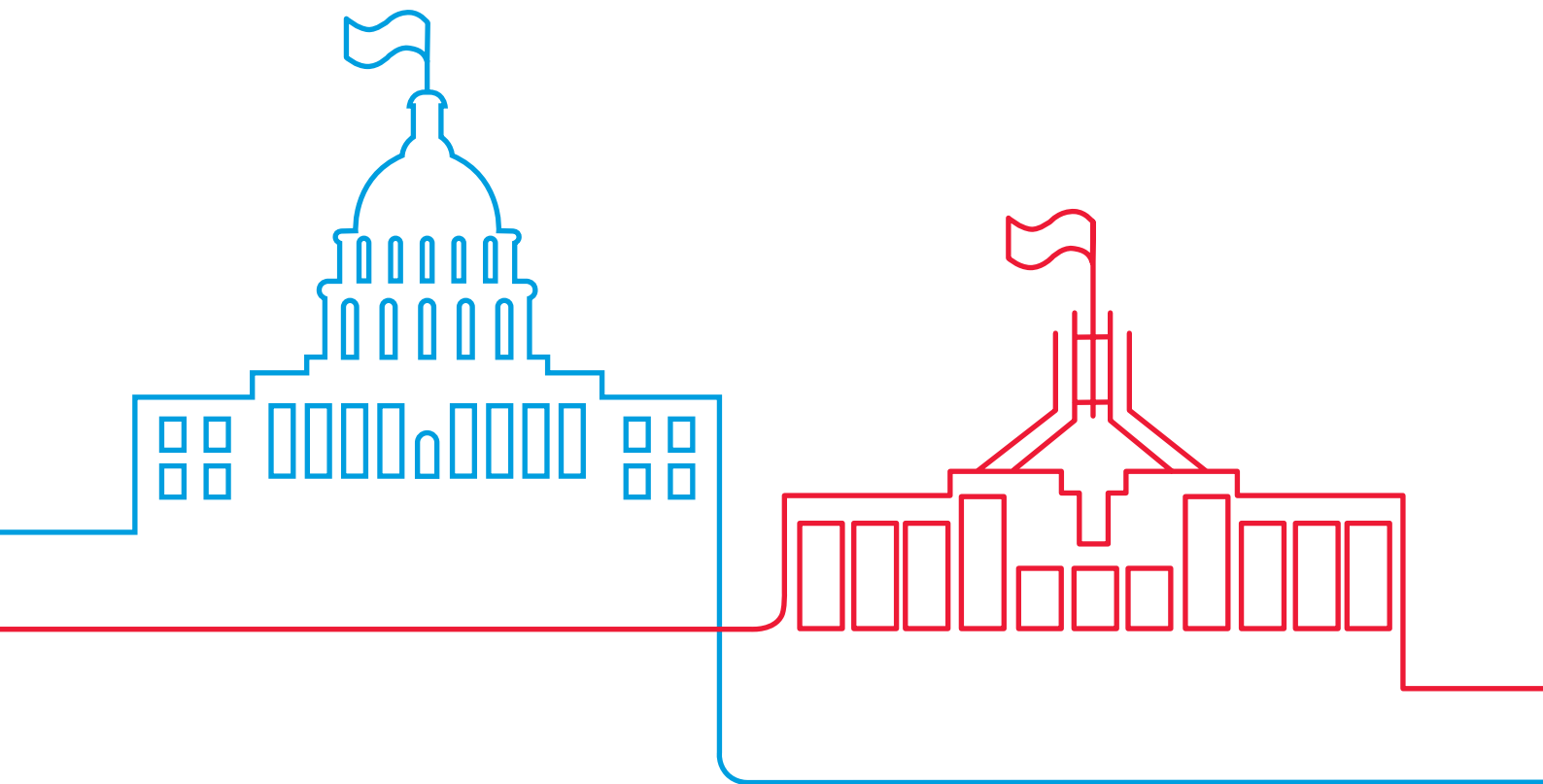


# **THE FUTURE OF THE US-AUSTRALIA ALLIANCE IN AN ERA OF GREAT POWER COMPETITION**

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The United States Studies Centre at the University of Sydney is a university-based research centre, dedicated to the rigorous analysis of American foreign policy, economics, politics and culture. The Centre is a national resource, that builds Australia's awareness of the dynamics shaping America — and critically — their implications for Australia.

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# Introduction

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The comprehensive challenge China poses to the United States might be the only issue that brings bipartisan consensus to Washington these days. There is a growing appetite to challenge China's unfair trading policies, military buildup, worsening human rights record, coercive economic practices, and drive to dominate the key technologies and industries of the future.<sup>1</sup> Regardless of any trade deal that the Donald Trump administration might strike with Beijing, and irrespective of who the next US president is, the American response to a more externally aggressive and internally repressive China is likely to endure and become sharper, broader and deeper.

