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China's expanding economic and strategic weight is redefining the East Asian regional order and underpinning Australia's longest period of economic success. China is now our largest trading partner. Yet, in the next three to five years, the Australia-China relationship and China's reshaping of our region will potentially pose four policy challenges that could determine the future path of Australia-China relations and our place within East Asia and add a new dimension to Australia's relations with the United States and Japan.

The two broadest challenges are regional in scope. The first is an enduring one. China's rise has greatly complicated the network of Australia's most important bilateral relationships in East Asia. For the first time, Australia's main strategic partner globally, the United States, and its largest economic partner and main power in East Asia, now China, are not alliance partners but rather strategic competitors. Australia finds itself as the smallest and most peripheral point in a strategic diamond along with the United States, China and Japan, our three largest trading partners.

While Australia maintains 'best ever' relations with each of these global giants, the same cannot be said of US-China relations or Japan-China relations, both of which have become more tense and uncertain over the last decade. Beijing, officially and unofficially, is increasingly willing to question Australia's defence relations with Japan and the United States and to seek closer defence links with Australia itself.

The next government will have to resist pressure from China to give it a say over Australia's relations with either the United States or Japan. It will also have to ensure that our growing defence ties with each part of this strategic diamond are not misunderstood or misrepresented by others.

The second regional challenge is quite familiar but with a new China twist — how does Australia ensure that it is part of East Asia's economic and diplomatic integration rather than watching it as an outsider. China's rise has invigorated East Asian regionalism through the creation of the ASEAN + 3 grouping in 1997 and the East Asian Summit (which includes Australia) in 2005. China's growing regional diplomatic weight means that it will help decide

which of the three different regional groupings in East Asia — APEC, the East Asian Summit and ASEAN + 3 — rises to the top.

It is far from clear that Australia's interests here are congruent with China's. China favours ASEAN + 3 which excludes Australia. Taiwan's membership in APEC cools China's interest in this group, while Japan is taking the lead in the East Asian Summit. If, with Chinese sponsorship, ASEAN + 3 becomes the premier regional integration body with APEC fading into irrelevance and the East Asian Summit never building on its early beginnings, Australia would be on the outside along with the United States.

The third meeting of the East Asian Summit will be held in Singapore on 21 November. If the Australian election is over before this date, then the Summit would provide the Australian leader a great opportunity to discuss with Australia's regional partners the future of the region and Australia's plans for the next three years and beyond. If the election takes place after or on 21 November then Australia's chair will most likely be empty at this year's Summit where the future of the organisation will be top of the agenda.

The next Australian government should also push hard to conclude preferential trade deals with Japan and China and to launch one with South Korea as a hedge against any regional trade deal that excludes us. New Zealand is deeply worried that a Japan-Australia trade deal could seriously hurt its economy through its trade and investment diversion effect on New Zealand.

On the question of preferential trade deals, the next government may face the very difficult challenge of either aborting trade negotiations with China or signing up to a deal that is not comprehensive despite earlier assurances to the contrary. The negotiations since 2005 have moved very slowly with no discernable end in sight. This is not simply due to hard bargaining over sectoral interests but rather a fundamental difference in approach. Australia is pursuing a commercial deal covering all areas of the economy while China seeks a partial, politically palatable deal.

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Not signing a deal would certainly annoy the Chinese government, especially as this is its first negotiation with a major developed economy, and China is already copping a lot of international flak for its trade policy. Signing a partial deal that excluded major commitments in agriculture or services would weaken domestic and international support for Australian trade diplomacy and open up the government to charges of kowtowing to China for political reasons.

The final challenge is the most remote but could be the most damaging if it eventuates and one where there is no ready policy prescription. There is bipartisan support in Australia for a relationship with China that emphasises the great economic complementarity between the two countries while only acknowledging the significant political and ethical differences that divide them. There has been little or no debate in Australia about the fact that we are negotiating a trade deal with a one-party state led by the Chinese Communist Party. This sound, pragmatic approach could be threatened by an incident that focuses attention on these political differences.

Next year, the Beijing 2008 Olympics mean that many more Australians will be visiting China and our national attention will be focused on China. This increases the chances of Australian citizens finding themselves in legal strife in China at a time when the media focus on China is at an all-time high. What would the public reaction be to an Australian being convicted of a capital crime in China and facing the death penalty? The Van Tuong Nguyen case created a sudden, serious political management problem for both Singapore and Canberra, as did the Schapelle Corby case for Jakarta and Canberra. A similar case in China could cause similar populist trouble as our relationship with China is newer than that with Singapore and is not underpinned by similar strategic aims or a common link to British political heritage.

