic powers. The entry of the US and Germany into the world economy as new industrial and exporting powers at the start of the last century is one example of how the international system can be placed under significant strain by such developments. The largely successful integration of Japan and East Asia from the 1960s onwards provides a more recent – and less disruptive – case study.

Seen in this light, the current tensions between the US and China over a large bilateral trade deficit might be dismissed as a replay of US-Japan tensions in the 1980s. Indeed, China's current share of the US total trade deficit is much smaller than was Japan's in the late 1980s. But in practice the rise of China as a trading power is likely to have a more revolutionary impact than the Japanese example might indicate.

The most obvious difference between the two cases is one of scale. When Japan was integrating into the world economy in the 1960s and 1970s its population was less than 3 percent of the world total. In contrast, China now accounts for about 21 percent of the world's population. (India accounts for a further 17 percent.)<sup>16</sup>

The second key difference is the fact that today's international economy is significantly more integrated than it was in the past. International transactions now affect a much greater share of national economies and the people within them.

It follows that the adjustment needed to accommodate global re-orientation could be much greater than in previous historical cases. Furthermore, the role of technology means that adjustment could also be concentrated in a much shorter span of time, as well as across a much wider range of goods and services. The result could be significant international strains which would compound those created by the demographic shifts already mentioned.

Still, for all the economic potential embodied in the rise of China and India, the so-called Triad of North America, Western Europe and Japan continues to dominate today's international economy. Last year, for example, the economies of the Triad accounted for more than 60 percent of world merchandise exports and more than 70 percent of world exports of commercial services. They were also the source of 90 percent of FDI outflows and the destination for almost 70 percent of FDI inflows.<sup>17</sup>

#### NEW "RULES OF THE GAME"

A third trend in the post-Cold War international economy is the changing

nature of the "rules of the game" by which the international economy operates. Two differences between the current age of global capitalism and its predecessor are of particular note.

The first relates to the proposition sometimes described by international macroeconomists as the "impossible trinity" – the idea that an economy can choose only two out of the following three policy goals: capital mobility, a fixed exchange rate, and an independent monetary policy. While both periods of global capitalism – by definition – opted for capital mobility, the earlier wave of financial market integration took place within the fixed exchange rate framework provided by the gold standard, with individual countries choosing to sacrifice an independent monetary policy. In marked contrast, the current wave of financial market integration is taking place within a quite different framework. Today, the world's major currencies float against each other, albeit subject to periodic intervention. Indeed, recent years have seen a trend decline in the number of fixed exchange rate regimes and a generalised move towards floating.

The decision to opt for floating exchange rates has allowed countries (or economic blocs in the case of the euro area) to pursue their own monetary policies. The levers of monetary control have been placed in the hands of – increasingly independent – central banks, many of which now operate under some variant of an inflation targeting regime.

The second difference between the two periods is that during the first age of global capitalism, there were virtually no significant international economic institutions. Trade policy, for example, was firmly within the remit of national governments. In contrast, the current wave of globalisation has taken place within a framework provided by a whole alphabet soup of multilateral institutions, including the WTO, the IMF, the IBRD, the ILO and the OECD. Most of these institutions have their origins in the post-World War II economic settlement constructed by a dominant US economy, and to a large extent owe their continuing influence to the willingness of the US to support a multilateral economic system. How a combination of renewed US political and military superiority, alongside a relative decline in US economic dominance, will affect the sole

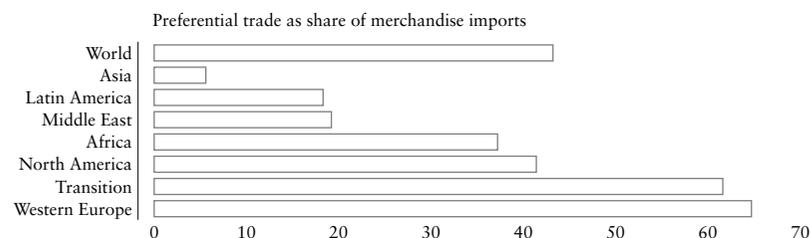
superpower's commitment to the existing rules of the game remains to be seen. One commentator, for example, has argued that at "the opening of the twenty-first century, all of the elements that have supported an open global economy have weakened".<sup>18</sup>

#### GROWING "REGIONALISM"

A fourth trend on display in the post-Cold War international economy is the growing "regionalisation" of the international economy, a trend which has been most visible in terms of trade policy, and in particular in the rush to negotiate preferential trade agreements, or PTAs.

Once again, it is possible to claim that there is nothing especially new about this development. The 1950s and 1960s, for example, witnessed a series of regional integration initiatives. But with the – admittedly major – exception of the European Community, most of these had little lasting impact. Recent years, however, have brought a fresh burst of regional integration.

The acceleration in the number of PTAs being notified to the WTO is quite striking. Between 1948 and 1989 just 31 new PTAs entered into force. But between 1990 and 2002 another 153 PTA agreements took effect. So the post-Cold War period has witnessed more than five times the number of agreements seen in the Cold War period, in roughly one-third the timespan. As a result, by early 2003 only four WTO members were not already party to a PTA, and of these only one – Mongolia – was not engaged in some kind of PTA-related negotiation. As a result, around 43 percent of world merchandise trade now takes place within PTAs, and the WTO estimates that this could rise to over 51 percent by 2005.



Source: WTO web site

Whether the trend of rising international economic integration will prove to be compatible with a world marked by growing trading blocks is another important question for the future of the international economy.

#### THE INTERNATIONAL ECONOMY AFTER SEPTEMBER 11

To summarise the story so far, the post-Cold War international economy has been marked by growing international economic integration, leading to the creation of what can be described as a new global economy. Despite the growing integration of most markets, however, integration remains incomplete – most obviously in the case of the labour market – and faces significant challenges. These include the strains generated by an ageing population and global re-orientation, as well as the challenges posed by the changing way in which the world economy is managed and the challenge to the trade regime posed by the rise of the new regionalism.

Have the events of September 11 altered this picture?

In the immediate aftermath of the attacks, several commentators suggested that the economic consequences would be profound, and some even claimed that they would mark the "death of globalisation". But while the political and strategic impact of September 11 may well have been dramatic, the evidence so far suggests that in relative terms the economic implications have been much more modest.

Still, there are several ways in which the terrorist attacks are likely to influence the international economy.

The first, and most obvious, is through their impact on cross-border security. As already noted, an important factor behind greater market integration has been falling transport and communications costs. To the extent that increased border security will boost the cost of trade, it will have a dampening effect on international integration, and hence perhaps on economic growth. The good news is that in the longer term the impact of this effect may prove limited. Work by the OECD and the World Bank suggests that while there will be some trade-off between security and the efficiency of border crossings in the short-run, eventually new security-related measures – such as automated customs processes – could actually

increase trade efficiency.<sup>19</sup> However, the World Bank and OECD studies focus on the impacts of terrorism on trade, and tend to find relatively small effects. But it is possible that the longer term impact of September 11 will be felt in terms of greater uncertainty, and hence a higher (equity) risk premium. All else being equal, this would depress investment, in which case the adverse economic impact of the attacks could prove to be much larger.<sup>20</sup>

Tighter border security will also have implications for international labour mobility. While the greying of the world's population may generate demand and supply pressures for increased cross-border labour flows, security concerns after September 11 are likely to push government policy in the opposite direction.

Another effect relates to the changing incentives governing US policy. Post-September 11 the US has been inclined to pursue a more unilateral foreign and strategic policy. It is possible that the same thinking will spill over into international economic policy. Given that the effective functioning of much of the current multilateral system is dependent on US support, any sustained retreat from multilateralism would have far-reaching implications for the functioning of the international economy.

Finally, the terrorist attacks have altered the atmosphere within which international integration is taking place. The early years of the post-Cold War economy tended to be characterised by very optimistic views regarding the benefits of a "globalised" international economy. That initial optimism has since been tempered by several events, including the 1997-98 financial crises and the 1999 anti-globalisation protests in Seattle. September 11 has also made a major contribution to this re-evaluation of a more integrated world. This change in tone could well have significant implications for international economic policy choices, and for the international economy, even though such effects are difficult to quantify.

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## CHAPTER THREE

### The Australian Dimension

*Hugh White*

The title of this conference invites us to choose between, on the one hand, thinking of Australia's international security environment as having "changed utterly" in recent years, and on the other of seeing our environment as having been subject to the usual combination of short-term shocks and long-term trends. Faced with that kind of choice I am always going to opt for the latter. A career in the strategic policy business – where you are lucky if a decision yields results within 10 years – encourages you to take the long view. You cannot plan defence capabilities, or long-term strategic policies, if you discover a revolution in every turn of events.

In fact over the years I have developed a kind of methodological rule of thumb to help balance the relative weight we should give to the short, sharp shocks and the long, slow trends. We have an ingrained psychological tendency to overestimate the long-term significance of sudden, violent events, and to underestimate the significance of long, slow changes. I always try to compensate for that by weighting my assessments in the other direction. A building falling down is a much more spectacular and shocking spectacle than a building going up, but my instinct is that the changes in Shanghai's skyline over the past few years reflect a more important long-term trend in international affairs, and in Australia's international environment, than the changes to New York's skyline on September 11.

#### STATES AND GEOGRAPHY: THE GREAT INVARIABLES

Let me illustrate the application of this rule of thumb by looking briefly at two areas in which recent, rapid and profound change in Australia's international environment is sometimes said to have occurred. The first is the proposition that the principal arena of security policy has shifted in recent years from being primarily state-centric to being primarily focused on issues of non-state activity. I have three doubts about the truth of this proposition. The first is that non-state security problems are hardly new. Such threats have always been with us, and have always had the capacity to change societies. The impact of plague on European society in the early modern era is a perfect example. The challenge of the slave trade in the early nineteenth century is another. Those who see a new and unique challenge in the application of conventional armed forces to non-state conflicts might remember that, fresh from seizing global maritime supremacy in the Napoleonic Wars, the Royal Navy spent much of the nineteenth century locked in a protracted campaign against the slave trade. In today's terms, they were mounting low level operations to curtail transnational criminals involved in systematic human rights abuses.

My second reservation is that, as in the nineteenth century, it is national governments who bear the main burden of responding to non-state threats. Indeed the more serious a non-state threat becomes, the more national governments are expected to take the lead in responding to it. The resurgence of concerns about non-state security threats that followed September 11 has coincided with an unprecedented expansion of state power and of populations turning to their national governments to provide protection from them. So it's not clear that the current salience of non-state security concerns fundamentally and durably changes the nature of Australia's national policy needs.

Thirdly, and without in any way detracting from the importance of the current on-state threats we may face, it is worth remembering that nothing other than the most violent acts of nature can match large scale interstate violence in its capacity to disrupt human life. Terrorism is a huge and important challenge on a new scale of urgency we have not seen before.

But we need to keep it in perspective. Sensible people with deep experience have suggested that terrorism today is as big or bigger challenge to international order as the Cold War, posing a comparable existential threat to our societies. I think that shows a lapse in historical perspective. A concerted campaign of WMD terrorism would do less damage than even a very modest nuclear exchange between the Cold War superpowers would have done. The real risk of such an exchange hung over us for four decades. When they go to war, nation states are the most dangerous things on earth, and keeping the peace between states should remain our top long-term security priority.

So my first point is that, whatever else has changed the centrality of states to our security agenda remains. My second point concerns geography. There has been a debate in Australia over the last couple of years between those who see Australia's security policy priorities having a geographical focus in our own region, and those who believe that geography matters much less to Australia's security in today's world, and that our security interests are best seen in global terms.

As so often happens, the debate is sustained through the exaggeration of each side's position by the other. I do not think the globalists really think that geography makes no difference. And I know that no serious contributor to strategic policy debate in Australia from Alfred Deakin onward has ever suggested that Australia does not have global security interests. Nonetheless the debate is an important one. There are real differences between the two views, carrying real policy implications.

I am in the regionalist camp. Of course Australia has important global security interests. We always have had. In 1914 it was important to Australia's security that the British Grand Fleet should remain undefeated in the North Sea. In the Cold War it was important for Australia that Europe not fall subject to the Soviet Union. In 1991 it was important to our security that Saddam not be allowed to retain the fruits of his invasion of Kuwait. And in 2001 it was important to Australia that the Taliban be removed from control of Afghanistan.

But equally, the recurrent lesson of Australian history is that our interests are more intense, our responsibilities are greater and our capacity to do things about those interests and responsibilities are more potent in our own neighbourhood. This is as true today as it was in 1941, or in 1999 when we declined to send troops to Kosovo because we wanted to be able to look after problems in East Timor, or this year when we brought forces home quickly from Iraq to allow us to deal with problems closer to home – like the Solomon Islands.

Today the global security issues which we face are the systemic problems of the post-modern world: terrorism, state failure and WMD proliferation. For Australia these abstractions become concrete most tellingly in our own region, where they become enmeshed in long-standing security concerns. For Australia, the global problem of WMD proliferation hits home hardest in North Korea. The global problem of terrorism hits home hardest in Southeast Asia, and especially Indonesia. The global problem of state failure hits home for us in the Southwest Pacific. So for Australia there is no question about whether we need to be concerned about these global problems: it's much more a question of where do they affect us most directly, and where can we do most about them. And the answer is – in our own neighbourhood, where our credentials, influence and capabilities are strongest, and where others including the US look to us to take a lead. Geography does still matter: That's why we took the lead in the Solomon Islands, and left Liberia to the Europeans.

#### SIX BIG TRENDS

My view, then, is that some things at least have not changed. States still matter, and geography still provides a valuable guide to our security priorities. But within that framework there are big trends at work which are shaping Australia's long-term security environment, and which should be the key focus of our policy. They should command our attention.

The first is the US and its global pre-eminence. A sensible response to the fact of American power requires us to recognise both its scope and its limits. The scope of American power is perhaps evident enough. Its deep economic, cultural and indeed demographic foundations mean that the US

will remain the pre-eminent global power, not just quantitatively but qualitatively distinct from all others, for at least the first half of this century. In our region it will remain deeply engaged and play a key role in maintaining stability.

Fine. But there are limits to American power. Those limits are military, fiscal and political. Militarily, American domination of the air and sea is not matched by a capacity to dominate on the ground. The lessons of recent wars are that America's military can defeat any army in the world, but it cannot control civil populations. For that task, technology is no substitute for numbers. And America's army is small – smaller than North Korea's. Moreover, the capacity of the US to achieve strategic results without occupying territory is limited. The USAF can destroy anything it can find, but finding things remains a real challenge. US and allied intelligence capabilities are very impressive, and much better than anyone else's, but they are still miles short of the omniscience that is sometimes assumed by those who think that the application of military power can now be undertaken free of the risks inherent in the fog and friction of earlier wars. On the contrary; in many circumstances the fog of war remains as deep today as ever.

Fiscally, the scale of US defence spending is impressive. It is devoting 3.5 percent of GDP to defence. This is still less – as a proportion of GDP – than it spent in the Cold War. But because America's GDP has grown so fast, 3.5 percent of GDP is still more in real terms than was spent in the Cold War, to support what is now a much smaller force. This suggests that the efficiency of the Pentagon is even lower now than it was in earlier decades. Nonetheless the current level of spending need not be unsustainable economically in a country as rich as America, as long as it is sustainable fiscally. America's economy can afford globally dominant armed forces, as long as America's governments are prepared to raise the taxes to pay for them. But that is very far from being the case right now. By raising defence spending while cutting taxes, Bush has sought to be a War President while delivering a peace dividend. If I may be allowed to say so in this august company, only an economist (and not many of them)

could imagine that the resulting US fiscal deficit is sustainable. If it is not, then Americans will need to decide whether they are prepared to pay the price of global pre-eminence.

It is not immediately clear that the answer will be “yes”. This brings us to the political limits to American global pre-eminence. Many silly things have been written about American unwillingness to sustain a global role because the electorate will not tolerate casualties. Certainly American Presidents have been reluctant to risk casualties for causes that are not clearly vital to American interests – and so they should be. But a moment's reflection of the history of the Cold War, of Vietnam, of the Pacific Campaign of 1942-45, or of the Civil War, will show that American society has been, and remains, at least as willing to risk and sustain casualties among its own people as other democracies are, and arguably more so.

But like others, Americans are cautious about using their armed forces to undertake protracted operations with ill-defined objectives in remote locations whose importance for American security is unclear. The future of America's Iraq commitment remains uncertain; my hunch is that they will, with luck, be able to sustain enough support to maintain a major presence in Iraq until an effective transfer of power to a new Iraqi regime has been accomplished. It is much less likely that Americans will support the continued deployment of large US forces until Iraq has been transformed into a stable and durable democracy – because that will take much longer.

Moreover, I think the likelihood of Americans supporting further major and protracted military interventions in other parts of the world is even more remote. The Bush Doctrine – the idea of frequent recourse to armed force to build stability by spreading democracy – will be seen by future historians as an aberration in US policy, which has already passed into history. What will emerge instead is still unclear. The US will remain globally engaged and globally pre-eminent. But Washington will be far more selective than the Bush Doctrine envisaged in deciding to commit its armed forces. How American power is sustained, and how it is used, over the next few years are now as uncertain as they were in the confused decade of the 1990s. And yet this is one of the critical issues of our time:

the history of the first part of the twenty-first century will be, as much as anything, the story of how America preserves, or how it loses, the extraordinary power that it had at the century's start. It is especially critical for Australia. Not only are we a US ally, with a vital interest in America's continuing pre-eminence, but our region is where the issue is most likely to be decided – between the US and China.

The second big trend we need to focus on is the growth of China and the dynamics of the US-China relationship. The US-China relationship is the riskiest relationship in the world today. And that makes the long-term balance of power in Asia deeply uncertain.

This is not a short-term problem. The day to day Sino-American relationship is in good shape – probably better than at any time since Tiananmen. But the growth of China's economic strength, political influence, strategic potential and military capability is the major strategic trend of our time, and perhaps the biggest change in Australia's wider strategic environment since Europeans occupied this continent. The development of stable and cooperative relationships between the US and the newly powerful China is a key policy challenge to our region and the world. Success in this challenge is threatened by deep-seated divergences in strategic objectives between the US and China which carry the potential for systemic enmity. America seeks to sustain a pre-eminent position in the Asia-Pacific; China seeks to establish one. At present each side appears to believe that the other's long-term objectives are incompatible with its own. The rest of us hope that that is not, and need not, be so. We need to make sure we are right. Systemic enmity between the US and China would be a disaster for Australia. No issue is more important to our future.

The third trend that will shape Australia's security environment is the future of stable and effective governments in Southeast Asia. This is not assured. When the ASEAN economies were expanding by 6-8 percent annually during the 1980s and early 1990s, we all grew to view this region as stable and increasingly prosperous. But since the Asian Financial Crisis in 1997-98, the level of uncertainty in the region has been protracted and strikingly disruptive. In Thailand, a drift towards corporatisation of

government is occurring, accompanied by an uncertainty about the underpinnings of legitimacy in government after the stabilising role of King Bhumipol Adunyatet has gone. In the Philippines the failure of the momentum for reform under Fidel Ramos to be sustained under the last two governments is painfully obvious. In Malaysia there is uncertainty as to whether anybody else can work the levers of power the way the recently retired Mohammed Mahathir did. Even in Singapore we must recognise that the post-Lee transition has not yet been achieved, and has indeed been further deferred with the nomination of BG Lee to succeed Goh Chok Tong as PM. The capacity of Singapore to manage the transition to a genuinely post-Lee era is going to be very important to its continuing success.

Last and most pressingly, of course, Indonesia's future is deeply uncertain. Some worry that Indonesia might disintegrate. I worry more that Indonesia's democratic experiment will fail. An Indonesian reversion to authoritarian rule is more likely than Indonesian fragmentation because threatened break-up would be the one thing that would be most likely to bring the Indonesian military (TNI) back into government. Some might welcome that as offering a return to the relative stability and progress of Suharto's New Order. But that is not what a reversion to authoritarian rule would mean. TNI is not the force it was in 1965, and its capacity to govern Indonesia effectively is far from certain. It would probably be an ineffective authoritarian government, more like Marcos' Philippines than Suharto's Indonesia. It might also be, unlike the New Order, systemically anti-Australian.

