

## **The Strategic implications for Australia of a Free Trade Agreement with China**

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Any trade agreement is more than just about trade. It is also a barometer of the political relationship between two countries and the Australia-China Free Trade Agreement (FTA) is no exception. Regardless of its economic benefits this agreement, if signed, will be highly symbolic of the growing economic interdependence between Australia and China which underpins a qualitatively different political and strategic relationship to that of the past.

This new relationship is based on a mutuality of interests that has three central elements. First, while dissimilar in culture, history and politics Australia and China are both status quo powers with a vested interest in a prosperous and stable Asia Pacific, a commitment to pan-regional political and economic institutions and the intensification of intra-regional trade.

But forty years ago China was still a revolutionary power, dissatisfied with a global and regional order dominated by the West and intent on fostering insurgent movements throughout East Asia whose explicit aim was to challenge and defeat incumbent governments. It is easy to forget the hostility and suspicion which once characterised Sino-Australian discourse. In the mid 1960s, Australia regarded China as the principal threat to Australia's security and as an expansionist and militantly radical state embarked on a strategy that was aimed at undermining Western, and by association, Australian interests throughout Asia and the Pacific.

Fortunately, the arid distrust of this period has long since been replaced in Canberra by a recognition that a satisfied and engaged China is an essential pre-requisite for regional order and economic growth. In a very real sense, China's future is also Australia's future.

China, for its part, sees Australia as country which has the ear of the US, is an influential player in Southeast Asia and the Southwest Pacific and is a natural trading partner and provider of the energy resources China needs for its long term development. Energy security

has become a critical new factor in Beijing's international strategy, and China's increasing dependence on energy imports is producing a new set of strategic vulnerabilities tied to the possible disruption of oil and gas supplies.

Although possessing substantial oil reserves, Beijing was forced to turn to foreign suppliers in 1993 and will probably have to import nearly 40% of its estimated needs by 2010. About half of this is expected to come from Chinese owned oil fields overseas. Imports of gas are set to double as China attempts to diversify away from coal, which currently provides over 70% percent of its energy needs. Australia's significance as a stable, long term supplier of energy, particularly gas, has risen in concert with China's need for imported energy.

Thus, the second new element in the relationship is the elevated importance of both countries in the eyes of the other and a better appreciation of the benefits of partnership. This can never be a partnership of equals given the obvious disparities in population, strategic weight and economic muscle. But there is a far greater appreciation in China and Australia of their natural economic complementarities and the need to work cooperatively in combating the twin scourges of our era – transnational terrorism and the proliferation of weapons of mass destruction.

The third element is more problematic. As economic and political ties deepen, and China's power grows, Australia will face a strategic dilemma that is very familiar to China's Asian neighbours. As Richard Betts has written, because of its size and central location "China evokes the structural theory of the German problem; even without evil designs, the country's search for security will abrade the security of surrounding countries."

When China was weak and two way trade non-existent, or thin at best, the strategic choice for Australia was relatively simple. In any contest between the US and China, Australia would side with the US because it was overwhelmingly in its interests to do so. This is no longer the case. China today has far greater say over our external policy than at any time in our history, an influence that is likely to increase in line with economic interdependence.

The problem this poses is well illustrated by Taiwan. The future of the island is the central domestic and foreign policy issue for China. Any attempt by President Chen Shui-bien to declare independence would inevitably draw a Chinese military response and raise the possibility of a direct clash with the US. Beijing has made it abundantly clear that it will brook no interference from other states, but the Bush Administration has made it equally clear that Australia, as an ally, would be expected to support the US in any confrontation with China. Thus, Australia could find itself in the unenviable position of having to choose between its key ally, the US, and a major trading partner, China, a nightmare inducing scenario for Foreign Minister Alexander Downer as well as Labor's aspirant, Kevin Rudd.

More broadly, China's push for a FTA with Australia is one of several Beijing is pursuing with regional states. These can be seen as a form of confidence building by China but they also have an overt political purpose which is to challenge US supremacy in Asia and Japan's position as the dominant economic power. For Australia, China's ascendancy thus poses risks as well as opportunities. We cannot and should not ignore the opportunities for enhanced trade, investment and people to people contacts but we must be mindful of the dragon's embrace. This will require a highly agile foreign policy and a capacity to strike a better balance in our ties with China and the US for as the Koreans remind us when whales fight, shrimps may be inadvertently crushed in the wash.