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The South Pacific, especially the countries closest to Australia — Papua New Guinea, the Solomons, Timor Leste, Vanuatu — is the region where Australia is the major power and Australian policy decisions can make the most difference. Since the 2003 Australian-led regional mission to the Solomon Islands, the Australian government, with bipartisan support, has taken much greater responsibility for providing regional stability. This decision to get much more deeply involved was taken for the most challenging of reasons: declining social, economic and political indicators and rising fears of state failure (realised in the Solomons and Nauru) were felt to pose a threat to Australian national interests. Since the status quo was unacceptable, something more had to be done.

Australia's actions, actual and projected, in the Pacific are changing the nature and functions of our government agencies. The government has committed to doubling the Australian aid budget by 2010 to roughly four billion dollars annually with a strong focus on the Pacific, and Canberra is talking about staying deeply involved for decades or even generations. Kevin Rudd has committed a Labor government to an even more intimate involvement in states and societies of the Pacific. Recently, significant personnel increases to the Australian Defence Force and the Australian Federal Police have been justified by our growing responsibilities in the Pacific. These responsibilities, with their undetermined but distant time horizons, have reshaped the federal police's mission into an increasingly international one. Regional missions like East Timor and the Solomon Islands have stretched the resources of our defence forces and factored heavily in capability planning.

In the next three years, the Australian government will face four big questions in the Pacific that may prove difficult and costly to get right. The first will be how to strengthen AusAID, the Australian Defence Force and the Australian Federal Police to manage the increasing demands being placed on them. While the 2006 White Paper on aid commits to the doubling of aid, it speaks little of how AusAID will be reorganised to effectively absorb such a large and rapid increase in funds. The bipartisan commitment to stay deeply involved in the regional and national affairs of the

Pacific Islands for the long term, if lived up to, will place continuing personnel and operational pressures on federal police. The existing practice of calling on state police forces to provide personnel for major overseas deployments of uncertain length does not seem sustainable. Long-term stabilisation missions such as the Solomons and East Timor further blur the lines between defence, peacekeeping, policing and even social work, placing new training demands on our deployed security personnel and affecting their recruitment and retention.

The second question concerns the political limits of Australian engagement in the sovereign states of the Pacific and whether these will preclude Australian policy from achieving its desired outcomes. These limits are particularly important when considering further commitments, especially ones that require deeper intervention in the region's states and societies. In 2007 alone, the political leaders of the two major Pacific states — Papua New Guinea and Fiji — and the two Pacific states Australia is most deeply involved in — Papua New Guinea and the Solomon Islands — have accused Canberra of interfering in their sovereign affairs. Anti-Australian rhetoric is increasing across the arc of states to our northeast, often coming from senior political figures. These tensions could well intensify with the implementation of the recommendations in the 2006 White Paper that call for a deeper involvement of the Australian aid program in the political affairs of Pacific countries beginning with Papua New Guinea.

The third question is how will Australia deal with the growing economic and strategic interest of other powers in the Pacific. In the past few years, China, Japan, France, the European Union and Taiwan have all upped their involvement in the region. China now has more serving diplomats in the region than Australia while the Pacific is witnessing a sharp upsurge in mainland Chinese immigration. While Australia's interests in and commitment to the Pacific region are more profound than those of any other power, the growing role of others has already cut against Australian interests and policy. On the first day of the 2006 coup in Fiji, coup leader Commodore Bainimarama criticised Australian interference in

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Fiji and called for stronger relations with China. Taiwanese involvement in the 2006 Solomon Islands' elections contributed to the torching of Honiara. Greater foreign involvement in the Pacific has the potential to weaken Australian influence and policy effectiveness on the one hand or reduce Australia's exposure to it and the resulting financial burdens and image problems. It will be a challenge to ensure that we minimise the chances of the former and increase those of the latter.

The final question is whether Australia should open up its labour market more to Pacific workers. The region's poor record of job creation and its mounting youth bulge have led to growing calls from the region for Australia to open up its borders. The fact that some small Pacific countries face the prospect of being swallowed by rising sea levels adds a powerful moral impetus to these demands. The 2007 Lowy Institute Poll results indicate widespread popular support for a more open immigration policy with 65% of respondents seeing guest worker programs as a good way to fill labour market gaps and over 70% seeing them as a good way to help people from poorer countries. A continued unwillingness to open up our labour market could worsen Australia's relations with the peoples and states of the Pacific and undermine their willingness to accept further Australian involvement in their domestic affairs.

Australia's policies in the Pacific pose some of the most difficult questions for the next government. There is strong bipartisan support for Australia's role as the provider of regional stability at the cost of billions of dollars and huge administrative resources. Making sure the government spends these resources effectively and maintains support within the Pacific for a constructive Australian engagement in the region is a key requirement for the next administration.