Conversely, the consolidation of democracy in Indonesia, the emergence of good and effective government, a return to sustained economic growth, and the restoration of Indonesia's natural position of regional leadership, would all be immensely to Australia's benefit. So we have a lot at stake.

The fourth trend which is shaping Australia's international security environment is the drift towards state failure among our smaller neighbours. From East Timor in the West across the Melanesian arc and out into the Southwest Pacific, some of our closest neighbours are in deep

trouble. Their problems are familiar enough, being present in different ways since independence, but as time goes it has become clear that things are not getting better and in many ways are getting worse. The problems are not transitional but systemic. And the lessons of the Sandline Crisis in PNG and the current problems in the Solomon Islands show the consequences. When states start to fail in the Pacific, they do not revert to a kind of pre-modern subsistence tropical paradise: in a globalised era they show every sign of degenerating into thoroughly post-modern badlands. That is a disaster for their own people, and it is not good for Australia either.

Of course we need to be careful not to over-generalise. Each of our smaller neighbours has its own strengths and weaknesses. There is no one set of problems, nor one set of solutions. Some of our neighbours are in much better shape than others. And yet this does present Australia with a coherent policy challenge; how to find a way to help sustain these countries and encourage them in directions that will meet Australia's interests in their stability and cohesion.

The fifth trend is the simple reality that we do today and will for some time to come face a higher threat of serious terrorist attack in Australia or against Australian targets overseas than we have ever known before. The exaggerated millennial talk about the existential threat posed by terrorism has if anything dulled our responses to what is, in all sobriety, a very serious and sustained problem. There is a loose global movement of people inspired by versions of Islamic fundamentalism who do see Australia as a significant element in a western or global culture inimical to Islam, and are willing to use terrorism to attack it. The subject has received so much attention in recent years that it is hardly necessary to expand on it here. But it is important to keep it before our minds as we think about Australia's policy imperatives over coming years.

Finally, we need to keep our eye on one last trend. Air and naval capabilities in the Asia-Pacific will continue a long and steady trajectory of enhancement. Twenty years ago, Australia enjoyed a near-monopoly in a range of critical military technologies and capabilities in our region. This was especially true of the high-technology air and naval capabilities which

are central to Australia's defence and our strategic weight in a region in which maritime capabilities are most important. But for a long time that near-monopoly has been steadily eroded as other countries in our region have developed capabilities as good as, and in some cases better than, our own. In submarines, air combat, strike, maritime mining and air defence capabilities, Australia can no longer be assured of the technological edge that we took for granted as recently as the mid-1980s. If we are to retain our position as the most capable air and naval power south of China and east of India, we will need to work hard over the next decade.

#### SIX POLICY IMPERATIVES

These six big trends in our international security environment provide six policy imperatives for Australia. First, we need to maximise our capacity and efforts to influence the United States, and especially the development of the US-China relationship. Australia has a reasonable record of influencing the US on bilateral issues. But we have a much weaker record on efforts to influence US policy on broader issues that are of critical interest to us. We need to become much more ambitious about this, and not too self-effacing about it. Australians who complain that Americans do not listen to us might ask themselves whether we try very hard to talk to them about these issues. Where has Australia put to America a coherent view of how we would like to see the future of the US-China relationship? Have we worked out in our own minds what we think? We should not wait until the crisis erupts, and the call for military support comes through, before we let the White House know that going to war with China over Taiwan is not an attractive idea to us.

Second, we need to enhance our broader influence on the evolution of the complex power balance in the wider Asia-Pacific region, including India. That includes, amongst other things, getting back into the business of being one of the architects of regional multilateral security structures. Whilst we have not been paying much attention to institution-building since our glory days with the ARF and APEC, Asian regionalism has developed apace and, unfortunately, Australia is not part of it. That is a serious deficiency in our current international posture and an policy adjustment for Australia to undertake.

Third, we need to find ways to support democracy in Indonesia. This is a very complex and demanding task. Indonesia is so big, and the forces at work in Indonesia are so complex, that the traditional instruments of foreign policy offer little chance of success. We need big new thinking – the kind of innovation that Percy Spender provided in the development of the Colombo Plan. And we will need to rebuild Australia's credentials in Indonesia. Since 1999, many Indonesians have remained suspicious of Australia's motives towards them. We cannot allow those suspicions to persist unchallenged. That requires a new and compelling diplomacy.

Fourth, Australians have to invent ways to support effective government in the Southwest Pacific. The Solomon Islands is just a test run for a much bigger task in PNG and elsewhere. Of course the Solomon Islands is not a model in the sense that problems there were specific and the instruments we used there were directed to address these particular issues. The willingness to accept and sustain major engagement in the affairs of those countries over decades is a key Australian policy imperative, however, and requires some very serious thought on how it's going to be done.

Fifth, we need to build and sustain a better capacity for responding to the terrorist threat in Australia. For all the talk since September 11, we in Australia have done little to improve our national ability to deal with the problems of terrorism that we are going to face for a long time to come. That relates to our intelligence capabilities, to our policing, to our capacity to respond to a terrorist attack when it occurs and our capacity to recover from it – we have done much less than we need to.

Sixth, we need to maintain a set of military capabilities which can achieve three tasks: Defend our continent, secure our neighbourhood, and contribute to coalition operations further afield. To do that we need to invest in two kinds of forces. Our land forces need to be light, highly deployable, and held at high readiness for operations in our immediate neighbourhood. There needs to be enough of them to do more than one thing at a time. Our air and naval forces need to be able to deny our air and sea approaches to any adversary. These forces will then give us options for operations further afield. The key imperatives we will face over coming

years will be to keep the army big enough to give us the forces we need to respond to multiple crises in our neighbourhood, and to maintain our edge in high-technology areas like air combat. I think we are spending enough money; I do not think we are getting enough for it.

#### FOUR INSTRUMENTS

Four instruments will be required to achieve those kinds of imperatives. First, we need more diplomatic capacity. We have the one of the best foreign services, perhaps the best foreign service in the world. But it is too small. Second, we need a revamped and reshaped aid program, more strategically directed at meeting our key policy imperatives in our own region. Third, we need to restore a clear focus on what our defence force is aiming to do, and a better-articulated program of capability development than we have seen in the last couple of years. Fourth and most importantly we need new ideas. That is what makes the Lowy Institute so important.

## CHAPTER FOUR

### Australia's Changing Economic Environment

Exploring Australia's Place in the Symbiosis between  
the Economies of East Asia and the United States

*John Edwards*

How have Australia's circumstances been changed by the emergence of a "unipolar" world following the end of the Cold War and now by the "war on terror"? I want to show that in the economic realm things have indeed changed utterly in recent years, but not because of the end of the Cold War and still less because of the war on terror.

The argument I develop is that Australia's circumstances have changed because of economic globalisation and our response to it, because of the relative economic decline of the US which is inseparable from globalisation, because of the increasing significance of China in our region and because of the symbiotic relationship now developing between China and the US. Many of the threats and opportunities presented by this changing regional picture are apparent in the tidal wave of regional and bilateral trade agreements now washing across East Asia, and in associated changes that are creating a more closely integrated East Asian economic community. Australia's response to this reshaped regional economic community is I think the single most important challenge facing our foreign economic policy today. It may also be the biggest economic challenge facing the United States, though Washington is very far from recognising it.

#### US RELATIVE DECLINE

The starting point for this argument is that while the end of the Cold War may have left the US as the only superpower in the security realm, and the consequences of September 11 may have encouraged it to act unilaterally and pre-emptively, these trends are not at all true of the economic realm. On the contrary, in the economic realm the US is slowly becoming less dominant in the global economy, and more dependent upon it.

It may now spend more on defence than the next 15 nations combined, but the US economy has been in relative decline for half a century. Using Angus Maddison's numbers it accounted for a around one-third of world GDP in 1950, and today accounts for one-fifth.<sup>1</sup> Using purchasing power parity measures for exchange rates the CIA World Factbook and the IMF show the US accounted for a little under one-third of the world economy 25 years ago, and one-quarter today. This relative decline is both desirable and inevitable given the rebuilding of Japan and Germany in the sixties, the rapid development of Southeast Asia and Northeast Asia in the seventies and eighties, and latterly the rapid growth of both China and India. So long as the global economy grows faster than the US it will continue to lose share. So long as China, India and other rapidly developing countries grow faster than the US, they will gain in relative size and the US will lose in relative size. This is the result of globalisation, which is itself the result of policies successfully pursued by the US since the early years of World War Two.

It is not just relative growth but also the pattern of growth elsewhere which has challenged US economic hegemony. The global economy is not a collection of small economies and one big one. Though growing more slowly than the US, Western Europe has integrated with one trade policy and now one monetary policy. It has thus become an economic unit of size roughly equal to the US and will soon be substantially bigger. China is growing much faster than the US, and has advantages in population, natural resources, land mass and so forth which Japan for example does not have. China is now half the size of the US and continuing to gain. US output is still twice China's output, but the addition to China's output each year is already bigger than the addition to US output each year.

At the same time as the US is becoming relatively less important in the global economy, it is also becoming more dependent on the global economy<sup>2</sup> – as we all are. In 1960 US exports were one-twentieth of GDP; today they account for over one-tenth. After World War Two the US was both the world's great creditor, and a continuing capital exporter to the rest of the world. No longer. In 2003, the current account deficit exceeded 5 percent of GDP, and was no longer thought excessive. Far from being a net creditor to the rest of the world, it is a net debtor. By 2001, for example, the value of US direct investment abroad was US\$7 trillion, while the value of foreign direct investment in the US was US\$9 trillion. These financial dependencies on the rest of the world are complemented by an increasing dependence on imported energy and manufactures.

It is sometimes said that the US economy has such a commanding lead in technology and productivity, the relative size argument does not matter. It is certainly a very successful economy and I expect that to continue. It today maintains a lead in computer software and hardware design. But it long ago joined the pack or fell behind in consumer electronics, commercial aviation, motor vehicles, medical drugs, agriculture, mining, and heavy industries like steel making. The US strength is not as apparent in technology as in labour market flexibility, depth and flexibility of capital markets, rule of law and the legal and cultural framework for a market economy, marketing and business administration, the education system, and internal transport and communications.

#### THE IMPACT OF THE END OF THE COLD WAR AND OF SEPTEMBER 11 2001

What impact did the end of the Cold War have on these underlying trends? In the political realm the disintegration of the Soviet Union left the US as a sole superpower. In the economic realm I would argue that the result was quite opposite. It certainly extended forms of the market economy to Eastern Europe, Russia and the former Soviet Republics of central Asia. It was a triumph for the values of personal liberty, freedom and democracy as well as the market economy. But the triumph of the market economy was not the triumph of the US economy, though the long boom of the

Clinton years obscured this. On the contrary, the end of the Cold War eroded the economic authority of the US. It removed the Soviet threat to Western Europe and China. It allowed the reunification of Germany. It removed the Japanese and German dependence on the US nuclear umbrella. It allowed a wider political separation of the US from Western Europe. It took the Soviet Union off the board – but the Soviet Union was never an economic competitor of the United States, never a serious participant in the global economy, and never a member of the post war institutions of global economic governance such as the World Bank, the IMF and the GATT.

What impact has September 11, the invasion of Iraq or the “war on terror” had on these underlying trends? I would say very little. We sometimes apply Cold War rhetoric to the hunt for Al Qaeda terrorists, implying equivalence between a Soviet intercontinental ballistic missile with multiple independently targetable warheads capable of destroying 300 million people, and a car bomber. But the economic impact of terrorism is insignificant. The US was in recession on September 11 2001. Three months later it recorded the biggest quarterly GDP increase for over two years. Equity prices tumbled and bond prices rose in the immediate aftermath of September 11 but the real money was made by the smarties who then came in to sell bonds and buy equities. It was well said that the Tyco and Enron frauds revealed in 2002 did vastly more damage to the US economy than Al Qaeda in 2001. The uncertainty created by the preparations for the war in Iraq again did much more damage than terrorism, to which the invasion of Iraq was connected only rhetorically.

The point of my argument so far is that whatever may be true of the defence and security realms, the global economic context for the Australian economy is clearly not based on a unipolar global economy or a hegemonic US – indeed, Australia's economy is not based on the US at all. The really important trends for Australia do not arise from the end of the Cold War or from the US response to September 11. They arise from the swift reconfiguration of the regional economy as regional leadership passes from Japan to China, and from the increasing weight of East Asia in the global economy.

#### THE NEW EAST ASIAN REGIONAL ECONOMY

A new East Asian economy is emerging; one focused on dramatically increased trade within the region and based on China rather than Japan. It accounts for most of the world's growth, commands most of the world's foreign exchange reserves and finances most of the US current account deficit. Formidably protected by reserves and refreshed by new political leadership in many of the key nations, East Asia is acquiring greater authority and autonomy. Over the next few years regional weight will be enhanced by the negotiation of regional free trade agreements which will create a more formal and more deeply integrated East Asian economic community.

Driving the closer integration and increased authority is the replacement of both Japan and the US by China as the focus of the regional economy. Export growth accounts for most of the GDP growth in the region, and trade within the region accounted for over half of export growth in East Asia in 2003. Much of the increased regional trade is with China. Most of Japan's growth came from exports in 2003, for example, and the growth of exports to China contributed twice as much to overall output growth as the growth of exports to the US. For Korea, Taiwan, and most of Southeast Asia the story is much the same – exports to China are growing at a much faster rate than exports to the United States or Japan, or for that matter Europe. In 2003, China displaced the US as Korea's biggest trade partner; in 2004 China will displace the US as Japan's trade biggest trade partner as well. Australia is starting to reflect the trend. In both March and September 2003 Australian exports to China exceeded exports to any economy other than Japan.

As the region's economic autonomy has increased with internal trade, so too has its economic authority. Increased foreign investment in the region and swelling trade surpluses are matched by increased East Asian official capital outflow, predominantly into US treasuries. East Asia is thus strengthening its balance sheet with the rest of the world by acquiring riskless bonds abroad in exchange for risky direct investment at home. East Asian official purchases of US dollar assets keep their exchange rates lower and the US dollar and current account deficit higher than they would

otherwise be, at the same time as they add to East Asia's already vast reserves. This is likely to be an enduring circumstance.<sup>3</sup> In the last five years the foreign exchange reserves of East Asia including Japan have trebled to a total of over \$1.5 trillion, around two-thirds of the world's official foreign exchange reserves. Under the Chiang Mai initiative the reserves of one member of the East Asian economic community could be drawn upon to support the currency and balance of payments of another. Central bank reserves thus supplement trade and investment as regional economic bonds.

China's success is complemented by the more cheerful outlook for the Japanese economy. After a decade of low growth punctuated by recurrent recession, Japan has now scored eight quarters of expansion. Some of Japan's problems (bad debt in banks, deflation) are the consequences of slow growth and recession; it follows that a sustained period of expansion will make further expansion more probable. In coming years Japan will regain some of its lost regional influence, but in the context of a very much greater regional weight for China.

Recognising the opportunities of more formal integration and spurred by strategic economic competition between China and Japan, the economies of East Asia are now concluding free trade pacts with each other at remarkable speed. Japan is negotiating trade agreements with Korea, Thailand, Malaysia and the Philippines, in addition to the agreement it has already concluded with Singapore. China has concluded a trade deal with Thailand, and is now negotiating with the whole of the 13-member association of Southeast Asian economies, ASEAN. The ASEAN group is itself attempting to negotiate a faster development of its own free trade area AFTA. There are also tentative discussions between ASEAN and Korea, China and Japan (ASEAN plus three), and also now between ASEAN and India. It is important to note that in negotiating with Mexico, Thailand, Malaysia and Philippines, Japan must and according to the FT<sup>4</sup> does accept it will need to offer more concessions in agriculture than in the Uruguay Round. Japan's new interest is presumably in response to the negotiation of an FTA between ASEAN and China.

The extent of the transformation implied by these trends is difficult to overstate. Well over half of Australian exports, after all, are sent to East Asia. Within a few years most trade between East Asian economies will be transacted under agreements which minimise barriers between members of this newly emerging trade community, while leaving in place barriers against those left out. The growth of trade within the region plus the growth of domestic demand will account for most of the GDP growth in East Asia, and a good deal of the growth in the global economy as a whole. The community will be protected by vast foreign reserves, available to member countries under arrangements already negotiated. And it will be hubbed on China, a state with the political weight to match its growing economic might.

China is in many ways an ideal partner for Australia in Asia. Australia's building economic relationship with it has sharpened the Asia focus for Canberra, which the decline of Japan had dulled. It is avowedly Communist and undemocratic and it does not uphold human rights, all of which do and will continue to cause fundamental problems in the relationship. But there are considerable strengths too, and not just in China's size and appetite for Australian raw materials. China is not bothered by Australia's generally European culture and ethnicity, as some other Asian nations are. It is not bothered by Australia's religion or lack of it. It shares with Australia a straightforwardly commercial view of the world. It is complex, sometimes corrupt, always difficult, but in the end more open and accessible to Australian business interests than, for example, Japan. It is and will remain very sensitive on the point of Taiwan but its international role in recent years has been entirely helpful – particularly during the Asia crisis, and now over North Korea. It is interesting that China has been willing to commence a discussion which might lead to a preferential trade agreement negotiation with Australia, given that ASEAN refuses such a discussion with Australia and Japan, having begun one, promptly decided it could not continue.

Unlike Japan, China has nuclear weapons and it has the manpower and magnitude, the statecraft and will to engage in prolonged strategic

competition with the US. It is the first time in our region since 1945 that a nation has emerged capable of that competition. But unlike the Soviet Union, China is completely immersed in the global economy, and its continuing success depends (as does that of the US) on the success of the global economy, its rules and institutions. This is a big difference. China may and may not be a strategic competitor for the US, but it is certainly and necessarily an economic partner. The United States and East Asia have renewed with greater scope the pattern of East Asian surpluses corresponding to US deficits. The difference now is that China has replaced Japan as the driver of the process. The US dollar, the US standard of living, the ability of the US to consume or invest 5 percent of GDP more than it otherwise could, are now conditioned by this symbiosis<sup>5</sup> between East Asia and the US.<sup>6</sup>

#### HOW AUSTRALIA FITS INTO THE CHANGING GLOBAL ECONOMY

While the global economy and the regional economy have been changing, so too has Australia's economy – and in ways that make it more completely a part of these changes.

Australia is enjoying an extraordinarily long period of economic success. It is now well into the thirteenth year of uninterrupted growth. Over that period real incomes have increased by a third, wealth has doubled. There are Australians now in their thirties, well established in their careers, with a house, a car and kids, who have not experienced a recession in their working lives. The long period of growth is itself favourable to continuing growth because it reduces the transition costs of industrial change.

The long upswing has been built on sustained productivity growth, itself the product of stronger competition, new flexibility in the labour force, and technological innovations such as cheap computing and cheap telecommunications. It has also been built on a markedly more competitive exchange rate since the 1983 float, and sustained low inflation.

Most of the framework changes that preceded the long expansion had the effect of increasing Australian economic exposure to the rest of the world. These included the float, financial deregulation in 1984, and tariff

cuts in 1988 and 1991. The other major change, the 1993 switch to enterprise bargaining, was the necessary consequence of greater exposure to global competition. The impact was amplified because Australia's regional neighbours were increasing their exposure to the global economy at the same time. Globalisation is after all a network phenomenon.

The external character of the Australian economy has changed. In the 1980s and 1990s the share of exports in GDP increased, and at the same time the share of exports going to Asia generally increased, and the composition of exports changed. Exports have contributed well over one-quarter of the growth of Australian output over the last decade. Manufactured and service exports are now consistently higher than rural exports. There has been a corresponding increase in the import share of consumption.