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The future of the US-Australia alliance must evolve with this reality in mind. Both countries are committed to a vision of a free and open Indo-Pacific. Following nearly 70 years of a formal treaty relationship, the two countries are well-suited to working together on security and defence matters in support of that vision. But as a more comprehensive and assertive US strategy emerges, cooperating in other areas might become more challenging if Australian and US interests are, or are perceived to be, less well aligned.

Failure to understand and address key differences in interests and viewpoints between allies will significantly dilute the effectiveness of cooperation between the two countries. Disagreement between close allies is normal, but without bilateral responses based on honest discussion, alliance management can easily devolve into papering over differences and a seeking of the lowest common denominator — which is simply insufficient in an era of great power competition.

Navigating an increasingly complex geopolitical environment demands clarifying expectations on both sides and pushing the conversation in Australia and the United States beyond a celebration of 'mateship'.<sup>2</sup> The two allies need to have an honest appraisal of areas of convergence, and more importantly, areas of divergence. Greater attention to, and debate about, these areas of potential divergence should not be avoided, but rather embraced when determining independent and joint courses of action for Washington and Canberra.

For it to continue to succeed and remain relevant, the US-Australia alliance demands a realistic roadmap for the challenges ahead. Such a roadmap requires an analysis of Chinese objectives and the emerging American and Australian responses.

## Understanding Chinese objectives

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Whether from domestic insecurity or a historical belief in the centrality of its role in Asia, China appears increasingly determined to establish a Sino-centric Indo-Pacific. To accomplish this objective, China is working to ease the United States out of the Western Pacific and to fill that vacuum with its own presence and influence.<sup>3</sup>

Thus far, Beijing has attempted to accomplish this by diluting the credibility, effectiveness and relevance of US alliances in Asia, while simultaneously undercutting the will of Washington's regional allies to accept the risks and costs associated with countering growing Chinese power.

These efforts have accelerated noticeably in the Xi Jinping-era.<sup>4</sup> This includes utilising a combination of coercion and interference measures designed to intimidate or silence opposing views, economic incentives intended to seduce, and alternative institutional arrangements whose purpose is to lock in advantages for Beijing at the United States' expense.

The most obvious challenge comes from outright attempts to directly and physically alter the region's strategic and political landscape. There are many instances of such behaviour, although they come in different settings and with different degrees of intensity. Beijing's most egregious flouting of international law includes: creating, claiming and militarising land features in the South China Sea; harassing Australian and American ships and planes legally and legitimately operating in international waters; and developing and building military capabilities designed to force the United States out of the region.

With respect to Chinese objectives toward Indo-Pacific states, the intent is to alter the regional status quo by presenting these states with a *fait accompli* and convincing them that the cost of being dragged into a dispute between Beijing and Washington is too high. As China's messaging seems to posit, it is better for smaller states to remain on the sidelines and adjust to the inevitability of Chinese preeminence. If countries nevertheless criticise or oppose these and other Chinese actions, they frequently suffer diplomatic freezes, commercial threats or real economic punishment.<sup>5</sup>

Chinese coercion and threats must be understood alongside its use of economic inducements. Beijing uses its economic influence to offer countries, sub-national actors, and individuals the promise of privileged economic advantage.<sup>6</sup> These include preferential trade agreements, investment in infrastructure projects, development assistance, and concessional loans in pursuit of political objectives.

Unquestionably, some of these infrastructure investments and economic arrangements benefit local populations — as they are badly needed to help fuel growth in the region. But these tools of economic statecraft have proved to be a double-edge sword, which can be wielded when Beijing wants to apply political pressure. Similarly, investment from the Chinese government or Communist Party of China (CCP)-linked organisations in state governments, universities, and think tanks has been used to promote more favourable perceptions of China, to increase support for Beijing's policies and actions, and to shape the choices of leaders within these organisations. Finally, Beijing and CCP-run organisations have financially incentivised individuals by donating to their political campaigns, placing them on corporate boards, organising lucrative advisory positions and occasionally offering outright bribes.<sup>7</sup>

In multi-lateral fora, Beijing has also sought to expand its influence at the institutional level with an eye toward advancing a Chinese-centric model. In some respects, it is a welcome change that China is now taking on a greater role in established international institutions — the advancement of national interest and values through institutions is part and parcel of international politics. On issues such as climate change, nuclear non-proliferation, and international peace-keeping and anti-piracy operations, many of China's efforts have been helpful and should be encouraged.

