

## **Australia's future hostage to rivalry between China and US**

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During the global financial crisis, many of the world's richest companies found their survival threatened by perfectly predictable events they did not foresee and whose consequences they had done nothing to manage. Presumably corporate boards around the world have learnt to think more carefully about risk, and are ensuring their companies never make the same mistakes.

I'd say, "Don't bet on it."

But, of course, we all do bet on it — Australians more than most. Our prosperity depends on the future of a handful of big companies and their immense exports of resources, especially to China. So we are all betting that the people who run these companies can manage risks effectively. They are no doubt pretty good at managing the familiar worries such as shifting exchange rates and production snags — relatively minor things that might cut quarterly earnings but hardly threaten the business.

The question is how well the mining companies understand the risks that might devastate their businesses the way the GFC devastated the financial sector. Those risks are not hard to see, but they are unfamiliar to most business leaders, because they fall outside economics and commerce. They are geopolitical risks. To understand these risks, consider two questions.

First, what kind of event would cause Australia's resources trade with China to stop dead? What might make the big mines go quiet, the ships stop heading north, and the money stop flowing south?

No economic development would have this kind of effect, nor even a crisis in China's internal politics. But a US and China armed clash over an issue such as China's disputed maritime claims with Vietnam would bring all trade with China — and probably the rest of north-east Asia — to a dead stop.

If the crisis eased in a week or so, no permanent damage might be done. But it is more likely that any US-China clash would escalate: Washington and Beijing have so much at stake in their claims to Asian primacy that any compromise would look like a loss to both of them. A clash is thus more likely to spiral into a major war, or to morph into the kind of perpetual enmity that we thought we had escaped after 1989. Either way, our trade with China is devastated.

And how likely is a US-China clash? Hard to say, of course, but I would give an intuitive estimate of between 5 per cent and 10 per cent over the next decade. If that seems too gloomy, bear in mind that preparing for a war with one another is now clearly the primary strategic priority for both countries.

Second question: in the absence of this kind of strategic cataclysm, what is the biggest risk to our position as a preferred resource supplier to China? We should never take this for granted, despite our geological endowment, because most of what we sell could be sourced elsewhere.

To maintain our trade we need to remain a reliable supplier at competitive prices.

There remains a serious risk that if US-China strategic and political rivalry in Asia grows, Australia as a US ally will start to seem an increasingly risky source for China's essential imports. It would make sense for China to rely as little as possible on Australia. In future decades "as little as possible" might be very little indeed.

This, too, is not a remote risk. On current trends, escalating strategic competition between the US and China is the most likely trajectory for Asia's future. It is hard to see how this reality squares with our easy assumption that Australia's economic future will be underwritten indefinitely by growing Chinese purchases of our resources.

So what are the directors of our great mining companies doing to address these geopolitical risks?

They might well answer that such things are the government's responsibility. But the government and opposition — with the honourable exception of Malcolm Turnbull — are in denial about the risks to Australia's security and prosperity from rising strategic competition between the US and China.

Our current generation of political leaders seem as unfamiliar with geopolitical risk-management as their corporate counterparts, but with less excuse. They blithely assume that America can continue to dominate Asia strategically even after China overtakes America as the world's richest state, and that Australia's relations with China will be unaffected by our support for a US policy towards China that can only be described as "containment". They assume that the only alternative to unconditional support for American primacy is craven acceptance of Chinese hegemony. That assumption is dangerously wrong.

So here is a novel suggestion. When Australia's corporate heavyweights draft their submissions to Julia Gillard's recently commissioned white paper on Australia in the Asian Century, they should venture beyond their usual concerns about government policies on foreign investment and workplace relations, and offer a few ideas about the political and strategic policies required to help manage the geopolitical risks to their future viability, and Australia's future prosperity.

Some people will be shocked at the suggestion that our corporate leaders should start talking about how Australia navigates the geopolitical shoals ahead, but in this case corporate interests and public interests coincide. We have a vital stake in our government managing Australia's future in Asia more seriously, to help stop the escalating strategic rivalry already taking hold between the US and China. Perhaps if the big miners say it, our politicians will start to listen.

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