More recently we have seen another stage of the internationalisation of the Australian economy. Australia has experienced over the last decade a very big increase in both net and gross capital flows. The current account deficit averages 4 percent of GDP, which is a measure of the net inward flow. But gross inward flow has increased to three times the current account deficit. Two-thirds of the inward flow is matched by outward flows, particularly in recent years. This has largely taken the form of foreign direct investment by Australian corporations. Australian businesses now own more business assets in the US than US businesses own here. In 2001-02 the stock of US direct investment in Australia was valued at A\$57.6 billion, while the stock of Australian direct investment in the US was valued at A\$73.7 billion. From less than one-quarter a decade ago the total stock of Australian FDI abroad is now about three-quarters of the total stock of foreign direct investment in Australia.

We have discovered that globalisation suits an open medium sized economy, both in export of goods and services and in the export of FDI. By extending market size and opportunity globalisation continuously opens up new specialisations in which Australian businesses can enter.

A necessary consequence of these trends is that Australia's external financial vulnerability has increased. Australia's gross external debt has

rapidly increased, not least to fund the foreign direct investment abroad. Net foreign debt has doubled to nearly A\$400 billion in the six years to 2003, and more than two-thirds of this Australian foreign debt is now owed by Australian banks compared to less than half in the mid-nineties. Australia's commercial banks have become the pillar of the balance of payments.

The 12 years of success have changed Australia's outlook. It is more willing to embrace change, more confident. It no longer looks enviously to Singapore or Korea or Japan as desirable models to imitate. The economy whose structures we most closely resemble is the US, which is also the destination of a little less than half of Australian investment abroad. But the economies with which we are increasingly integrated are in East Asia, and they themselves often have a closer integration with the US economy than we do. Only one-tenth of Australian exports go to the US, but the US accounts for around one-quarter of Japanese exports.

#### CHANGING ECONOMIC CIRCUMSTANCES AND AUSTRALIAN FOREIGN POLICY

I now want to pull together these observations about the current circumstances of the global economy and the observations about the current circumstances of the Australian economy to make a few points about the framework of Australia's foreign policy. The good news is that most of what we need to do we are already doing, but some we are doing too half-heartedly and without clarity of purpose.

Our guiding principle should be that Australia's success over the last 12 years, just as over the last two hundred years, has depended on the global economy and our engagement with it. This will be all the more so in the coming decade because we are now more exposed to it, it is bigger and more complex, because we have begun to exhaust the major gains possible from domestic institutional and policy changes, and because we now have a greater vulnerability to unfavourable developments which could influence the global assessment of Australian credit.

We need to recognise that Australia's foreign economic policy cannot be based on the US. The US is not hegemonic in the global economy, cannot

now set the rules, and will be less rather than more able to do so in the future. We also need to recognise that US economic policies are not necessarily good policies, or policies that are in our interests. Examples of conflicts include the Law of the Sea, the Antarctic Treaty, Kyoto, extended copyright protection, parallel importing rules, Basle 2 for domestically focused institutions, insistence on current voting configuration in the IMF and the World Bank, refusal to accept consensus procedures at the WTO, resistance to collective action clauses in sovereign bailouts, US rhetorical support for unfettered capital flows, extended rights of national treatment and compensation, and a distinct US preference for hub and spokes or bilateral free trade agreements over multilateral trade agreements. Our national interest and those of the United States are often similar, but the US does not always act in its own national interests, we may anyway often differ with the US, and the US will often not have strong views, information, policies or guidance on issues which are important to us but not to Washington.

We depend for our success not on the US economy but on the success of the regional and global economy, the development of which has long outrun the development of the institutions of global economic governance. The end of the Cold War has increased the centrifugal forces in the global market economy. Socialism is extinct as an alternative model, but this reveals the variety of models of the market economy, and sharpens the differences of economic interest between them. Accelerating economic globalisation and the consequent increase in global interdependence raises an increasing number of issues related to trade flows, capital flows and crisis response to which the existing institutions of global economic governance are ill suited to respond. This is most apparent in the WTO, the cockpit of trade tensions and the only one of the global economic institutions able to reflect the contemporary configuration of forces. It was apparent in the prolonged fight over the appointment of a Director General to succeed Renato Ruggiero, in the conflict in Seattle, and in the breakdown in Cancun. There are more players, more big individual players, fewer pressures to find agreement.

Problems in other global institutions are just as deep seated, though less apparent. The IMF and World Bank governance arrangements are based on the post World War Two configuration of economic authority, and make a poor fit with contemporary configuration. The Bank of International Settlements is dominated by the G11, another historical remnant, while the G8 has lost any real effectiveness or plausible agenda.

In such a world influencing rules to suit Australian interests depends on our political success in building alliances. These alliances will depend on the issue and we need to remain sufficiently flexible to be part of one coalition on one issue, and another on another. We cannot, for example, make a habit of supporting the US against Europe or the US against China or allow ourselves to be regarded as a stalking horse for the US. In this respect the current Australian government has in the economic realm been quite rational – for example in backing Supachai against Moore (and the US) for the top job in the WTO, and in the Prime Minister's personal attention to the relationship with China.

Australia thus finds itself in an economic realm which raises considerations quite different to those of the political or security realms. The dependence of all of us including the United States on the global economy forces a degree of multilateralism and interdependence that can sometimes be evaded in the security realm. The emerging Chinese dominance of the East Asian region, its symbiotic relationship with the global economy and with the United States, dictates that Australia must resist tendencies for political conflict between the US and China, and refuse to be drawn into a choice between them. The contemporaneous honouring of Hu and Bush in Canberra in 2003 underscored the extent to which this is now national policy.

**THE IMMEDIATE CHALLENGE OF THE EAST ASIAN ECONOMIC COMMUNITY**  
Many of these general considerations are relevant to an immediate and profoundly important issue for Australian foreign policy. I think we need to recognise the very grave threat presented by an accelerating trend towards free trade agreements (FTAs) within East Asia. The trend may well present the greatest peril to the foundations of Australian prosperity in

decades. Of every hundred dollars of national income in Australia, thirteen dollars are provided by exports to East Asia. Australian exports to East Asia have been growing faster than Australian exports generally, and they are not just raw materials. East Asia is also a major market for Australian manufactures and Australian services. Whether we applaud or deplore its development, if there is to be an East Asian trading community Australia must certainly do everything it can to be in it. Better still, it should do what it can to encourage the development of a trading community which better fits our own interests and those of the region.

Australia has made a start by negotiating free trade agreements with Singapore and Thailand. It recently reached an agreement with China to discuss over the next three years the possibility of negotiating a free trade agreement in later years. But Australia has already been excluded from the ASEAN plus three discussions, it has already been refused trade pact negotiations with ASEAN and with Japan, and the schedule with China means that the game will be well into the second half by the time Australia turns up to play. More importantly the Howard government has no grand plan to take advantage of the trade forces now reshaping East Asia, no vision of what outcome it would wish to encourage, and no willingness to deploy the means to achieve it.

While the new drive towards the creation of an East Asian trade bloc threatens Australia, it also presents opportunities. Because it is driven by strategic competition between China and Japan for regional dominance, the reduction in trade barriers may be bigger than would occur for trade reasons alone, and it may proceed farther and faster than liberalisation within the now-stalled Doha Round of global trade negotiations. Australia has good political and economic relations with both China and Japan, neither of which wish to exclude Australia from a regional trading community. China's deal with Thailand allows preferential access for Thai fresh fruit and vegetables, while Japan now acknowledges that any trade deal it makes with Thailand, Malaysia and the Philippines must necessarily cover agriculture. If agriculture is up for negotiation, it is easier for Canberra to join the game.

Australia is today negotiating a free trade pact with the United States, which could well be useful. But a trade pact with the US is no kind of substitute for trade pacts with Asia, not least because Australian exports more than five times as much to Asia as to the United States. The real importance of a trade pact with the United States is that while it is not Australia's biggest export market it is usually the biggest or second biggest for East Asian economies. At the end of the day most East Asian economies will not only want trade pacts with each other, but with the United States as well. An Australia-US free trade agreement might offer Australia a seat at the table if and when all the agreements now being negotiated within the region are rolled into one overarching regional agreement.

Our immediate objective should be to shape an outcome most in our own interests. That is, we should work to encourage agreements that do not preclude or discourage further liberalisation in agriculture. We should work to discourage agreements which could restrict concessions in global outcomes, or which discourage accession by others. We should certainly encourage the highest possible level of aggregation of agreements, preferably to an APEC-wide level or large subsets within APEC, recognising that the more economies involved the bigger the welfare gains and the closer the approach to global outcomes.<sup>7</sup>

Australia cannot determine the outcomes for the region, particularly since it is not now involved in many of the crucial negotiations. But there are tendencies which will support us. One is that, as Richard Baldwin<sup>8</sup> argued long ago, there is a domino effect in trade agreements, such that they tend to be replicated and then enlarged. The coalescence of EFTA and the EEC was one example, the creation of NAFTA and now perhaps the FTAA from the US-Mexico trade negotiations another. There is also the simple principle, explored by Caroline Freund<sup>9</sup> in an interesting paper for the Federal Reserve Board, that in many instances there will be an incentive for any one member of a bilateral FTA to offer the same terms of accession to another partner. In other words there is an inbuilt tendency to replication.

Our objective should be to use whatever relationships we can (including the APEC Leaders Meetings) to aggressively pursue the maximum possible consolidation of FTAs made within APEC. Rather than holding our noses as we go about seeking whatever opportunities we can to make our own FTA deals, we should regard what is now happening as an important and long-term process which we should encourage, and which sensibly approached will be of great benefit to us. We should, for example, take intellectual leadership of a project to create a template agreement, to advance the idea of open accession, and to progress towards an APEC-wide agreement rather than hub and spokes around China and the US. As part of this we should certainly press the negotiations with the US towards a conclusion, because we want to build ourselves into as many arrangements as possible, because the discipline is good for us, and because at the end of the day East Asia will also want a deal with the US. An Australia-US FTA is not the main game for Australia, but it is a very useful thing to have in our pocket in the rapidly extending game of regional trade negotiations.

A region-wide trade agreement would certainly be in Australia's interests, because the more widespread and comprehensive agreement the greater than probability that Australia could talk its way into it, and the bigger the gain to our trade. Yet it is not yet part of Australian policy to encourage the creation of such a wide and comprehensive pact in the Asia-Pacific region. It should be. Australia should now be exerting whatever influence it can to encourage the making of agreements consistent with the ultimate goal of creating a free trade community embracing all of East Asia and North America. It would be an ambitious goal, perhaps (as Ross Garnaut suggests) romantically so. But so too were the projects to create APEC in the first place, and the annual Leaders Meeting which gave it authority. They were ambitious ideas, both achieved, and both Australian.

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NOTES

<sup>1</sup> Angus Maddison, *The World Economy* OECD 2001.

<sup>2</sup> To some extent US recognises its dependence on the global economy, e.g. both NAFTA and Congressional acceptance of the WTO (it refused legislative backing to the GATT) are an abridgement of sovereignty.

<sup>3</sup> This section relies on two very interesting papers: Robert N McCauley, *Capital flows in East Asia since the 1997 crisis* BIS Quarterly Review June 2003, and Michael P Dooley, et al *An Essay on the Revived Bretton Woods System* NBER Working Paper 9971 September 2003.

<sup>4</sup> *Financial Times* 24 November 2004.

<sup>5</sup> Google informs me that symbiosis is a situation in which two dissimilar organisms live together. There are many types of symbiosis, including mutualism (in which both organisms benefit), commensalism (in which one organism benefits and the other is not affected), or parasitism (in which one organism benefits at the other organism's expense).

<sup>6</sup> Although East Asia has built huge reserves and will likely see continued trade surpluses in most economies, the drivers of growth have also to some extent changed in ways that suggest they will over time move closer to the US and Australian models. In particular financial liberalisation after the Asia crisis has seen stronger household demand trends in Korea and Thailand, while for different reasons domestic demand has also been a bigger force in China and Japan. Over time, the rich economies of East Asia will more closely resemble those of the US and Australia in the role of household sector, of the financial sector, and of services industries generally.

<sup>7</sup> Robert Scollay, and John Gilbert, 2001, *New Pathways for Regional Trade Arrangements in the Asia Pacific?* Institute for International Economics, provides an excellent quantitative analysis to demonstrate this effect.

<sup>8</sup> Richard Baldwin, 1993. *A Domino Theory of Regionalism*, NBER Working Papers 4465, National Bureau of Economic Research, Inc.

<sup>9</sup> Caroline L Freund, 2000 *Spaghetti Regionalism* Board of Governors of the Federal Reserve System International Finance Discussion Papers Number 680 September.

## CHAPTER FIVE

### The Evolving International Environment and Australia's National Interest\*

*Ashton Calvert*

I am delighted to have this opportunity to speak at the first conference organised by the Lowy Institute.

I should like to congratulate Frank Lowy for the vision, public-spiritedness and generosity he has demonstrated in establishing the Institute.

My purpose today is to describe from the perspective of a policy adviser what I see as the main characteristics of the contemporary international environment, and how these affect Australia's interests.

I should also like to describe some of the strategies the Government has developed to respond to this fluid and challenging environment.

As a preliminary step, let me make some general observations about Australia's interaction with the international environment.

First, I believe that successful execution of Australian foreign policy must start from a realistic view of how the world works, and of Australia's place in it.

Second, I believe we need to recognise that there is a close interplay between Australia's domestic strengths as a country and the success and effectiveness of our international policy.

Third, I think it is important to recognise that the Australian national interest is something that is defined by the Australian Government and the Australian people.

The national interest is not static, nor can it be defined in a mechanical way.

It depends in part on prior strategic choices we have made, and is informed by the view we have of ourselves as a country, and by what we want to stand for.

Finally, I believe we need to recognise that Australia's interests are global in scope and character, and that some of our interests are defined by geography and some are not.

The following examples help remind us of the spread of Australia's interests around the world.

Australia has a long history of active political, military and economic engagement with Asia.

Currently, around 56 percent of our merchandise exports go to Asia.

The United States is by far our most important defence and intelligence partner, and we see the United States' strategic presence in the Western Pacific as making a vital contribution to regional stability.

Australia's top five two-way trading partners are the United States, Japan, China, the United Kingdom and New Zealand, in that order.

The top three direct investors into Australia are the United States, the United Kingdom and Japan.

And the top three overseas destinations for Australian direct investment are the United States, the United Kingdom and New Zealand.

Over the past five years, China has been our fastest-growing major country market, and the Middle East has been our fastest-growing regional market.

All these strands work together – and combine with other linkages and interests – to define our stake in the international system.

#### INTERNATIONAL ENVIRONMENT

In my view, one of the most important factors defining the contemporary international environment is globalisation of the world economy.

We all know there have been past periods of high levels of interdependence in terms of trade and investment flows, especially between Western Europe, the Americas, parts of Asia and Oceania.

The decade immediately before World War I is often cited as a previous peak of globalisation.

But by the year 2002, cross-border trade had reached 24 percent of world output, compared with 18 percent in 1914.

And international financial flows have never been bigger as shares of GDP.

Thanks to the computer-based revolution in information and communication technology, another thing that distinguishes the current period from past phases of globalisation is that we now have almost instantaneous flows of information about market conditions and political events around the world.

And the geographical spread of globalisation is now much greater as Russia, Central Europe and China become progressively integrated into the international trade and financial systems.

Faster and cheaper transport and communications and high levels of economic interdependence all combine to give a growing sense of connectedness between many countries in the world.

At the same time, the ongoing process of globalisation can have profound consequences for the international standing of countries.

Its disciplines of competition reward those with open policies and sound political, legal and economic institutions – and disadvantage those without.

There are no grounds for Australia to be complacent, but our strong economic performance over the past decade – in the face of the East Asian financial crisis and other international challenges – gives us confidence that we have the policy and institutional credentials to succeed in an era of globalisation.

The strategic implications of globalisation are complex and, in my view, warrant more careful analysis than they seem to receive.

There are several observations I should like to venture.

First, the unprecedentedly high levels of economic interdependence among all but the least developed countries of the world generate an increased shared stake in international stability and predictability.

This does not mean there will be no more wars between nation-states, as indeed we have been reminded this year in Iraq, but the likelihood of war between the vast majority of states that we might regard as being in the international mainstream is probably significantly reduced.

Second, greatly improved communications mean that international awareness of wars, civil strife, disorder, large-scale abuses of human rights, and natural disasters in even the most remote parts of the world is much greater than before.

In at least some cases, this increases the possibility of intervention by the wider international community.

Third, globalisation tends to break down the traditional distinctions between foreign relations and domestic affairs.

For example, the European Union's Common Agricultural Policy has been developed for domestic reasons, but has a profound impact on Australia's agricultural trade interests.

And as protection recedes from the border, demand is growing to include domestic regulatory issues such as competition and investment in international trade agreements.

And fourth, despite all the benefits that globalisation undoubtedly provides, the same process perversely increases, through its very openness, our vulnerability to terrorism and other transnational crimes, and provides easy access to technology and communications that increases the capabilities of the perpetrators of these crimes.

It should also be noted that, as a consequence, dealing with terrorism, people-smuggling and other transnational crimes is increasingly becoming part of core business in contemporary foreign policy.

Another important characteristic of the international environment is the economic and military pre-eminence of the United States in world affairs.

The United States accounts for around one-third of global output; its defence budget exceeds that of the next nine countries combined; and there is nothing to suggest that it will lose its technological edge any time soon.

This is hardly a new phenomenon, but the distance we have travelled since the end of the Cold War helps set United States ascendancy into sharper relief.

The terrorist attacks of September 11 have galvanised the United States into a much more assertive posture in responding to threats to its own and international security, as we have seen in the war on terrorism and the war in Iraq.

Given the prospect that the pre-eminent position of the United States is likely to hold for a long while into the future, it is not surprising that the outlook for strategic relations between the United States and other major powers is relatively stable and favourable.

There is still scope, of course, for serious diplomatic disputes and tension between the United States and other major powers.

We saw that earlier this year in the serious disagreement between the United States and the United Kingdom, on the one side, and France, Germany and Russia, on the other, over the question of how to deal with the challenge posed by Iraq.

But what distinguishes our times from the periods of strategic confrontation that characterised the Cold War is a relatively stable and favourable outlook for relations between the United States and other major powers at the basic strategic level.

A further characteristic of our times that I should like to highlight is China's growing economic, political and strategic weight.

This has been rightly described as the single most important strategic trend in the Asia-Pacific region.

And, as the recent course of our bilateral relationship with China shows, this is clearly a positive development for Australia.

China's accession to the WTO, its support for the war on terrorism and its key role in the North Korea six-party talks are all positive signs that it takes seriously its international responsibilities as a major power.

China also recognises that a constructive relationship and economic engagement with the United States are vital to its efforts to build its economy and international influence.

While China competes with the economies of Southeast Asia for foreign direct investment, it is also becoming an increasingly important market for their exports.

On current trends, China will, in the next few years, overtake Japan as the world's third largest trading nation.

Certainly the current, relatively favourable outlook for US-China relations provides an optimum context for the advancement of Australian interests in East Asia.

Some commentators have suggested that the United States and China are merely undergoing a pause in their strategic competition.

Time will tell whether competition will resume in a serious way, but for my part I have been impressed over the past several years by the commitment of both Washington and Beijing to manage their relationship responsibly and constructively, including with regard to the difficult issue of Taiwan.

#### SECURITY CHALLENGES

Set against these underlying positive trends in the international environment, there are three major challenges which are central to the Government's current concerns: international terrorism, the proliferation of weapons of mass destruction, and the instability and threats caused by weak and failing states.

Terrorism has, of course, been with us for a long time and has had many forms.

What distinguishes Al Qaeda and associated groups motivated by Islamic extremism is their ruthlessness, the sophistication of some of their attacks, the international spread of their networks and activities, and the ambition of their apparent agendas.

The Al Qaeda attacks on the United States on September 11 gave the fight against terrorism an urgency and prominence that it had long deserved, but had not received in the past – to our great and common misfortune.

The Bali terrorist attack in October last year removed any residual complacency that we or our region might somehow escape this threat.

And the recent appalling attacks in Istanbul demonstrate again the virulence of the terrorist threat and the indiscriminate nature of the death and suffering it causes.

There is strong international resolve to wage war on terrorism.

Globally, Al Qaeda has been disrupted and diminished, but not yet defeated.

It still has the capacity to finance, plan and launch attacks, either on its own or in support of surrogates.

In two years, over 3,000 terrorist suspects have been detained in more than 90 countries, and nearly US\$200 million in terrorist assets have been frozen.

In our own region, cooperation with our neighbours has seen terror attacks prevented, terror networks disrupted and terrorists arrested and convicted – including many of those responsible for the Bali bombings.

But even though we have achieved this important progress, victory in the war against terrorism is going to require a sustained effort over a number of years.

And in Southeast Asia in particular, disrupting the activities of regional terrorist groups like Jema'ah Islamiyah will be a long and difficult process.

Interest on the part of terrorists in acquiring weapons of mass destruction has also given the cause of non-proliferation a new urgency.

In Australian foreign policy, contributing to the international effort to check the spread of weapons of mass destruction has been a long-standing priority.

We have recognised all along that the more states there are that acquire these weapons, the greater the incentive for others to acquire them, and the greater the likelihood that they will eventually be used, including by terrorists.

An overriding objective of Australian policy has been to do everything possible to avoid the introduction of weapons of mass destruction into our immediate region.

We recognise, of course, that proliferation, like terrorism, pays no respect to international or regional borders.

These considerations have led Australia to be an active and consistent supporter of multilateral non-proliferation regimes, underlined by the singular contributions we have made over the years in support of critical normative instruments such as the Comprehensive Test Ban Treaty, Chemical and Biological Weapons Conventions, and the Nuclear Non-Proliferation Treaty.

It was against this background that we strongly supported the UN Security Council's 12-year effort to remove and verify the removal of Iraq's weapons of mass destruction.

When the UN effort faltered, we joined the war in Iraq to remove the proliferation threat.

Similarly, Australia has been active in supporting diplomatic efforts to address international concerns about the nuclear programs of North Korea and Iran.

And we are a leading participant in the Proliferation Security Initiative which is designed to check illicit trade in weapons of mass destruction technology and materials, and in the missiles that deliver them.

Another bitter lesson from September 11 is that the economically developed world neglects at its own peril the impact that failed and failing states can have on international security.

Afghanistan demonstrated the key role that such states can play in providing shelter and support for terrorist networks.

But terrorists are not the only groups that find a home in failed or failing states.

The smuggling of people, the laundering of money and the trafficking of drugs and weapons are all made easier in states whose legal and political systems have ceased to operate.

And even in cases where states are not on the verge of failure, weak governance and institutions can have an impact on neighbouring countries and regional security.

#### AUSTRALIA'S POLICY STRATEGIES

Let me now describe briefly some of the main strategies with which the Government is seeking to advance and protect Australia's interests in the context of this environment.

The Government is making the most of the unprecedentedly close relations we have with the United States to build the basis for an even stronger and more vibrant partnership in the future.

Part of this effort involves steps to strengthen further the close intelligence partnership we enjoy with the United States.

We also attach high priority to strengthening the inter-operability of our defence forces with those of the United States, to enhancing ADF capabilities through exercises and training with US forces, and to ensuring Australian access to highly sophisticated US military technology.

At the same time, Australia and the United States are engaged in the negotiation of a free trade agreement, which is one of the most significant policy initiatives we have undertaken during the past decade.

If successfully concluded, the FTA will provide improved access and greater certainty in the US market to Australian exporters, including agricultural producers.

It will make Australia a more attractive destination for US investment, and stimulate closer business alliances and synergies.

The Government is also active in looking for ways to further strengthen our excellent relations with Japan, China and the Republic of Korea.

Japan remains our largest export market, and is a key interlocutor in our diplomacy.

Last July, in Tokyo, Prime Ministers Howard and Koizumi signed a Trade and Economic Framework which charts a course for the future development of our trade and economic ties with Japan.

We welcome the responsible and more active contribution Japan is making to international security, especially in East Timor and in the war on terrorism.

Last month's visit to Australia by Chinese President Hu Jintao confirmed the very positive outlook for the bilateral relationship with China.

During the visit the two Governments signed a trade and economic framework which includes the significant undertaking to conduct a joint feasibility study into a bilateral free trade agreement.

Meanwhile, the Government is giving particular priority to supporting the Australian LNG industry's effort to expand its exports to all three major North Asian economies.

Australia has major security, economic and diplomatic interests in Southeast Asia.

This considerable stake in Southeast Asia's future stability and prosperity is heightened by our interest in doing all we reasonably can to help our neighbours defeat the scourge of terrorism.

Since February 2002 we have put in place a network of bilateral counter-terrorism arrangements that have strengthened practical cooperation with regional partners including Indonesia, Malaysia, Thailand, the Philippines and Cambodia.

In February next year, Foreign Minister Downer will co-host with his Indonesian counterpart, Hassan Wirajuda, in Bali a regional ministerial conference on counter-terrorism.

This conference will follow the excellent precedent set by the two ministerial conferences on people-smuggling that were co-hosted by Australia and Indonesia in 2002 and 2003.

More broadly in our bilateral relationships with Southeast Asian partners, we place priority on consolidating a positive and mutually beneficial relationship with Indonesia, and developing further the strong links we already enjoy with Singapore and Thailand, as evidenced by the free trade agreements we have recently concluded with each of them.

Considered as a single entity, the European Union is Australia's biggest trading partner and second biggest investment partner.

Recognising the increasing importance of the European Union in terms of its total political and economic weight and its ability to influence the multilateral agenda, we attach priority to strengthening our policy dialogue with Brussels and the major national capitals on a range of international security, foreign policy, trade and economic, and regulatory issues.

One motivation of this dialogue is to find ways of developing more influence on European decision-making on issues that directly affect Australian interests.

There are two aspects of our policy towards the Middle East worth highlighting.

The first is our contribution to the continuing effort to stabilise and rehabilitate Iraq after years of oppression and dislocation.

The difficult security situation obviously poses major constraints, but the work of our military personnel and civilian experts in various fields is significant and worthwhile.

The second is the priority we attach to expanding Australia's already substantial commercial relations with the region, especially the Gulf countries.

The most prominent example of Australia's effort to address the prospect of state failure and institutional weakness in the South Pacific is the leading role we are playing in the Regional Assistance Mission to the Solomon Islands.

This mission, which responds to a request from the Solomon Islands Government earlier this year, is designed to restore law and order and a better level of governance to that troubled country.

The early months of the operation have been highly successful, but we do not underestimate the difficulty of some of the tasks that still lie ahead.

The Government is also making a major effort with Papua New Guinea to improve its law and order situation, governance and financial management.

And more broadly in the South Pacific, we are actively supporting efforts to strengthen regional institutions including, where appropriate, promoting the pooling of resources, to ensure services are both deliverable and sustainable.

Reflecting in part significant changes in the overall international trade policy environment, Australia is now engaged on the most active and ambitious trade policy agenda in our history.

Compared with the commencement of the Uruguay Round in 1986 when the GATT had 92 members, its successor, the World Trade Organisation, now has 148 members.

Because most of these new members are developing countries, the current Doha Round of multilateral trade negotiations quite naturally gives greater prominence to developing country concerns and interests than did the Uruguay Round.

The dynamics of the negotiations have become more complex with such a marked increase in membership, and the agenda is further complicated by the introduction of relatively new issues such as competition policy and trade and investment.

In Australia's trade policy, we accord primacy to the WTO multilateral process because it has the capacity to deliver the biggest and widest gains for international market access over time, and because it is the only means by which to tackle the damaging farm subsidies of Europe and the United States.

And, of course, the system of rules and disciplines that the WTO provides for the global trading system is simply indispensable protection for a country like Australia.

We are currently working hard with others in Geneva to achieve a positive outcome in the Doha Round, particularly on agriculture, despite the major setback at the September Ministerial Meeting in Cancun.

Past experience tells us that perseverance and commitment are necessary.

In line with a broader international trend, Australia is also pursuing bilateral free trade agreements with selected partners where these offer the prospect of significant gains ahead of what will be achievable in the WTO process.

As already mentioned, we have recently concluded high-quality and comprehensive FTAs with Singapore and Thailand, we are deeply engaged in the negotiation of an FTA with the United States, and we shall soon commence a joint study into the feasibility of an FTA with China.

APEC is another area of our trade policy activity which has evolved in new directions.

The annual Leaders Meeting has acquired considerable vibrancy as a high-level forum for addressing current issues with an increasing focus on terrorism and other security matters.

The Bangkok Declaration issued at the end of the last Leaders Meeting in October contained calls to defeat transnational terrorist groups, contain the proliferation of weapons of mass destruction, and confront other threats to regional security including bio-terrorism.

The Bogor Goals for trade and investment liberalisation are still important organising principles for APEC, but negotiations to achieve the goals need to take place in the WTO or through bilateral channels.

The organisation does valuable work in promoting trade facilitation and in supporting open markets and capacity building.

In terms of regional architecture, a tacit complementarity is developing between APEC and the ASEAN Regional Forum which have broader membership including the United States, Canada, Australia and New Zealand, on the one hand, and the ASEAN plus three grouping, which is confined to East Asian membership, on the other.

Criss-crossing these groupings are trading arrangements such as that China is promoting between itself and the ASEAN countries, the free trade agreements that the United States has concluded with Singapore and is about to begin negotiating with Thailand, the trade agreement that Japan and Thailand are seeking to negotiate, and the various comprehensive free trade agreements that Australia has in place or is pursuing.

#### CONCLUSION

In conclusion, let me say that I think Australia's international standing is currently high.

This reflects a combination of factors including a strong economic performance over the past decade, our leadership role in East Timor, highly professional contributions by our military personnel in the war on terrorism and the war in Iraq, our active trade policy agenda, and the regional intervention we are leading in the Solomon Islands.

Underpinning these particular outcomes are institutional and organisational strengths which I believe give Australia a comparative advantage in responding to a fluid international environment.

As I have already noted, we have the policy and institutional attributes to succeed in an era of globalisation.

So-called whole-of-government coordination is much better than it used to be, and we have made considerable progress in improving government-private sector collaboration on international issues.

A further step in building Australia's institutional capacity is the establishment of the Lowy Institute.

I wish you every success in your work.

Thank you.

\* This is an exact reproduction of the text of Dr Calvert's speech

## CHAPTER SIX

### Synopsis

*Chris Reus-Smit*

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I've been asked to try to frame the discussion by picking out some of the themes in the papers presented this morning and some of the questions they might raise when thinking about Australian foreign policy. This is always a challenging task, it's a test of how quickly you can compile notes while discerning their content and meaning.

One particularly striking factor about the presentations was that notwithstanding their clear differences of emphases and topic, a number of really unifying themes came through in these presentations. Six such themes will be addressed here. These, of course, are not in any way exhaustive. We could derive another number and my undergraduate students used to say that all of my lectures were subject to a numerological classification because everything was in "threes, fours or sixes". But anyway it's six today.

First, all the papers in some way referred to nature of US power and the appropriate application of American power. One of the things that was very distinctive about this was the questioning tone of these presentations. We have really moved quite substantially from the initial post-Cold War position underscored by a lot of commentary on how US power is comparable to that "seen during the days of Rome" kind of variety. I think it was interesting that the papers here were not just stressing the importance of American power and thinking about American power

but the need to think very reflectively about the nature of that power and about the appropriate application of that power in relationship to what we might call “international or world order goals”. The authors all came at this problem from different directions but nevertheless each assessed the nature and application of US power in a discerning manner.

The second theme of some importance was the emphasis that each paper placed on the importance of thinking about institutions. Again this was expressed in different ways; Bill Tow talked about this in the context of the ordering principles that should govern the nature of the international system. This involves the basic foundational ideas about how international relations should be conducted, and of course, that extends from the security realm right through to the economic realm. The theme was extended and developed further by the other papers. John Edwards, for example, was really talking about the importance of Australia investing in the institutional architecture to do with free trade in the Asia-Pacific region. The point here is that institutions, and Australia’s involvement in them, can be conceptualised at both the macroanalytical and microanalytical levels in useful ways: from basic organising principles right through to the more issue-specific institutional nuances that often govern trade in our region.

The third theme that came up was that of globalisation. Five years ago, of course, “globalisation” was the groovy, sexy word that everybody talked about. It’s always been a term that I do not particularly like. Often most commentaries on globalisation amount to not a lot more than the world is getting really complex incredibly fast. It is a term that hides a more complex set of processes. However, I think that what is important here is how today’s papers were contemplating globalisation in a much more focused and decisive way. Generally the discussions were about globalisation as an economic phenomenon, although the question did come up with some emphases on international communication as well. Very important was how the issue of globalisation can be managed.

The fourth theme that is very important pertains to China. This came through very clearly both in terms of the role that China has played as a

rising power and in the central balance of power across the international system itself. China’s importance in the Asia-Pacific region and the security implications of that power are self-evident. But the economic implications of China rising as a very significant commercial force and the ramifications of this for the health of the regional and global economies are equally critical. The papers also linked such ramifications with Australia’s future in the region as an economic and strategic actor.

The fifth theme (and some people will be surprised that I’ve left this so far down the list) relates to the blurring of the distinction between the international and domestic aspects of security. I thought it was noteworthy here that Hugh White – an acknowledged “realist” in the traditional sense of that term – began his presentation by saying it was going to be a largely statist presentation. Yet I think it was noteworthy the importance Hugh placed on issues of state failure, and, particularly, the question of democratisation in Indonesia. This blurring of the boundary between the domestic and international on the security front is an absolutely crucial aspect of thinking about contemporary international relations.

I’ll just offer one specific thought here. My sense is that this “blurring factor” is intimately connected with the question of terrorism, and not in a kind of glib way. Terrorists are often operating within domestic political context. But I think that there is a very important connection – often under-acknowledged – between the “settled” nature of the international political system, which sees nearly 200 states with largely established or demarcated boundaries but no effective institutional mechanisms for revising those boundaries peacefully, and those grievances often emerging within states, particularly post-colonial states. What we are actually seeing is a connection between the kind of peace and order that can be established between states, and the stability of states and the kinds of domestic turbulence that often characterise many post-colonial states. This is, in turn, connected to questions of terrorism and what I would call “anti-systemic violence”. So there is a tangled net of issues here that we need to unpack and our speakers did a good job at pointing to some of those complexities, particularly as they relate to the region.

This brings me to the sixth theme and that is, of course, the importance of the region to Australia. I think if there was strong consensus among our speakers it was that Australia cannot afford to lose sight of the importance of the region, whether we are referring to economics or security issues.

Now I want to draw out some of the key questions that we might want to consider emerging from these themes. The first of those questions has to do with Australia's relationship to American power. A crucial question confronting Australia at the moment – and that is implied in the presentations – is how can Australia use its “special relationship” with the United States to foster the effective and successful exercise of American power in the international system. We have taken it too much for granted that Australia has influence with the United States, the US has power and that simply is all that needs to be said. But there is a very important set of diplomatic issues about how Australia's influence can be used to direct American power in ways that are going to most successfully foster questions of international order.

Second, an important question that arises out the theme of institutions is what are the strengths and weaknesses of existing global and regional institutions and how can we go about strengthening those institutions without undercutting or eroding the qualities that they have that are really crucial to sustaining international order in the present context. This seems to me as a student of international institutions to be in many ways the key question, whether we are looking at issues of nuclear non-proliferation through to questions of how one deals with rogue states through the issues of the use of force through the Security Council. All of these questions pertain to the issue of how, given the contemporary challenges that we face, can we enhance the institutional environments of the international system without eroding those things that have become so important.

One point here that is often lost that we need to credit is that in the last 50 years there has been a dramatic expansion in the number of sovereign states in the international system. We now have nearly 200 sovereign states. But most empirical evidence suggests that there has been a decline in incidents of inter-state warfare in that time. This is really quite a

remarkable achievement to have the multiplication of the number of states with all the potential territorial boundary problems and yet a decline in the incidents of traditional inter-state war. A large amount of credit for that (but not all the credit) has to do with the institutional framework that has developed in our modern world. One of the challenges for us studying international relations is to find ways of preserving those elements of the institutional framework that has contributed to this process of institution-building and development but at the same time augmenting it further to deal with issues of rogue states, questions of sovereignty intervention, weapons proliferation, and terrorism.

The third question concerns globalisation. The issue here is: how can globalisation be managed to ensure maximum distribution of the gains globally? This question is often misunderstood; people get into a debate about whether or not we should be favouring formal mechanisms of global distribution or allow the market to gradually increase net global wealth. In some respects that is not the central issue, it is more that if we accept that freeing up global trade and financial flows is going to increase net global wealth and global welfare over-time, we are still faced with the political problem that the time span under which that is going to occur is not synchronous with the actual lives of many people existing in developing sectors of the global economy who benefit little from the economy's expanding wealth. It is the actual life experience of those people that can be easily translated into the kinds of anti-systemic violence that we see both locally but increasingly trans-nationally. The political challenge is how that gap is to be managed between the time lag through which those processes of globalisation will start to transform societies and the very real issues of people living in the contemporary system who enjoy little of its attributes. That seems to me to be the real challenge.

The fifth question concerns China. Here the issue is how can China be engaged in ways that facilitate effective international integration into the norms and processes of international society, be those in the economic realm or just simply in the context of facilitating general questions of operation within the UN and other institutions or mechanisms? How can

it be socialised into the system and integrated effectively but at the same time allow processes of democratisation unfolding within China to proceed in a productive direction? Cultivating China's integration into the international system whilst facilitating democratisation is a key task for facilitating global peace and stability. How do you achieve China's systemic integration and its democratisation simultaneously and do it in a way that minimises violence and instability within China itself and in the greater Asia-Pacific region? In particular, issues dealing with the Korean Peninsula and the Taiwan Straits are most pertinent here.

Another, directly related, question has to do with this blurred boundary between the international and domestic aspects of security. Here I think the issues revolve around how countries like Australia can simultaneously pursue their agendas in the war against terror and enhance a stable regional balance of power, whilst at the same time work to prevent, not only extreme forms of state failure but greater prospects for regional democratisation. The central issue here is state-society relations in many of our neighbours, whether in the Pacific or in Southeast Asia and beyond. How Australia positions itself in relation to processes of social transition, such as migration, pandemics, and human rights, whilst also waging an effective so-called war against terror is a crucial policy challenge facing our country.

Finally there is a self-evident premium on Australia "getting the balance right" between its global strategies, commitments and engagements and its regional policy equivalents. How Australia evolves as a productively engaged international citizen, facilitating the development of international institutions, successfully managing and encouraging the effective deployment of American power, whilst working effectively with its regional partners, will provide the ultimate testament to the success of this country's conduct of diplomacy and international relations. The papers we have heard this morning provide us with at least some rudimentary guidelines for fulfilling this quest.

## CHAPTER SEVEN

### Keynote Speech

*Bob Carr*

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Ladies and gentlemen, I'm honoured to be here. It is great that Sydney and Australia have the Lowy Institute. I congratulate Frank Lowy on this initiative. Moreover, I think the choice of board members is outstanding and I congratulate them. I congratulate Allan Gyngell, the Executive Director, as well.

I think the Institute will make a very, very significant contribution. But a contribution to what? Well, a contribution to how we secure Australia's future.

This is the Australian position: an English-speaking European settler society; a sparse, culturally-diverse population stretched across a vast land mass that is at once incomparable and indefensible; an open, competitive economy with robust political and legal institutions. It sounds like a recipe for success, especially given our location in the Asia-Pacific.

A few weeks ago I opened the Museum of Nursing at Prince Henry Hospital, and I met one of those sharp-eyed, terrific Australians of our greatest generation. This small, alert woman said to me: "I came to this hospital on Australia Day, 1941. My brother drove me here to start my career as a nurse. It was the last I saw of him. He vanished in Singapore."

And I said to her it was the darkest day in Australia's history when we lost a land army of 20,000 as Singapore fell to the Japanese. After all, only

an air base in Amberley stood between this continent and the Japanese military machine. History can sometimes provide examples of breakdown and discontinuity, and that was certainly one for Australia.

#### THINKING ABOUT FUTURE THREATS AND CHALLENGES

Thus we must think about the question of threats:

- the possibility of an Islamist Indonesia. Only 10 years ago we were being assured an aggressive Islamism would be inconceivable in Indonesia. Now Islamic schools across Java are full of Arabic-language material focused on the Middle East and well disposed to Osama Bin Laden;
- the possible economic and political disintegration of Papua New Guinea, the Solomon Islands or other polities along the so-called Pacific “arc of crisis”;
- North Korea’s nuclear aspirations, which remain a disturbing factor in Asia-Pacific and global security affairs;
- the prospect of future separatist movements in Taiwan and the challenge they represent to Chinese foreign policy; and
- the possible future intensification of a competitive US-Chinese relationship and the challenge that represents for Australia.

There are other threats into the longer term and I will intimate two such dangers.

First, I have always been interested in thinking about Australia as a European settler society and the contrast between us and Argentina and Uruguay. Why did one group of European settler societies in Latin America do so disastrously and another in the Pacific – Australia and New Zealand – do so well? It is an historical contrast that fascinates me.

Reflecting on that historical basis, we should think about the prospect of Australia at some future point being locked out of world markets and being impoverished because of our vulnerability and our distance. It is a contingency that warrants deeper consideration because we would be rash to ignore the possibility of an Argentine-style decline, spread over 50 or 70

years, impoverishing Australia due to world economic forces moving beyond our control.

A second challenge that can be plucked from a futurologist’s crystal ball is the prospect of Australia being impoverished by an intensification of global warming. We should consider the possibility of Australia being hit by even more severe drought patterns than we’ve experienced in recent times. To have a drought hit us at an even higher average temperature with dams evaporating faster and soils drying faster is something we must contemplate in a world in which the polar icecaps are melting, every glacier is disintegrating and the coral reefs are turning white and brittle.

#### BALANCING THREAT WITH OPPORTUNITY

Any discussion of threats to Australia – beginning with that sobering reminder of the darkest day in our history, the fall of Singapore – should be balanced by a canvassing of emerging opportunities.

Based on all those assets such as our cultural diversity and our common language of English, we have some great opportunities to build on:

- the economic growth in China from which we need only a small percentage to be enriched;
- the economic liberalisation in India;
- further economic integration with the United States, the most dynamic, creative and inventive society on earth; and
- the prospect of Japan reversing its economic decline.

If all these factors work for Australia, then our future is reasonably secure.

#### WEIGHING DISCONTINUITIES

These are some of the issues I would expect the Lowy Institute to canvass and explore. But special attention should be given to the historical discontinuities, to those occasions when the world system breaks down.

I've been reading, as I occasionally do, about what happened to the world in 1914 when all the expectations of continued progress in that era were shattered by a concentration of stupid decisions. Barbara Tuchman perfectly illustrated in *The Guns of August* the instinct for folly that seems to be part of the human gene.<sup>1</sup>

So a discontinuity in human affairs and international relationships that greatly disadvantages Australia is always something we've got to bear in mind.

Think, for example, of the prospect of the United States recasting its role in international politics. It could well be that after a period of ambition, even adventurism in policy, the United States could enter a period of retreat. It could, at any rate, move toward what might be described as a "neo-realist" position in foreign policy – less inclined to take risks and less inclined to enter remote areas of the globe in defence of an ally.

In this context, America might be less ready to come to Australia's defence or less inclined than the present administration was to help us during that fairly nervous week when events in East Timor seemed to leave us exposed.

The Lowy Institute would also be well placed to talk about other discontinuities that need to be reconciled: multilateralism versus bilateralism in trade and in other areas of international engagement; international security and the war on terrorism relative to "human security"; and problems such as environmental policy, human rights, war crimes and refugee policy.

#### LEVELS OF POLITICAL RESPONSIBILITY

Because I'm a State politician, allow me to say something about the intersection of Commonwealth and State responsibilities.

There has been an enormous growth of international agreements, treaties and laws that deal with domestic issues confronting the people and organisations within nations on a daily basis. Counter-terrorism is a clear example. Much of the burden for responding to a terrorist attack in this country would fall on State Governments just as it was city agencies in

New York that had to respond to September 11 – the fire brigades and the police bore the burden of that disastrous attack. So, for example, a significant part of intelligence gathering in Australia is conducted by State police forces and investigatory agencies.

Another example of shared authority readily comes to mind, climate change and emissions trading. State governments, particularly in New South Wales, are setting the pace in Australia when it comes to creating opportunities to trade in carbon credits, an excellent way of responding to the increasingly urgent global problem of climate change.

But we also need to ensure treaty agreements entered into by the Commonwealth which also impose burdens on the States are carefully calibrated. The Treaties Council formed by the Council of Australian Governments in 1996 provides a mechanism for that but it should afford the States and Territories a better chance to provide guidance on the effective implementation of commitments made by the Commonwealth. In turn, the Commonwealth would gain an advantage from ensuring it properly understands the consequences of the treaties and agreements it makes, always acts in Australia's best interests and is able to meet its treaty obligations.

#### STRENGTH FROM DIVERSITY

The Lowy Institute is being established to commemorate the fiftieth anniversary of Frank Lowy's arrival in Australia. I would describe Frank as Australia's most successful immigrant. In this sense, it is appropriate to consider some aspects of the role of immigration in Australia.

Yes, we are a nation of immigrants, beginning with the transportation of English convicts from 1788. Today's Australia, with an immigration program of more than 100,000 people a year drawn from every part of the world, is something of which we need no reminding. By way of illustration, I started this morning at an Eid Al-Fitr celebration at Lakemba Mosque.

There is no society more diverse yet more harmonious than ours, and that diversity unquestionably feeds into our economic competitiveness. Australia has indeed come a long way – the White Australia Policy was

abolished in the mid-1960s, cultural diversity has been widely accepted, and the Hansonite doctrine of multicultural rejectionism was, in turn, rejected by Australians at successive elections.

The challenge for us now is to handle the headline-grabbing issue of asylum seeking by “unauthorised boat arrivals” in a way that does not disadvantage Australia’s interests.

On the one hand, the Australian people accept – as I do – that you cannot deter people-smugglers without some form of mandatory detention. The United Kingdom has now reached the same view. The misery of people being tossed on the world’s oceans while awaiting admission to countries is something we have to overcome. People-smuggling is an addition to human misery.

Yet the Australian people have made it clear they won’t accept a totally open-door approach. They want entry to this country regulated by the Australian Government and they want people-smuggling deterred.

At the same time, I must also acknowledge there are countries in our region that take a less humane approach to asylum seeking than we do. I recall a conversation with a Singaporean Minister. I asked “what do you do with your unauthorised arrivals?” He responded “We arrest them, we cane them, we send them to jail and then we send them back from where they came”. So we should not over-react to the suggestion that Australia is disadvantaged in terms of the understanding we get within the region by maintaining control of our borders.

#### CONCLUSION: A LEGACY OF DECENCY

On the other hand, it’s important for us to understand that one of the assets we have, one of the pieces of capital we enjoy is a reputation for fairness, decency and compassion. Our interests as a medium-sized regional power are served by being able to draw on that capital stock which is our reputation.

We should be a nation that continues to support international law and international systems, that derives strength from its image as a good

international citizen. That means, for example, handling the issue of “unauthorised boat arrivals” without it becoming a bolder subject of political debate and without using the language of one side of politics being “soft” on this issue. I say all this without subscribing to naive and excessively idealistic views about asylum seekers and the way Australia should manage them.

Well, ladies and gentlemen, it’s a great thing to have the Lowy Institute. It’s great to see it launched with a conference offering such an impressive line-up of eminent speakers. One of the strengths that we have as a country is our capacity to conduct an informed and lively debate. I think the quality of public debate in this country is as good as anywhere in the world. It is clear already that what comes out of this Institute will be a measurable addition to the quality of that debate.

There is enormous vision involved in setting up this Institute, and it is therefore a very great honour for me as Premier of this State to be the keynote speaker at its first conference. Thank you very much.

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#### NOTES

<sup>1</sup> Barbara Tuchman, *The Guns of August* (New York: Macmillan 1962).

## CHAPTER EIGHT

### George Bush and American Foreign Policy: A Hegemonic Diversion

*Peter Hartcher*

Toward the end of 2002, US President George W Bush put on a special screening of a movie for the members of his national security team meeting at Camp David. The movie's title was *Black Hawk Down*. The screening took place at a time when the Bush administration was in the throes of drawing up serious plans for the invasion of Iraq by the American-led "coalition of the willing". So watching this particular movie was not just an idle way of filling in an afternoon. It was designed to serve as an instructive case study in the use and application of American power.

The point of the exercise was to demonstrate everything the Bush administration was not. It was to underscore the Republican Party's point that when the Clinton administration sent US troops to Somalia in a peace-keeping mission, it had mismanaged that operation on every front and by every analysis. The Somali fiasco, in short, was an object lesson in what the US desperately needed to avoid repeating. The timing of the movie's screening was no coincidence as the Bush team drew up plans for Iraq. It had been very critical of the Clinton foreign policy because Bill Clinton's administration represented everything evil in their view. It was perceived as a misconceived mishmash in the use and deployment of American power. Humanitarian operations such as that conducted in Somalia hardly met a strict definition of the "national interest" but rather conformed only to an ill-designed and avant-garde fashion of the day. Clinton's foreign policy was implemented not with decisive force and application but in a

strategically indecisive mode that was interpreted by America's competitors and enemies as inconsequential or even frivolous. *Black Hawk Down* only confirmed this harsh reality in the eyes of those who attended the screening.

#### THE LEGACY COMES HOME?

This week (19-26 November 2003) has been an interesting one regarding American perceptions of Iraq. Stories about the growing number of US military casualties in Iraq, having surpassed over 500, are becoming more common. Two fatalities in late November were members of the 101st Airborne Division who were driving a small truck in Mosul when Iraqi irregulars fired on their vehicle. According to the initial reports, Iraqi teenagers dragged the two American soldiers from the truck. They reportedly battered the Americans' corpses with hunks of concrete and mutilated their bodies. This was pounced on by the US media, especially cable TV and tabloid newspapers, to draw parallels with the Somalia *Black Hawk Down* incident.

The main memory from Somalia for the US public was the image of the American chopper pilot whose body was dragged through the streets by the mob in Mogadishu. This was humiliation enough, but it was a double humiliation when this proved to be unbearable to the point of convincing the Clinton administration to withdraw US forces. With the reports of the deaths of the two soldiers in Mosul, the American media took the opportunity to draw the obvious parallel. Once again American troops have been sent abroad and once again they are being set upon by a mob that is defiling their corpses.

#### PURSuing THE NATIONAL INTERESTS THROUGH A HEGEMONIC LENS

Is Iraq another foreign policy disaster for the US in the making? The point is not whether there are real parallels between Somalia and Iraq because the two deployments are completely different. The interesting point for our purposes of this analysis is the readiness of the American media to use this incident and this moment to raise the very deepest questions about the nature of this expedition to Iraq. The important issue is the readiness of the American media and American political opinion to perceive the entire

episode in Iraq as a disaster. For Bush and his people, this is the unkindest cut of all – the very emblem of the disastrous failure of Clinton foreign policy now being used in some parallel illustration of the failures of Bush’s foreign policy.

Indeed, it was often remarked in Washington that when the Bush people first came into power their overarching priority was a policy of “ABC” – Anything but Clinton. This pertained in large matters and small down to the last detail. It was a member of the President’s secret service detail who told me during Bush’s recent trip through Asia in October 2003 that he’d grown tired of being the best-dressed person in the White House under the Clinton administration; that it was a relief to have an administration that at last came up to the dress standards of its own security detail. The Bush administration has been punctilious in drawing contrasts to its predecessor on small points – like White House dress standards, like banning the Clinton-era trademark pizza boxes from the White House – and large, including foreign policy.

Foreign policy was a point of political differentiation well before the Bush administration was inaugurated. A lot of the time, specialists debate foreign policy in some sort of vacuum, but of course it doesn’t exist in isolation. It’s a subset of politics. The Bush people used the foreign policy of the Clinton administration as part of the political differentiation. At the outset of the 2000 presidential campaign, a then academic and now national security adviser, Condoleezza Rice wrote that:

...the process outlining a new foreign policy must begin by recognising that the US is in a remarkable position. Powerful secular trends are moving the world toward economic openness and democracy and individual liberty. In such an environment American policies must help further these favourable trends by maintaining a disciplined and consistent foreign policy that separates the important from the trivial. The Clinton administration has assiduously avoided implementing such an agenda. Instead every issue has been taken on its own terms, crisis-by-crisis, day-by-day. It takes courage to set priorities because doing so is an admission that American policy cannot be all

things to all people. Or rather to all interest groups. The Clinton administration’s approach has its advantages, if priorities and intent are not clear they cannot be criticised.<sup>1</sup>

Remember that the neo-conservative policy definition of the “American interest” that has dominated the Bush years has not always been the Republican Party house foreign policy. To this day there is a vigorous struggle between the different arms of the administration about what the correct foreign policy should be. It is always keenly contested, day-by-day, issue-by-issue. As the plans were drawn for the invasion of Iraq, for example, Brent Scowcroft and other members of the Republican foreign policy “establishment” peppered the opinion pages of major US newspapers with articles demanding that the US not invade Iraq.

Remember as well that in 1992 in the first Bush administration Paul Wolfowitz, then, as now, a senior official in the Pentagon, drew up a first draft of what became the United States’ national security strategy a decade later. In a Defense Planning Guidance draft, he advanced the concept of a hegemonic foreign policy only to be ordered to withdraw it because it was such an embarrassment to the then defence secretary Dick Cheney, and to President George Bush Snr.<sup>2</sup> The ideas that seem to have some historical inevitability today were thus only a decade earlier unacceptable to the mainstream of the Republican Party. What was taboo a decade ago has apparently become the orthodoxy of Republican foreign policy.

So what happened between the first venture of Wolfowitz’s hegemonic foreign policy in 1992 and when the Bush administration published its National Security Strategy in September 2002, a document that pursues again the concept of a hegemonic foreign policy?<sup>3</sup> The obvious answer is September 11, but the obvious answer is wrong. September 11 is a part of the story, but only a part of the story. The concept that September 11 was the great defining moment in American foreign policy is quite wrong. As the Wolfowitz episode of 1992 demonstrates, the “neo-cons” did have a foreign policy doctrine, but it was a doctrine looking for a political sponsor. It lacked the political legs, the political support to carry it into implementation. The Republicans eventually embraced it for a number of

reasons. Among the most prominent of these were: here was a growing Republican conviction that the end of the Cold War had opened up new opportunities for the US to assert itself. Another factor was the persistence of key individuals and their role in shaping American foreign policy, the neo-cons prominent among them. A third was the alignment of interests of the US defence establishment and the Republican Party with the party's financial base.

Perhaps most critical, however, was the factor of political differentiation. The visceral and unmitigated hatred that the Republicans cultivated toward Bill Clinton and everything he stood for was critical to fuelling support for the neo-conservative agenda within their ranks. A legacy of that is the popular reaction to Hillary Clinton. Perhaps even more so than George W Bush, she is the most divisive figure active in American politics. Polling on her popularity is extraordinarily polarised: 42 percent strongly support her, 42 percent strongly oppose her, with few in the middle or undecided. She is an incredibly divisive figure as a consequence of the loathing the Republicans developed for her husband and his administration. The political differentiation of foreign policy for the Bush team was a part of that reaction against Clinton. I would suggest that it is an important reason for the foreign policy we find the US projects today.

When George W Bush took office with his new pro-hegemonic doctrine, American neo-conservatives had found a political sponsor – a buyer if you like – for their world view. The question remaining was what would be the case study where that doctrine's postulates would be seriously tested? Iraq, of course, was destined to be the case study. And it was destined to be the case study whether the September 11 attacks had occurred or not.

This is not just some assertion or suspicion; we have it in black and white on the public record from the Bush White House itself. There are two published accounts. One is the memoir by David Frum, Bush's former speechwriter who was credited with the phrase "axis of evil". In his account, Frum recalls that in a February 2001 staff meeting, the President had said that he was "determined to dig Saddam Hussein out of power". And that was seven months before the terrorist attacks.<sup>4</sup> This objective was

therefore already firmly in the President's mind. The second piece of evidence is Bob Woodward's book *Bush at War* for which he had access to National Security Council transcripts. Woodward reported that at the very first meeting of the National Security Council after September 11, there was a very clear push by Donald Rumsfeld and Paul Wolfowitz to target Iraq. This was not because of any suspicion that Iraq was involved in September 11, but rather because the Bush administration wanted to take on Iraq as a separate enterprise under the cover of a response to terrorism. The attack on Iraq, Bush decided, was too much to do simultaneously with the military operations against Al Qaeda and Taliban elements in Afghanistan. The Iraq operation was thus deferred.<sup>5</sup>

But Woodward also points out that the Pentagon had already drawn up plans for an invasion of Iraq. September 11 followed all this planning; it did not precede it. So the neo-conservative hegemonic approach to foreign policy had found a political sponsor in the Bush White House.<sup>6</sup> Accordingly, September 11 was not the cause of the emergence of a new and aggressive hegemonic foreign policy. It was a political opportunity to market it to the public and to run a test case in Iraq.<sup>7</sup>

#### POLICY LIABILITIES AND DECLINE

How is this test case proceeding as a political exercise? Not very well. The invasion of Iraq – at one point Bush's biggest single political asset – has become something of a liability for him. Let me quote the latest polling. For consistency, all figures are drawn from Gallup polling. The President's personal approval rating reached its absolute peak shortly after the September 11 emergency when it hit 90 percent, the highest in the history of US opinion polling. Then it drifted slowly back to its pre-attack level of some 55 percent. But then it vaulted just before and during the invasion of Iraq to the second great peak of the Bush presidency – to the mid-90s percent level. But as quick victory turned to long and bloody occupation, it collapsed. By mid-November 2003, it had declined to just over 50 percent, equal to the lowest of Bush's term. More specifically on Iraq, Gallup asks the question of how do you think the administration is handling Iraq? In April 2003, as the invasion phase was finishing, 80

percent of Americans approved and only 18 percent disapproved. On the latest polling last week, six months later, that has collapsed; 42 percent approve and 55 percent disapprove. The next Gallup question: Was the war worth it? In April 2003, 76 percent of Americans said yes. Today, November 2003, only 56 percent said so. Bush's single biggest political asset of a few months ago has become a political liability. Note that this is a reversal of this president's perceived strengths. Until now, Bush's handling of the economy was his weak spot and national security his great strength. Now he rates much better for his economic policy and national security is his Achilles' heel.<sup>8</sup>

Even as the foreign policy academics write their papers about the new US national security strategy, as a practical, politically viable real-world option, it is already dying. It's dying in the opinion polls and it's dying politically. If it's not working politically, it's not working at all. The "neo-cons" in the Bush administration remain undeterred, however, as they are still keen to pursue their doctrine regardless of the experience in Iraq. For instance, when the Undersecretary of State for Arms Control, John Bolton, was asked his reaction to a recent International Atomic Energy Agency (IAEA) report that found Iran was not constructing an active nuclear weapons program. He declared that its findings were "unbelievable". Plans to confront Syria are still being considered and drawn up privately. The confrontation of North Korea is still on the minds of many American strategic planners. All of these issues are in abeyance during election season in Washington DC. Officials report that they have been given clear signals from the top that pressure should be eased to avert major crises during the election year.

#### CONCLUSION

In conclusion, the neo-conservatives' pro-hegemony doctrine found a political sponsor, identified a test case for it and demarcated a political occasion for running it. The polling results show that it has turned into a serious political liability for the Bush administration. America's Democratic Party is now shaping up for next year's election looking for political differentiation, just as Bush did with Clinton, by playing off the

Bush foreign policy. Bush's foreign policy, and in particular the invasion of Iraq, has become a key point of differentiation for nearly all of the Democrat candidates vying for the presidency.<sup>9</sup>

The national security strategy that was announced in Washington in 2002 and put into practice in Iraq during 2003 and is now a dead letter. The talk of hegemony, of pre-emption, of the primacy of the use of force, and that wonderful phrase in the national security strategy that our "best defence is a good offence" are all political dead letters. Apart from seeking an exit strategy for Iraq, the US really now confronts the need for an exit strategy from an entire doctrine. The billionaire financier and philanthropist George Soros has a forthcoming book that he has titled *The Bubble of American Supremacy*.<sup>10</sup> It concludes that like any asset market bubble, whether in the price of shares on Wall Street or real estate in Sydney, the Bush administration's exuberance about American supremacy has some fundamental basis. However, the author concludes, it is wildly overstated, susceptible to misperception and misuse and, eventually, to bursting. The prospect now is that the title of that book will be the punctuation mark at the end of this particular passage in the story of American foreign policy.

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#### NOTES

- <sup>1</sup> Condoleezza Rice, Campaign 2000: Promoting the National Interest, *Foreign Affairs* 78, no. 1 (January/February 2000).
- <sup>2</sup> Key excerpts from the DPG draft are available at the United States' Public Broadcasting System's Frontline Page covering *The War Behind Closed Doors*. See <http://www.pbs.org/wgbh/pages/frontline/shows/iraq/etc/wolf.html>. Accessed in February 2004. Also consult various sections of Christopher Layne, *The Unipolar Illusion: Why New Great Powers Will Rise*. *International Security* 17, no. 4 (March 1993), pp. 5-51.
- <sup>3</sup> The document can be found on the White House website at <http://www.whitehouse.gov/nsc/nss.html>. Accessed February 2004.
- <sup>4</sup> David Frum and Richard Pearle, *An End to Evil* (New York: Random House, 2003).
- <sup>5</sup> Bob Woodward, *Bush at War* (New York: Simon & Schuster 2002).
- <sup>6</sup> *Ibid.*
- <sup>7</sup> After this was delivered, the former Treasury Secretary in the George W Bush administration, Paul O'Neill, went public to confirm the same points; that the administration in its earliest days had already decided to invade Iraq and, indeed, had drawn up plans for the occupation of the country.

<sup>8</sup> Summaries of the main Iraq-related Gallup polls can be found on the Gallup website at <http://www.gallup.com/poll/focus/sr030610.asp> although for access to some of the full series a subscription is required. Since the delivery of this paper at the Lowy conference in November 2003, US troops captured Saddam Hussein (on 13 December, 2003). This produced a “bounce” in Bush’s approval ratings and in support for Bush’s handling of the war, though this started to taper off again within weeks.

<sup>9</sup> The Internet offers numerous sites that cover this Democratic campaign. See, for example John Kerry’s compilation of remarks at [http://www.johnkerry.com/issues/100days/fp\\_facts.html](http://www.johnkerry.com/issues/100days/fp_facts.html); Wesley Clark’s collection at <http://clark04.com/speeches/009/>; and John Dean’s array of insights at [http://www.deanforamerica.com/site/cg/index.html?type=page&pagename=policy\\_statement\\_foreign\\_iraq](http://www.deanforamerica.com/site/cg/index.html?type=page&pagename=policy_statement_foreign_iraq).

<sup>10</sup> George Soros, *The Bubble of American Supremacy, Correcting the Misuse of American Power*, (New York: Public Affairs Press, 2003).

## CHAPTER NINE

### Global Changes and Regional Perspectives after September 11

*Mark Hong Tat Soon*

Measuring and understanding the forces of change has always been a challenging proposition and is no less so in the aftermath of “September 11” – the latest historical benchmark for those who assess and shape international relations. Four key trends seem to be emerging in our world that are particularly interesting from the perspective of this Southeast Asian observer (whose own views are hardly representative of the 520 million people who live in my sub-region). These include: (1) mass casualty terrorism; (2) a growing “de facto” clash between various elements of the Islamic world and more developed regions; and (3) the dichotomy of an American hyperpower feeling increasingly vulnerable; and (4) China’s future openness to the forces of international change and progress.

At the same time, the so-called “Global War on Terrorism” (GWOT) is hardly new. Moreover, other familiar issues related to poverty, disease, environmental degradation, and human security remain as urgent as before September 11. Previous efforts both within government circles (such as the 2002 CIA Report *Global Trends 2015*) and private studies (such as Francis Fukuyama’s *End of History*, Samuel Huntington’s *Clash of Civilisations*, and John Naisbitt’s more region-centric treatise, *Megatrends Asia*) have either failed to establish a core thesis that could be tested by subsequent events or were proved to be shortsighted in what themes and trends they did emphasise.<sup>1</sup> In most instances, they employed a “laundry list” approach to identifying future global trends instead of focusing on what

few important developments might be most likely to signal how global change would affect people, states and the world-at-large.

My central thesis adopts a different path. It evolves around the question of how countries manage change, knowledge and progress, especially in a post-September 11 context and argues that socio-economic and political progress will most likely occur by relating these factors to good governance. To illustrate my premise, I will link this theme to the four trends cited above, intermittently relating them to the respective contemporary positions of the United States and China.

#### MASS CASUALTY TERRORISM AND THE INTERNATIONAL RESPONSE

The US was already the world's sole super-power after the collapse of the USSR, and it became even stronger with the strong economic growth in the 1990s. With reference to September 11, the first major change was that the US became enmeshed in a struggle within the Muslim world; indeed a pundit has observed that Osama's twin towers are actually Pakistan and Saudi Arabia. The second change caused by September 11 was to galvanise the US and focus its formidable strength into waging the GWOT. One example of this was the setting up of the US Department of Homeland Security, and another was the change in US immigration procedures, which became stricter. The third change was that the US put itself on a war footing by adopting the new doctrine of "pre-emption". Some countries instinctively understood these changes, and quickly adjusted to the new circumstances, like Russia and China. Other anti-American forces like the Taliban in Afghanistan and Saddam's Iraq continued to adopt policies that tried US patience, and resulted in regime changes in Afghanistan and Iraq. Other leaders continue to taunt and provoke the US, albeit it must be noted Colonel Qaddafi in Libya and the Iranian mullahs have recently modified their traditionally belligerent postures toward Washington.

The strengths of the US are highly visible and multi-vectored. Because of these attributes, the US is an enduring, even overwhelming power. It is able to handle change and easily acquire vast bodies of new knowledge. For instance, its education system encourages creativity; its best schools and universities continue to train the world's best minds. Its economic system

encourages entrepreneurship and risk taking, and failure/bankruptcy are not stigmatised. Its research facilities are strong in basic research from which new products and discoveries emerge. Its political system is open to the rise of new talents. Immigration draws in a powerful inflow of talents from all over the world, people who could not succeed in their former countries but who suddenly blossom in the free and encouraging atmosphere of the US. It is no wonder that the United States is constantly listed as among the most competitive countries – it constantly regenerates itself through the influx of new resources and new ideas. It is a country that can handle change; acquire new knowledge, and progress effectively.

It should be noted, however, that there are many problems within the US, such as excessive materialism, violence, racism, and parochialism. American efforts to redefine the international order according to its own values have – and will continue – to upset many states and non-state actors. It is this sense of American arrogance – rightly or wrongly perceived – that gives terrorist groups such as Al Qaeda the basis of contrived legitimacy. The mass casualties of the World Trade Center, Bali and the growing death toll of US military personnel in Iraq are viewed by many in the developing world as the price America is bound to pay for imposing its own vision of world order on increasingly restless and enraged populaces that feel alienated and marginalised from the international power and production centres.

#### REGIONAL VIEWS

Regional perspectives of GWOT vary, depending on such factors as Islam; alliance status; history or economic dependence. In Islamic states like Indonesia and Malaysia, there are strong popular anti-American sentiments arising from unhappiness over American bias towards Israel; the perception that the US targets Islamic states like Afghanistan, Iraq, Syria, Palestine; unhappiness over the apparent American tendency to forge unfair linkages between Islam and terrorism; and the singling out of Muslim visitors to the US for discriminatory treatment. These negative sentiments were expressed in the aftermath of the Bali bomb attacks; the sweeping of Westerners living in Indonesia by the Islam Defenders Front in

Indonesia; and demonstrations and attacks against US/Western embassies and companies like McDonald's.

Yet US influence is by no means devoid in Southeast Asia and the broader Asia-Pacific region. In October 2003, President Bush visited Singapore, Indonesia, Thailand, the Philippines, Japan and Australia. These visits clearly demonstrated who are considered by the US to be its friends and allies. Thailand and the Philippines also sent troops/ engineers to Iraq and were rewarded by being upgraded to "non-NATO allied" status. Even Malaysia was seen by the US as a "moderate" Islamic country that could be a useful interlocutor in the GWOT. That country's Prime Minister, Dr Mohammed Mahathir, was received in the White House in March 2002. A Joint Counter-Terrorism Center was also set up in Kuala Lumpur. In recent years, Malaysia has arrested quite a few (about 200) suspected members of the terrorist group Jema'ah Islamiyah, and, in general, has acted vigorously and effectively against terrorism. It has cooperated very well with the US in intelligence exchanges and in setting up counter terrorist initiatives. Other ASEAN countries are relatively quiet vis-à-vis the US and the GWOT, although all of them jointly issued with the US a declaration in July 2002 to cooperate against terrorism.<sup>2</sup>

However, because of domestic opposition, some ASEAN members were constrained in what they could do or say to support the US, and sometimes adopted critical positions for various internal reasons. In Thailand, after the initial wave of sympathy for the September 11 victims, there was an inclination to remain neutral, so as not to attract terrorist attacks and attention. There was thus an initial period of Thai denial of the existence of terrorists, due to a desire not to frighten away tourists and investments. Gradually, however, the Thai government offered the US all possible support such as overflight rights, use of Thai bases, protection of the US embassy and other American-occupied buildings. Thailand also offered a battalion of engineers and medical teams for deployment in Afghanistan. After the capture of such terrorists as Hambali, the JI's major coordinator for operations in Southeast Asia, on its soil Thailand is now more open and involved in fighting terrorism. Vietnam has kept a discreet silence on

September 11, apart from an outburst from the People's Army Daily, two days after the attacks, which stated "If Americans had not pursued isolationism and chauvinism, and if they had not insisted on imposing their values on others in their own subjective way, then perhaps the twin towers would still be standing".<sup>3</sup>

The Philippines has from the start been more open and active in the GWOT, since it faces active, ongoing rebellions from the MNLF/MILF/Abu Sayaf in Southern Philippines. During 2002 and early 2003, the US had sent some 600 troops to help the Philippines forces in Basilan, and also funds and equipment for the Philippines' armed forces. Some Filipino nationalists were unhappy with the presence of US troops in the Southern Philippines and staged some protests, but in general, the country was happy to receive US material aid and US\$4.6 billion funds. The US has also restored some military training for Indonesian Armed Forces under its International Military Educational Training (IMET) program, in order to retain some goodwill and access to an important element of the Indonesian political leadership and to strengthen that country's counter-terrorism/security efforts. The Indonesian police have accomplished much by arresting the JI members responsible for the October 2002 Bali and August 2003 Jakarta Marriott Hotel bomb attacks.

#### CHINA AND MASS CASUALTY TERRORISM

China's reactions to the September 11 events ranged from genuine public sympathy for the September 11 victims to cautious support from the government for the US-led GWOT. Prior to September 11, the Bush administration declared China to be the United States' major strategic competitor – a much different attitude from the Clinton approach to China as the strategic partner of the US. US-China relations were enhanced noticeably, however, by the joint stand against terrorism adopted at the APEC Summit in 2002. The Bush administration also declared that an anti-China Uighur group was a terrorist group and began assuming a tougher stand against Taiwan regarding that island's political independence vis-à-vis the PRC. There was, of course, continued Chinese unhappiness over what Beijing perceived as US unipolar or unilateral

strategic behaviour and particularly over Washington ignoring UN prerogatives. Russia and China continued to jointly promote the “multi-polar world” concept, which was primarily directed against US hegemony. But China is eminently pragmatic, and understands it needs good relations with the US for very good reasons such as a key export market; source of investments and technology; that US underwriting of global and regional stability is good for Chinese economic development. In this sense, the American-led GWOT and China’s own strategic interests converge.

#### THE ISLAMIC FACTOR

There are three key points to be made about Political Islam. First, Radical Islam has existed for some decades already in the Middle East and also in Southeast Asia. Armed Muslim separatist rebellions had existed for some decades in the Philippines (the Moros); Indonesia (Aceh) and Thailand (Pattani). There were Muslim opposition parties already in Malaysia (PAS) and in Indonesia (Partai Keadilan, PPP and others). The Indonesian strands were strongly suppressed by President Suharto until his last few years in power.

Second, the nature of Islam in Southeast Asia has been changing over the last 30 years. These changes were caused by Saudi missionary work, the Saudi funding of mosque building, the funding of madrasahs and ulemas spreading Wahabism. The 1979 Iranian Revolution also profoundly impressed local Muslims regarding the overall power potential of Islam. In general, “militant” Islam feeds upon the insecurities and alienation that globalisation generates among the less successful. Because globalisation is largely led and driven by the US, militant Islam identifies the US as the threat to Islam. In this context, there is a general consensus that the GWOT will be long and arduous.

Third, Islam embraces all aspects of life, including politics, economics, culture and social aspects. This is unlike the West where there is a clear separation between the state and religion, which is treated as a matter of individual conscience. In all religions, there are basic principles like love and peace, tolerance and non-violence, which are valid for all ages. But there are also man-made rules pertaining to dress, diet, and notions of what is unclean etc., which later generations may not accept. Hence the

Western separation of church and state is more practical, as it permits secular science and technology to progress, without interference from edicts issued by various religions.

What were the changes made in Radical Islam after September 11? First, it became more intrusive, more violent, better organised due to Osama Bin Laden and the Al Qaeda movement. It has become more international due to the efforts of Al Qaeda, which connected various national Muslim groups into an MNC of international terrorism. Second, it has received more and widespread support within the Muslim countries due to issues like Iraq, Afghanistan, Israel/Palestine. Third, it has risen to the top of the international agenda, together with international terrorism.

Fourth, in my view, September 11 brought a version of Political Islam to world and regional notice, namely, the Jema’ah Islamiyah’s vision of an Islamic Caliphate in Southeast Asia, to be established by the violent overthrow of the present ASEAN governments in maritime Southeast Asia. This vision is thus a Jema’ah Islamiyah alternative to the ASEAN Vision 2020 as well as to the Bali Concord 2, which speaks of setting up ASEAN economic/security/cultural communities by 2020. According to the 2002 Singapore Government White Paper on the JI, the JI’s ties with Al Qaeda were established, and further supported by the interrogations of the Bali bomb participants, Hambali and al-Ghozi, despite the denials of Bashir. What have been remarkable were the denials of various Indonesian/Malaysian leaders like Vice-President Hamzah Haz, who cultivate the Muslim votes. Many Muslims continue to believe that September 11 was a Jewish/CIA plot, and so were the Bali/Jakarta bomb attacks, which were meant to discredit Islam and give the US excuses to intervene. Many Muslims also resent the unjustified linkages between Islam and terrorism, and the unwelcome attention and suspicions of Muslims. But to be fair, there are strong views held by many moderate Muslims that the US has been the source of problems of the Muslim world, for example, its bias towards one side in the Middle East conflicts, which should not be dismissed as merely conspiracy theories.

Radical Islam is now the strongest ideological movement challenging the

West's democracy-free market ideology, after the collapse of Communism at the end of the Cold War in 1991. It is a powerful and seductive combination of Islam's call for social equity, a critique of US imperialism and of the corrupt ruling elites in Muslim countries. It is popular in many Arab countries as a means to protest against corrupt, incompetent and oppressive regimes. Many Islamists reject the current governments in the Middle East as exemplars of Islamic governance. Hence, this begs the question whether the problems in that region are related to religion, or perhaps more accurately described as problems of inadequate governance.

The sense that Islam has been singled out for attack by the US has further reinforced its appeal. Once the militants have a base of sympathy, they exploit this opportunity. Radical Islam especially appeals to the frustrated Muslim youths who feel humiliated by Western power, who cannot handle the overwhelming pressures of globalisation and modernisation, and who feel a spiritual emptiness and a longing for assurance and answers. The extremists cleverly exploit these feelings and build on the widespread anti-US feelings arising from US policies and actions in Israel/Palestine; Afghanistan and Iraq, in order to increase their support. More Muslims see the US-led GWOT as a campaign to weaken Muslims.

Radical Islam consists of a wide range of Muslim groups ranging from Algeria's violent Armed Islamic Group to the peaceful Jemaat-e-Islami movement in Pakistan, India and Bangladesh. Despite their small numbers, the extremists have brilliantly exploited the Arab media to propagate their messages and have spread several conspiracy theories, blaming the US/Israel/West for the many ills afflicting the Muslim world. Part of radical Islam's anti-modern approach is its rejection of the western scientific method of investigating cause and effect; this helps to explain why there is so much addition to conspiracy theories. People who believe in conspiracies sometimes become slightly impervious to reason and evidence. It should be noted that many Arab states have severely cracked down on terrorism, and there is an Arab Agreement on Combating Terrorism, agreed upon in 1998.

There has been ongoing debate within Islam and by outside observers

about the linkages and compatibility between Islam on one hand, and modernisation/ democracy/globalisation. In my view, Islam is inherently democratic as there are no Popes, cardinals or bishops in this religion. Every Muslim is free to find and establish a direct, personal relationship with Allah. Furthermore, we should distinguish between the repressive regimes found in some Muslim countries from the religion itself. However, this "linkage" issue is a very sensitive topic that arouses strong emotions.

It is relevant here to consider the UNDP Arab Human Development Report of 2002, compiled by a team of Arab academics that described the factors retarding Arab development and progress. In October 2003, a second, follow-up report focused on the poor Arab economic performance in generating knowledge and stimulating inquiry on issues of technology and material progress.<sup>4</sup>

Since this is relevant to my central theme of how countries handle change, obtain knowledge and make progress, what the 2002 Report highlights is that Arabs as a whole have shown a marked lack of curiosity towards science and the outside world. The Report points out that in the absence of peaceful channels of political change, some groups have adopted extreme interpretations of Islam and violence as means of political activism. Authoritarian regimes suppress the people by domestic oppression and propaganda to generate rage against external enemies. Islamic terrorism breeds in such conditions. Their threats to the regime extort support and subsidies that only further increase their influence. The result is a vicious cycle of hatred, violence and failures. The Report's prescriptions include more focus on etching enduring values rather than mere doctrinal formulae; the separation of secular and religious pursuits (get the state out of mosques); and the reiteration of Ijtihad or free inquiry. Basically, the Report identifies the lack of various freedoms as the basic cause of Arab under-development. Since the Middle East is the motherland of Islam, these issues touch on all Muslim concerns.

#### ISLAM AND THE US

There appears to be an incipient clash between some Muslims and the US, despite strenuous efforts by the US government to demonstrate that

GWOT is not an attack against Islam. The public perceptions in many Islamic countries are that the US continues to wage war against Muslim countries such as Afghanistan, Iraq and that the US is biased towards Israel in the Israel/Palestine conflict. Muslim opinion towards the US is rather hostile and negative, as shown in the Pew Research Center for People and Press survey released in June 2003. 83 percent of Indonesians held negative opinions of the US, up from 60 percent in 2002.<sup>5</sup>

Some Muslim observers have noted that the US also should bear some of the blame for the origins of the September 11 attacks, namely that they nurtured the mujahedeen in Afghanistan. Of course, it is worth noting that Islam was used as the tool of extremists to attack corrupt Arab regimes as well as the US and other Western countries. Some Western observers argue that Saudi Arabia bears much of the blame because of its long time export and support of Wahabism, and others have cited the US decision to support the mujahedeen as an instrument to weaken and expel the Soviets out of Afghanistan. Both illustrate the danger of “blowback” – the expedient use of forces alien to one’s own culture or political values to achieve short-term politico-strategic objectives without giving due credence or respect to longer-term and more dangerous ramifications in doing so.<sup>6</sup> Some of the unforeseen effects arising from US policies in Afghanistan include: the assassination of Anwar Sadat; great jump in the export of drugs from Afghanistan; the rise of the Taliban after the US abandoned Afghanistan; the stationing of US forces in Saudi Arabia after the Gulf War. We might well wonder what are the blowback effects of current US policies in Iraq, besides indirectly nurturing a whole new generation of Iraqi mujahedeen: where will they turn up after Iraq, Southeast Asia? At any rate, the costs to the US of terrorism have been great; Brian Wesbury, chief economist of Griffin-Kubik, has estimated that it has cost US\$120 billion.<sup>7</sup>

#### ISLAM AND CHINA

As for China and radical Islam, President Jiang Zemin reassured President Bush during the latter’s visit to China in late 2001 that his own country was firmly opposed to international terrorism in all forms. After

September 11, China perceived three opportunities for policy exploitation: first, the distraction of US attention and diversion of its resources from East Asia; second, a new opportunity for cooperation with the US; and third, the elimination of the Taliban regime that would, in turn, deprive the Uighur separatists of bases in Afghanistan. Like Russia, China has called for political solutions to resolve the Afghanistan quagmire rather than the American use of force. China’s engagement with Political Islam, in general, is free from the historical baggage that complicates West-Islam relations. But Islamic revivalism in China, especially in Xinjiang, has been accompanied by violent acts, which have thus negatively influenced Chinese views about Islam. Furthermore, within China, there cannot be “multiple emperors”. The only ruling party is the Communist Party, and it does not tolerate divided loyalties, whether to the Pope (Chinese Catholics); to Mecca (Chinese Muslims) or to Falungong.

#### AMERICAN VULNERABILITY?

The US is now so powerful that no other great state or even combinations of states can match it in regard to scope and influence, including “soft power”, hard military power, or economic and technological capacity. Yet after September 11, the US lost its sense of invulnerability, thus adopting a new policy of pre-emptive strikes against terrorism and state sponsors of terrorism.

The US quandary over how to exercise its immense power with requisite self-confidence has been recently highlighted by the observations of Zbigniew Brezinski, the former National Security Advisor to President Jimmy Carter. In a recent speech delivered to the Conference on “New American Strategies for Security and Peace” held in October 2003, Brezinski attacked the Bush administration’s “paranoiac view of the world”. He further argued that there had been a substantial loss of US credibility in the world, accompanied by a growing American international isolation. He added that while US power is at its historic zenith, its global political standing is at its nadir. Friends of the US are troubled by what he termed as the Bush administration’s demagoguery or mendacity. Since September 11, the US had embraced an arguably paranoiac view of the

world, summarised in the phrase “he who is not with us, is against us” (a phrase initially used by Vladimir Lenin!).<sup>8</sup>

What is beyond doubt, however, is that the war against terrorism now constitutes Washington’s central pre-occupation. The US has increasingly largely resorted to unilateralist strategy, as both the Iraq war demonstrated, and the recent conflict in Afghanistan demonstrated. The US preferred to restrict its military collaboration in these two campaigns only to the UK and Australia. It is only following the development of a protracted guerilla warfare situation in Iraq that the US has requested that NATO take over the ISAF role in Afghanistan while pleading for financial donations and troop contributions from other UN members to help in the reconstruction of Iraq.

#### US POWER AND THE CHINA FACTOR

As for the regional perspective, it is obvious that what we see depends on where we stand. In one sense, increased influence of the US in the region has become more apparent. Recent examples of this are Thailand and the Philippines being given non-NATO allied status, and the Singapore-US Framework Agreement on Defence and Security Cooperation being signed during President Bush’s visit to Asia in November 2003. Yet many in Southeast Asia worry that too much stress is assigned by the US on the use of military force. Another concern is how September 11 and the GWOT has complicated the problems of relations between state and society, as most ASEAN states are diverse in their ethnicity, religious affiliations and political loyalties. Terrorism has diverted attention and resources from other important tasks such as promoting good governance, nation building and institution building, for instance in Indonesia.

Indeed, mainland Southeast Asia is geographically closer to China and feels its influence more directly. Hence, the states of this sub-region usually weigh China’s possible reactions on various issues. Geopolitically, the ASEAN states try to balance their relations between the US and China, avoiding situations where they have to take sides. After September 11, both China and the US have higher profiles within Southeast Asia, and, to date, there are no clashes between Washington and Beijing that might

compel any ASEAN state or Australia to line up with one or the other. Finally, observers in Southeast Asia wonder where US unilateralism and pre-emption might lead, fearing that other states (such as Australia or perhaps even Japan) might follow the US precedent.

In summary, regional perspectives on China are remarkably similar: all the ASEAN and other Asia-Pacific states understand the need to engage China, the growing regional power. Perhaps only Vietnam (which has had conflicts with China over Cambodia, the Spratlys and the Paracels, and a history of Chinese colonisation and domination), and Indonesia (which as the largest Southeast Asian state, has its own regional ambitions and also a historical suspicion of Chinese involvement in the Indonesian Communist Party affairs) are about growing Chinese power and influence. But they have certainly improved and strengthened their relations with China. They also understand that there is a need for a stable and cooperative triangular relationship between the US, Japan and China. The “three legs” of contemporary Asian security politics can thus be viewed as: (1) the US-Japan Security Treaty; (2) reconciliation between Japan and China; and (3) a cooperative and constructive relationship between the US and China.

At the same time, many ASEAN states see the benefits of retaining US influence to counter-balance China. No Asian state wants to challenge China or support the US on issues pertaining to Chinese sovereignty or domestic affairs. However, while some ASEAN states may resent the way that the US has pushed the terrorism issues at various regional summit meetings such as the APEC Summit held in Bangkok during October 2003, they still value the overall and useful US presence in the region. After all, many ASEAN members are dependent on the US as a key export market, an important source of investments and technology. They understand that China is not yet able to fulfill these important roles even though ASEAN-China trade is growing.

#### CHINA’S OPENNESS TO CHANGE

China is open towards change, keen on acquiring knowledge and is certainly progressive as far as economic development goes. The limitation

is China's one-party rule and the Chinese Communist Party (CCP) monopoly of power and its total control over national appointments and policies. As long as these impediments are not rectified, the pace and scope of China's modernisation will remain impeded,

That said, it should be noted that Chinese leaders are becoming increasingly pragmatic; indeed, to such an extent that China's "senior minister", Jiang Zemin, has recently proposed accepting businessmen into the CCP and newly confirmed President Hu Jintao has introduced limited party democracy. It was, after all, the venerable forefather of the PRC's current modernisation campaign, Deng Xiaoping, who said that the colour of the cat did not matter as long as it caught rats. From that time onward, China has consistently observed the spirit of his vision; sending Chinese students abroad in increasing numbers and gradually acquiring the needed expertise to implement his Four Modernisations programs.

China has been consistent in striving for progress and modernisation and in accepting globalisation. For instance, it wanted badly to join the WTO and eventually succeeded in joining that body. Yet it is determined to experience progress on its own terms and, at the Cancun WTO talks, China was one of the leaders of the G21 which opposed the US and EU on the issue of agricultural subsidies. China is also cautious when implementing democracy and applying human rights, sensing the dangers of Western influences pressures, which could destabilise its own culture and political system under the rubric of "peaceful transition". China's successful space launch in October 2003 is symbolic of its great progress in acquiring knowledge, science and technology. Whether China can successfully master the challenges of change depends on the skills of the new leaders, who, after initially stumbling in their management of the SARs crisis, have generally manifested good leadership skills. Another asset for China is its increasing openness to foreigners, who conduct business and permeate Chinese culture to a substantially greater extent than during the early days of the Four Modernisations campaign.

## CONCLUSION

ASEAN and Australia share the same strategic interests, namely, that the brand of Islam practised in Southeast Asia should be tolerant, non-violent, progressive, and that Asia-Pacific countries are able to handle change; acquire the knowledge necessary to modernise and cope with the challenges of globalisation. These are issues that also interest the world's great powers as well, especially those that regularly use these Southeast Asian waters to ship their energy imports from the Middle East or exercise maritime power and influence between the Pacific and Indian Oceans.

Some key global trends relating to global change since September 11 have been discussed here. Both the US and China have thus far handled the challenges generated in the post-Cold War era. Both great powers are pragmatic and both can work out a *modus vivendi* for selective collaboration with each other to underwrite a new and hopefully more stable regional and international order. Yet both will confront the challenges of international terrorism, the appeal of Political Islam and the vagaries of power oscillations for years to come. A central challenge for both ASEAN and Australia will be to facilitate Sino-American collaboration in these areas whenever possible and to otherwise discourage Sino-American confrontation in any circumstances. The factors of religious fundamentalism, globalisation and change will complicate these objectives but will not be so powerful in their own right as to preclude their realisation.

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## NOTES

- <sup>1</sup> The full title of the Central Intelligence Agency (CIA) report is *Global Trends 2015: A Dialogue About the Future With Nongovernment Experts* (Washington D.C.: USGPO, 2002). An Internet version can be found at <http://www.cia.gov/cia/reports/globaltrends2015/index.html>. Accessed in February 2004. Also see Francis Fukuyama, *End of History and the Last Man* (New York and London: Avon Books/Penguin, 1992); Samuel Huntington, *The Clash of Civilizations and the Remaking of World Order* (New York: Simon & Schuster, 1996); and John Naisbitt, *Megatrends Asia: Eight Asian Megatrends that are Reshaping our World* (New York: Simon & Schuster 1996).
- <sup>2</sup> A copy of the US-ASEAN Joint Declaration on Combating Terrorism can be found on the US Department of State website at <http://www.state.gov/p/eap/rls/ot/12428.htm>.
- <sup>3</sup> The quote is translated by and extracted from the Free Vietnam Alliance website. See <http://www.fva.org/200109/story07.htm>.

<sup>4</sup> Both reports – AHDR 2002: Creating Opportunities for Future Generations – and – AHDR 2003: Building a Knowledge Society – can be found at <http://www.undp.org/rbas/ahdr/>.

<sup>5</sup> See an Associated Press report, Bush Facing Hard Sell in Asia, MSNBC News, 18 October, 2002 at <http://www.msnbc.com/news/982016.asp?cp1=1>.

<sup>6</sup> See Chalmers Johnson, *Blowback: the costs and consequences of American empire* (New York: Henry Holt, 2000).

<sup>7</sup> Wesbury, The Economic Costs of Terrorism, *International Information Programs Electronic Journal* September 11: One Year Later (September 2002) at <http://www.usinfo.state.gov/journals/itgic/0902/ijge/ijge0902.htm>.

<sup>8</sup> The speech is reprinted at the New American Strategies for Peace and Security website at <http://www.newamericanstrategies.org/>.

## CHAPTER TEN

### Discussion

**Editor's Note: Following the formal presentations, three distinguished commentators were asked to provide comments. What follows is their impressions of the proceedings.**

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#### ROBERT O'NEILL

Three changes in world order have become critical for Australia. These are the evolving role of the United Nations (UN), the growing challenge of nuclear proliferation and the burden of expanding strategic commitments on the United States. I will address each of them briefly before concluding on their significance for Australia.

First the influence of the United Nations has experienced a powerful setback in the course of 2003. It has some serious structural weaknesses and its record during the 1990s has not been uniformly strong. It needs reform if it is to return to being the principal arbiter on the use of force around the world. The world needs the United Nations and most particularly the United States needs it. The Bush administration is discovering increasingly with the passage of time and the intensification of problems in Iraq that the UN is useful not only in the context of being seen to assume control of the situation there (indeed it would be foolish and counterproductive for the US to attempt to do so) but as a basis for forging a more coherent and capable concert of nations which can save the US from over-commitment.

Let us not forget that the United Nations was founded principally by the United States under Franklin D Roosevelt. Its charter was drafted by the

State Department and the Pentagon, so it cannot be said that it is inimical to US interests. But clearly the charter needs reform and that is an urgent task for all members, including the US and its allies. Without a strong consensus on the management of world affairs the US is likely to have to assume the lead in too many crises both for its own good and for the good of the world. Two potential crises are already in the wings – the nuclear weapons programs of North Korea and Iran.

The second change I wish to address is the role of nuclear weapons in the world. Up until the early 1990s nuclear weapons generally were instruments of stability in the hands of the world's great powers. They were effective through deterring the use of nuclear weapons by any of the major powers because each had far too much to lose from a retaliatory strike. As proliferation moved ahead in the mid-1990s it became clear that the role of nuclear weapons had changed. The principal need for their existence, the Cold War, was over and now medium powers were using them both to strengthen themselves militarily vis-à-vis their neighbours and the United States, and to attract attention and exert leverage for wider purposes. Their possible possession by increasing numbers of middle powers raised the danger of their being passed on to non-state actors such as Al Qaeda. While medium and small powers are still subject to the constraints of deterrence, terrorist organisations are not because they rarely have any visible territory or other assets against which retaliation can be undertaken.

The North Korean Government has already raised the threat that it might pass nuclear warheads on to terrorist organisations. Were it to do so, it would create an extremely serious situation for all governments with concerns about being the targets of a massive terror attack. The United States has few if any effective options for preventing such wider proliferation, other than the application of multilateral pressure to North Korea. Yet the North Koreans seem determined to proceed. They probably have, the CIA assesses, a few nuclear warheads already. Former US Defence Secretary Bill Perry believes that by the end of 2003 they will have six to eight, and their civil nuclear power program gives them the capacity

to continue to manufacture around six additional warheads each year. Is the world going to permit Kim Jong-il to enter into serial production of nuclear warheads? If it fails to prevent him, at what point might he decide to pass a nuclear warhead secretly to terrorists or try to slip a nuclear weapon on a disguised cargo ship into a United States port? These are issues that are acutely worrying to the Bush administration right now and they will be debated increasingly in the public domain as concern spreads.

This debate will amplify the effects of the third change that I want to address: the United States is becoming a power under real military stress, and this problem is likely to increase through the coming decade. While the US is a robust power it will be in increasing need of help if the problems presented by the North Korean and Iranian nuclear weapons programs are not resolved by peaceful means. It is common to think of the US as an overwhelmingly strong military power. Yet when it comes to quite modest tasks such as the occupation of a medium power in the Middle East, the limitations of US capabilities are clearly evident. Spending \$400 billion on defence in the US context does not put a decisive number of pairs of boots on the ground to control territory where events might disadvantage US interests. The US Army is a relatively small force for application in low-intensity, long duration struggles.

Edward Luttwak in a recent article in the New York Times argued that the current 130,000 US service personnel in Iraq are seriously inadequate for their task. Of that 130,000 only 56,000 are trained combat personnel, and of these about half are available for duty at any one time – the others being engaged in sleeping, eating, resting and transportation. That leaves only 28,000 soldiers who are available to be out on patrol across the whole of Iraq. By comparison the city of New York police force numbers 39,000 and New York is not a notably hostile area towards the Bush administration.<sup>1</sup>

Yet this is only one of the tasks that the US armed forces have to undertake. One third of the US Army is now serving abroad. Experience over the past 60 years has indicated that when committed to a lengthy conflict roughly one-third of an army is engaged in training up to combat

levels, and another third is engaged in support operations, providing the training for the others and demobilisation. In other words, if the US Army's commitments are to be increased, either in Iraq or by crises elsewhere, the administration will face some hard choices. Substantially increasing the forces by voluntary enlistment scarcely seems possible. Re-introduction of the draft would have severe political consequences. The US is approaching a point at which it has to think about cutting some of its commitments rather than increasing them.

Let me now reflect on some implications for Australia flowing from these three changes. First, we need to apply ourselves to making the UN a more effective organisation, so that consensus can be built and support for necessary action achieved. Otherwise the United States will become overburdened and over-exposed to dangers and threats. Second, we need to be active in helping to build international consensus, particularly in the East Asian region, for dealing with the North Korean nuclear danger. Third, as a partner of the United States we have to remember the finite nature of its own military resources and be ready, when we judge it right, to step in and help with our own forces, slender though they are. In all of these matters we are likely to have some differences of views with the United States. We must not shrink from raising them. American policymakers rarely refuse to tolerate differences of opinion coming from their friends and partners. One of the hallmarks of success for NATO during the Cold War was the way in which US policy planners would listen to allied counter-arguments and quite often respect them. The Warsaw Pact on the other hand fell apart when under pressure because it had no willing support from most of its members.

We should not, therefore, be shy about speaking our minds, but if we are to hold attention and garner respect, our ideas need to be well conceived and based on real expertise. The Lowy Institute is well placed to help create these capabilities, and generate ideas which our political leaders might use for shaping what they discuss with the United States and other governments in strengthening international order. This conference as the Institute's first public activity is a good beginning to the process.

#### RAWDON DALRYMPLE

I want to come back to a point made by Bob Carr in his opening address to this conference last night. He spoke in striking terms about what he saw as the potential threats that Australia faces. He offset that admonition with a brief look at the challenging opportunities – indeed, very great opportunities – that Australia has. But he was still mainly concerned about bleaker prospects for Australia arising from the dangers and threats he saw confronting us.

I want to look at that issue from a particular point of view that is perhaps a bit different from what we've been adopting thus far in today's discussion. It involves a reflection on implications of things that have been emphasised by speakers today – but also underscores the very real sense of vulnerability as one of the driving themes in Australia's attitudes to the outside world. Indeed, this feeling of vulnerability has constituted the major driver in the formation of Australia foreign policy at key junctures in our history. Australia has often felt that it was small and remote. That is a major part of the reason why, up until World War II, there was such a great emphasis on its membership in the British Empire.

Yet this sense of Australian vulnerability seems to have been in abeyance in recent years, despite worries about terrorism and other contingencies. Australia was unaffected by the Asian financial crisis and its economy has powered ahead. We coped with the challenge to our convictions and our capacities that was constituted by the East Timor crisis and, at least to our own satisfaction, dealt with them well. There seems to be a greater sense of confidence and self-assurance within this country than I can remember before in my fairly long life.

Even so, there are major potential dangers and major challenges for Australia requiring big responses. If we are to have a serious defence capacity, for example, then we need to be spending far more than is so far being committed. If we are going to support and help the South Pacific states to realise a better future then we will need to mobilise a substantial national effort. If we are going to influence Indonesia's future we will need to generate another substantial effort. These are all challenges that have

been mentioned today as important requirements, but without any real questioning of our capacity to meet them. In fact achieving such objectives is a much bigger task than most of us probably realise. Take the Indonesia example. Having lived in Indonesia for a total of seven years, and knowing something about the way Indonesians see Australia, I think that is an enormous challenge which will need a really major effort on our part with no guarantee for success.

All this will need a bigger effort by Australia. Our presently strong relative position in the Southwest Pacific and indeed more widely cannot be sustained if we rely on the countries of the region not being able to move beyond the period when they were held back by the financial crisis. They will, at various rates, resume a sharper pattern of growth and development. Some have already done so. The relativities between many Southeast Asian countries and Australia will shift, in terms of size and power. The smaller our share of the regional economy and the regional population, the smaller our influence and voice are likely to be.

Not long after Gareth Evans became Foreign Minister, I spoke to him about his repeated public statement that Australia's GNP was equal to that of all the ASEAN states combined. I said that, while that might be true at the moment, if you projected the growth paths as we knew them to be it would not be true for very long, and anyway it was not a good thing for the Australian foreign minister to be going around the region saying we had more economic weight than everyone else. It sounded at least a bit conceited. The Minister said that if it was true at the time he saw no good reason for not saying so. Within a relatively short time he had to amend his initial position, which he did by saying that the GNP of Australia and New Zealand combined was greater than that of the ASEAN member-states. Later, he lowered the bar again to say that the combined GNP of Australia and New Zealand was equal to that of the combined ASEANs. And then he quietly dropped it altogether. Static comparisons of that sort only reinforce misleading and dangerous preconceptions about Australia's relative importance in the region. We need to recognise that the dynamics of growth in the region are all tending to reduce our importance and

influence in the somewhat longer run. The relativities of size and power in the region will shift more and more against us unless we amend our policies towards population size and economic growth in this country. Australia risks becoming relatively marginalised.

If current trends are projected, we are looking at a future where Australia's population will be smaller than almost all countries in Southeast Asia while we assert ownership of a whole continent. If we want to generate the capacity to meet Australia's future challenges in the region and globally then we need to accept that a population of 20 million Australians won't be enough. John Mearsheimer has argued in detail recently that a state's potential power is based on the size of its population and its wealth.<sup>2</sup> You do not have to be a naïve realist to agree with that. Fundamentally, then, our size will be a key variable in our capacity to carry out a successful foreign policy in the future. That inevitably involves population size too.

The process of institution-building in the region is also vitally important. It would be a major error to imagine that Australia could compensate indefinitely for a smaller and relatively declining size in this region by relying exclusively on American support that has always oscillated according to shifts in US interests and policy. Australian influence in Washington will obviously depend largely on who is in power in the United States, and what a particular group of American powerbrokers' view might be about this part of the world.<sup>3</sup> The alliance with the US is extremely important for Australia; it's very good for us to have that. But we mustn't let our survival depend completely on it. We need always to bear in mind the way in which some Australian governments/politicians allowed themselves to get into the frame of mind that our survival was safely in the hands of the British navy before World War II.

So Australia's future is going to depend more than anything else on the extent to which we can continue to grow and the success or failure of efforts to get inside the "East Asian tent", including re-establishing a sound relationship with Indonesia. It will also hinge on the extent of our capacity to reconcile and combine our "Western" national character and

our American alliance with that regional priority. Essentially, we need to have policies dedicated to growth and adaptation.

Finally, when we talk about the region and the need to engage effectively within it, let's be clear what we mean. Under the Labor Government it sometimes meant what was called "The Asia-Pacific". Sometimes it meant East Asia. Often it slid back and forth between the two. Speeches by Paul Keating and Gareth Evans often vacillated between those two meanings. The term "The Asia-Pacific" is still used, but it's mostly undefined. Increasingly, it appears to include the NAFTA states and often the countries making up the APEC membership. That's to say it includes virtually everything except Europe, the Middle East and Africa. But what sort of a region is that? Sooner or later we shall have to decide that the region where Australia must win acceptance is East Asia, from China down to Indonesia. How well we balance this geography with our own history and national identity will largely determine our future influence in the world and how prosperous our descendants will be within it. Indeed it could well determine whether we can control our own future or whether that will be determined by others who, seeing the Australians as outsiders, dispose of Australia more or less regardless of the wishes of its inhabitants.

#### ROSS GARNAUT

Australian foreign policy has undergone major changes in recent years. Representatives of the Government – most recently the Secretary for Foreign Affairs and Trade, Ashton Calvert, at this conference – have argued that adjustments have been required by changes in the international environment. Has the external environment really changed in ways that justify the reorientation of foreign policy?

In these remarks, I focus on three changes in foreign policy: more intense Australian intervention and greater commitment of Australian resources ("cooperative intervention") to secure stability and eventually development in the developing states in Australia's immediate neighbourhood; the seeking of deeper strategic and economic integration with the United States; and the shift from favouring multilateral trade to preferential trade. I focus in detail on the shift to preferential trade.

The first of these policy changes is of large importance. In my view it is a desirable change. The new, interventionist policies carry high political risks. But there is a chance of success, which would secure major Australian interests. The Government is to be congratulated on being prepared to make the effort.

However, Australian policy-makers did not need recent changes in the international security environment to justify the change of policy in the Southwest Pacific. Indeed, I argued for something along the lines of the new policy – at the time without notable influence – in detailed evidence to the Australian Senate Committee on Foreign Affairs and Trade in 1991, a full decade before the terrorist attacks on New York and Washington DC.

I have described the policy change associated with deeper integration with the United States elsewhere.<sup>4</sup> This is said by representatives of the Government to be justified by the increased weight of the US in the world's economic and military affairs, and by its increased assertiveness especially after the tragedy of September 11.

In his remarks at this conference, the Secretary for Foreign Affairs and Trade spoke of an increase in the US share of world economic output to 33 percent at present. The Australian Prime Minister has spoken of a large majority of the growth in world economic output since 1997 having been contributed by the United States.

Those assessments are literally wrong. There have some past periods of limited duration when numbers like these were temporarily true by measures which rely on the conversion of each country's national GDP into a common currency at temporarily high US dollar exchange rates. But to rely on such data for these periods is misleading, and we are certainly not in such a period now. Numbers like these were temporarily true on the current exchange rate measure during the late 1990s through 2000, when the United States financial markets were booming and the dollar strong. This period came to an abrupt and painful end in early 2001. On any long view of the data – as has been presented in the Thirlwell paper to this Conference – there has been a sustained gradual decline in the relative

weight of the US economy since the mid-twentieth century. This relative decline has continued over the past one and two decades, despite the “tech boom” in the US and the Asian Financial Crisis of 1997-98.

The United States remains the world’s largest economy, and the locus of a large proportion of the world’s productive innovation. It remains the main home of the world economy’s financial sector, with its important role in global allocation of capital. The long-term decline in the US share of world output and trade reflects success in some other economies towards “catching up” with American ways of producing and exchanging goods and services. A close and productive economic relationship with the United States remains important to Australian prosperity. But recent trends in the relative importance of the US in no way justify a new elevation of the US in Australia’s international economic priorities.

The third foreign policy change – the shift to preferential trade – is a reversion to policies followed from the 1930s to 1957. The embrace of “Empire preferences” and the “trade diversion episode” in the 1930s, which sought to divert imports from Japan and the US towards British Empire sources, deepened the economic problems of the period and, disastrously, helped to persuade parts of the Japanese elite that Japan’s economic security required it to have an Empire of its own. Australia moved away from that approach with the Menzies’ government’s 1957 trade agreement which conferred most favoured nation treatment on Japan, and laid the basis of the huge expansion of Australia-Japan trade over the next several decades. The strong expansion of Australian exports generally over the next 43 years, to late 2000, was within a multilateral framework, within which Australia generally avoided discrimination in favour of some and against other trading partners. (The Closer Economic Relations Agreement with New Zealand was an exception, which, in the special circumstances of neighbouring economies of modest size, did not qualify in significant ways either the Australian or the New Zealand commitment to multilateral trade.) The high tide of Australian integration into the world economy on a multilateral basis, and the high tide of Australian export success, was reached later in the twentieth century, from the mid-1980s to 2000.

The decisive change in Australian trade policy came late in 2000, with a Cabinet decision to seek a bilateral Free Trade Agreement (FTA) with the US. Negotiations on the USFTA continue in late 2003. Subsequently, Australia entered negotiations for an FTA with Singapore and Thailand (both completed and announced in 2003), and has expended considerable diplomatic capital on seeking to persuade Japan and China to commence negotiations.

Was this historic shift in policy justified by changes in the international environment? The case for the USFTA was at first argued in terms of the large and increasing relative importance of the US to Australia’s international economic relations. Realisation that this was a false justification has gradually seeped into the consciousness of the USFTA’s advocates, with the decline in US relative economic performance, the US dollar and the US share of Australian exports since 2000.

Over the past year, the argument has shifted. The point that has been argued most strongly in recent times is that the rest of the world has embraced preferential trade, that the prospects for the open multilateral trading system are poor, and that Australia must join the rush to FTAs or risk marginalisation in international trade.

The first thing that needs to be said about this argument is that Australia’s own policy change contributed to the increased legitimacy of preferential trade. Defenders of Australian trade policy argue that Australia is an unimportant country, whose own actions do not influence the shape of the international trading system. This view of Australia’s influence on the international trading system is not supported by the historical record. Australia played a significant role in the development of Western Pacific, Cairns Group and APEC positions in the lead-up to and during the Uruguay Round of multilateral negotiations, from the mid-1980s to the mid-1990s. At various times, the influence of these groups was significant and at some points and on some issues decisive. It is true that Australia seemed to cede leadership of agricultural exporting economies to others at the Cancun ministerial meeting of the WTO in 2003, but that was partly a result of changes in Australia’s own priorities in and approach to the trading system.

Others may dispute my view of Australia's potential influence in the trading system. What cannot be denied is that Australia has used whatever influence it has to reinforce rather than to challenge the increased legitimacy of preferential trade. It was the first and has been the most persistent supporter of the increased emphasis on bilateral and small-group FTAs in US policy under the Bush-Zoellick administration, commencing within a month of the 2000 Presidential election. It has encouraged the Japanese flirtation with FTAs. It has put large efforts into persuading China to place greater emphasis on FTAs, at a time when this issue was being contested within the Chinese polity.

The awful reality is that we probably have been influential. We have encouraged a substantial shift in the framework of international trade in the world and especially in the Western Pacific region, in a way that will make it more difficult to secure the market access, especially in the large and rapidly expanding Asian economies, that is essential for sustaining Australian prosperity.

John Edwards in his presentation to the Conference correctly diagnosed the emerging problem for Australia in the Asia-Pacific region. East Asia, the region that absorbs the majority of current and prospective Australian exports, is the locus of increasingly important discussions of FTAs, and Australia is not an important participant. There is a danger of increasingly damaging discrimination against Australia.

But I have my doubts about John's prescription.

John Edwards cites four ways in which Australia might seek to shape emerging free trade agreements in the region. One is that we should be seeking to ensure they are comprehensive including agriculture. A second is that we should ensure that they are structurally consistent with each other. Third, all such agreements should allow for accession of third parties on the terms agreed by the original parties. Finally, they should evolve towards an Asia-Pacific-wide free trade area rather than a "spaghetti bowl" of conflicting bilateral FTAs.

I do not see how these four objectives are attainable. Indeed, still, in late 2003, despite the recent gathering of momentum in negotiation of FTAs, it is not obvious to me that these objectives would be any easier to secure than a roll-back in the increasing importance of FTAs that is the source of the problem. Of course, the continuation of current trends would at some time reach a point where reasonable judgements would conclude that the breakdown of the multilateral trading system was irretrievable, but we are not yet at that point.

On the first of John Edwards' objectives, the countries with high agricultural protection – first of all Japan and Korea – have made it clear that they won't enter discussions on an FTA with any country that wants to talk about substantial liberalisation of agriculture. Indeed, the prospect of avoiding discussion of trade liberalisation in agriculture is the principal virtue of FTAs over multilateral negotiations in the Japanese and Korean polities. The United States, too, adopts a hard line on this issue. Several years ago, I discussed these issues in some depth in the office of Senator Baucus (who was then Chair of the Senate Finance Committee). The Baucus position reflected that of the US Congress at large: the US will not negotiate on any substantial liberalisation of agricultural trade except in a multilateral context. It is not politically possible for the US to agree to substantial agricultural liberalisation except in the context of receiving concessions from Japan, Korea and Europe. It is possible for the US to liberalise agriculture, but only in the circumstances of multilateral liberalisation. This Congressional outlook is reflected in the US negotiating position within the Australia-USFTA. Washington has refused to contemplate any discussion of constraints on subsidies, and increased market access is meaningless without agreed constraints on subsidies.

On John Edwards' second objective, to make the bilateral FTAs consistent with each other, every FTA that has been negotiated has different and conflicting rules of origin. Indeed, they are markedly divergent. In the North American NAFTA, the rules of origin which define what products qualify for FTA treatment are vastly different across industries and sectors. The proportions of "NAFTA value-added" that

must be achieved before a product qualifies for FTA treatment are generally very high. Under NAFTA, clothing from Mexico can only enter the United States under the FTA if it is made from cloth that is woven in the United States or Mexico from yarn made in the United States or Mexico, out of raw material made in the United States or Mexico. The rules in the Australia-New Zealand, Australia-Singapore and Singapore-New Zealand FTAs allow more external value-added, but again vary across the agreements. Despite their liberality relative to other FTAs, a recent Industries Assistance Commission Report concludes that the Australia-New Zealand rules of origin are said to be so restrictive as to constrain efficient, globalised production. The rules of origin in the Australia-Thailand FTA are said to be different again, although we must rely on what we hear from specific industry sources of information. Several months after the announcement that agreement has been reached, the details of the Thai-Australia FTA rules of origin had not been made public.

The structure of the rules of origin is not a mere academic curiosity. Differences in rules of origin have huge commercial consequences. Whether or not a car can be exported under FTA conditions from Australia to Thailand or Australia to the US depends on the rules of origin. Cars, as they are made in Australia at present, have too much global value added, too much Thai, Indonesian, Japanese, Korean, Chinese and New Zealand value added, to qualify under the NAFTA rules for import into the United States. So either Australia will have to deglobalise its automobile production so that inputs are coming from North America or our products won't have FTA access. (It is much more likely that a US car would qualify for free entry into Australia than an Australian car for entry into the United States under any given rules of origin, since in the normal course of events the larger economy is likely to be an efficient supplier of a wider range of components.) The more important points are that these arrangements are being negotiated separately from each other, leading to inconsistent approaches in the different agreements, and through non-transparent processes that allow quiet adjustment of the rules to provide more or less protection for particular interest groups.

John Edwards' third objective, open access by outsiders to each FTA, is not a possibility at present, given the way that each of these agreements has been structured.

Nor is there any possibility that the many bilateral FTAs can be merged into an Asia-Pacific-wide FTA. One reason for this is the inconsistency in structures. Another is the political vested interests and resistances that accumulate around particular FTAs and their rules of origin. More generally, it is not possible for political economy reasons. Japan is not discussing an FTA with Australia or with the United States because Australia and the US are competitive suppliers of many sensitive agricultural products. Most fundamentally, the political conditions placed on FTA partners by the US preclude absolutely common US membership alongside some Western Pacific economies – at this stage in history China and New Zealand amongst others. So it is romantic to think that these arrangements can coalesce into an Asia-Pacific compact.

What we are heading towards is what Jagdish Bhagwati, the eminent US trade economist calls a “spaghetti bowl” of inconsistent arrangements, which raise transaction costs, reduce the commercial incentives towards globalised production, increase costs of production and distort trading patterns. The world has been in this situation before. Adam Smith pointed to high costs in preferential arrangements at the dawn of modern economics. The removal of such arrangements paved the way for a golden era for the international economy, the first era of global capitalism, in the late nineteenth and early twentieth centuries. The world reverted to preferential protectionism, with all the adverse consequences that economists would predict for international trade and prosperity, between 1914 and 1945. Australia was an enthusiastic participant in the retreat into preferential trade, discriminating in favour of British Empire against Japanese and United States products, contributing to the global stagnation and the intensification of political tension and conflict in the 1930s.

The unhappy experience in the 1930s guided the formation of the General Agreement on Tariffs and Trade (GATT) after the war. It provided the immediate impetus for American Secretary of State Cordell Hull's

insistence that the first article of the GATT (now incorporated into the foundational documents of the WTO) should be the most-favoured nation clause. If protection is reduced against imports from one country, the new terms of access should be granted to all other GATT/WTO members. That principle is as important now as it was in the 1930s or 1940s – more so, given the increased importance of truly global production processes, with inputs being drawn from many countries.

So the big changes in Australian foreign policy are hardly the result of changes in the international environment. For good (cooperative intervention in the Southwest Pacific) or ill (the drift into preferential trade), the changes had their origins in the minds of Australian policy-makers and advisers. Unfortunately the worst of the new developments as well as the best will change the international environment – for the worst of them, in ways that are damaging to Australian interests.

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#### NOTES

<sup>1</sup> Edward Luttwak, *So Few Soldiers, So Much to Do*, New York Times, November 4, 2003, p. 25.

<sup>2</sup> John J Mearsheimer, *The Tragedy of Great Power Politics*, 2001, W W Norton & Co, New York, pp 43, 45-46, 60-62 etc.

<sup>3</sup> An historical example may best illustrate this point. This is the response to R G Menzies' appeals to the new President John F Kennedy to support the Australian government on the Dutch New Guinea issue – seen then in Canberra as a vital Australian national interest. The Kennedy administration at that time concluded in effect that appeasing President Sukarno was a more important US interest, and so the Australian representations were set aside.

<sup>4</sup> No shelter in foreign policy built on dreams, *The Australian*, July 28, 2003, p.9.

## CONCLUSION

*Allan Gyngell*

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The question the Lowy Institute asked the participants in this conference was whether the world in which Australian foreign policy operates had changed utterly. In truth, of course, the answer was never going to be an unambiguous “Yes”. The continuities in global politics are always more powerful than the discontinuities: primary drivers of foreign policy like geographical location or economic endowments do not easily change. Still, by posing the question bluntly we hoped to get closer to identifying just what had changed and what was most likely to be enduring in Australia’s post-Cold War, post-September 11 environment.

And as the preceding pages show, each of the contributors answered our question with some sort of variant of “Yes but...” or “No, although...”. Change has certainly come, but less than some of the more hyperventilating commentators have suggested.

It is true that with the end of the Cold War, global politics were transformed. None of us could confidently say how a world dominated by a single superpower would operate, not even that superpower could answer this question. The situation clearly changed in one critical respect, however, after the terrorist attacks on New York and Washington in 2001. That tragedy resolved an uncertainty within the United States about its new global role by cementing in place a strong national consensus in favour of purposeful action to reshape the international security

environment. This approach was articulated most directly in the United States National Security Strategy of 2002. As the only country able to project force anywhere in the world, the United States has the resources to act on its intention.

So it is not surprising that United States hegemony was an important theme in a number of the papers in these pages. As William Tow noted, “American power has assumed centre stage in most contemporary discussions of international relations”.

Yet this is a hegemony with a difference. Although Hugh White and Bob O’Neill note some important constraints on America’s military capacity, and Peter Hartcher questions the “bubble of American supremacy”, in security and political terms the United States is overwhelmingly dominant. Economically, however, it occupies a very different world. This is the point at which economic globalisation and geopolitics intersect. From an economic perspective, the big international change has been globalisation, a point emphasised by Ashton Calvert and Mark Thirlwell. And, as John Edwards and Ross Garnaut note, the new development here is not the economic power of the United States but its relative decline as other new players, particularly China, enter the global marketplace. Seen from this angle of view, the United States is the world’s largest economy, but not overwhelmingly so, and is increasingly reliant on others to provide opportunities for trade and investment and to fund its current account deficit.

These changes have consequences for Australia. On the central question of American power, Chris Reus-Smit put the question aptly: “How can Australia use its special relationship with the United States to foster the effective and successful exercise of American power in the international system”. Speaking from a Southeast Asian perspective, Mark Hong had a slightly different approach. For him, “a central challenge for both ASEAN and Australia will be to facilitate Sino-American collaboration ... wherever possible and to otherwise discourage Sino-American confrontation in any circumstances”.

Almost all our contributors emphasised in one way or another the continuing relevance to Australian interests of developments in Asia and the Southwest Pacific. This remains the region where Australia has the greatest capacity to change and influence developments. Bob Carr, Mark Thirlwell and Ross Garnaut all remarked on the growing economic importance to Australia of China and India. But, as Mark Hong emphasised, there are growing challenges, too, in Southeast Asia from radical Islamist movements.

A second group of questions relates to how we deal with international institutions. Chris Reus-Smit again put it clearly: “What are the strengths and weaknesses of existing global and regional institutions and how can we go about strengthening these institutions without undercutting or eroding the qualities that they have that are really crucial to sustaining international order in the present context?” Bob O’Neill asked how we could make the United Nations a more effective organisation. Ross Garnaut highlighted the dangers for Australia in the changing nature of the international trading system and the growing number of preferential trade agreements under negotiation. Rawdon Dalrymple asked how we would respond to new forms of regionalism in Asia.

A third group of questions emerges from the new security challenges unleashed with the end of the Cold War, especially from the threat of terrorism and the proliferation of weapons of mass destruction. These dangers were particularly noted by Ashton Calvert and Bob O’Neill.

Were there issues we missed entirely or failed to cover adequately? Undoubtedly. It is impossible in the course of a single day’s conference to cover even a small part of such a large subject. Bob Carr’s emphasis on the rapidity with which the international environment can change and the need to pay special attention to the “historical discontinuities” was a telling reminder. Perhaps too much of our discussion was focused on traditional definitions of power. As one of the participants noted from the floor, “soft power” issues such as culture received little attention. Neither did technology. While Bob Carr, William Tow and Rawdon Dalrymple all mentioned the way in which Australia’s capacity to achieve what it wanted

in the world would also be shaped over time by its response to much broader social and environmental challenges, including to unresolved questions like the optimum size of Australia's population, we had little room to examine these questions in depth.

So, inevitably, from one set of questions, another emerged. Australia may not face utter change in the global environment, but it certainly faces constant change. Understanding the new world and devising effective policy responses to it will continue to test the skills and imagination of governments and think tanks alike.