But Beijing has also used this new influence to shift the rules from within, advance alternative arrangements, redefine norms of behaviour in emerging domains, and shape institutions to reflect its own interests and political values — many of which are not shared by the United States or Australia.<sup>8</sup> At the United Nations (UN), China has exerted a growing influence over how the

UN defines, supports, and monitors human rights, with the clear aim of weakening UN oversight of Chinese human rights violations.<sup>9</sup> China is also trying to reshape the constructs of international human rights standards away from individual dignity toward greater privileges for states and regimes. Beyond human rights, Beijing has sought to redefine prevailing international norms on freedom of navigation, and define the emerging rules of internet governance, space, and the polar regions to its advantage.<sup>10</sup>

Meanwhile, China is also advancing geo-economic projects such as the Belt and Road Initiative and the Shanghai Cooperation Organisation to bring Asia into its orbit, and exclude the United States.<sup>11</sup> These are not simply alternative institutional regimes that happen to be Chinese-led. They are an effort to offer alternative standards of transparency, accountability, and methods for dispute resolution in order to create a construct by which Beijing can advance its strategic and political objectives.

China is clearly an indispensable economic and diplomatic player in the region and world. Therefore, a strategic outlook should not seek to shun, ignore or isolate Beijing, but rather to ensure the United States and Australia collectively determine the terms by which Beijing is engaged. There is also the need to deter the Communist Party from engaging in behaviours contrary to Australian and American interests by increasing the costs of doing so.

That is the challenge for the US-Australian alliance.

## The gathering consensus



Sailors and Marines man the rails as the USS Bonhomme Richard pulls into Sydney Harbour as part of a port visit, June 2017 (US Navy)

Since the administration of Richard Nixon, engagement was the preferred US strategy for dealing with a rising China. The logic was clear. Emerging out of the Mao-era with an economy walled off from the rest of the world, Beijing needed investment and commercial relations with the advanced economies of the world to modernise its industries, grow its economy, and improve the lives of its citizens. The view among policymakers in Washington was that by opening itself to the wider world, China would be pushed towards a market economy and gradually liberalise its political system.<sup>12</sup>

Yet, over the past several years, a consensus view in Washington has emerged that earlier hopes for political reform and economic liberalisation in China have been frustrated, and the time has come for a stronger and less tolerant response to Beijing's actions.<sup>13</sup> This position now extends beyond Washington and includes leading voices from business, labour, and civil society groups who have seen the consequences of Chinese actions in their sectors.<sup>14</sup> This wide array of stakeholders gives the current US administration more latitude for pursuing a harder line. Increasingly, policymakers in the United States are attuned to the scale and scope of the challenge that China presents not only to the United States, but to the norms and values of the rules-

based international order — the network of alliances, treaties, conventions and institutions underpinned by international law.<sup>15</sup>

The broad contours of a strategy of US counter-pressure are emerging, as evidenced by both the Trump administration's official documents and congressional action. Even though it is not yet fully formed or resourced, this new approach seems to contain an increased willingness to tolerate sustained friction, a greater appetite for risk-taking, and a search for leverage across multiple domains.

The new, more assertive US approach is evident in the forthright discussion of the multiple challenges China presents to the United States. The Trump administration's 2017 National Security Strategy — a legally-mandated document that articulates the executive branch's defence vision and strategy — began such a discussion. It announced the return of great power competition, named China a 'strategic competitor', and stated that "China seeks to displace the United States in the Indo-Pacific region, expand the reaches of its state-driven economic model, and reorder the region in its favor".<sup>16</sup> In October 2018, Vice President Mike Pence made a comprehensive case in a speech for Washington's claims that China poses a

systemic threat to American national interests.<sup>17</sup> Similar rhetoric has come from the US departments of State, Justice, Treasury and Homeland Security, and were encapsulated best by Acting Secretary of Defense Patrick Shannan's statement that the top priority of the Pentagon was "China, China, China".<sup>18</sup>

Beneath the lofty and occasionally blunt rhetoric, a suite of policies is beginning to take shape. In the economic realm, the Trump administration has responded to Beijing's unfair practices by taking steps to restructure the US-Chinese relationship through tariffs, investment restrictions, export controls, and law enforcement actions against Chinese industrial and cyber-espionage. There is also a nascent conversation about what the partial decoupling of the American and Chinese economies would look like and how the United States and its allies can best coordinate their economic policies.<sup>19</sup> Beijing's investments in artificial intelligence (AI), quantum computing, 5G, and robotics have spurred Washington to begin framing new industrial and innovation policies.<sup>20</sup> In the military realm, the administration has declared that great power competition — and not terrorism — is its main focus.<sup>21</sup> The contours of that competition and the American response was recently explained in the Pentagon's Indo-Pacific Strategy Report.<sup>22</sup> Finally, greater attention is being paid to the various elements of Chinese sharp power, and there are increasing efforts underway to respond to Chinese influence operations and export of its authoritarian model to Southeast Asia and further abroad.<sup>23</sup>

While this new strategy is largely being driven by the Trump administration, all indicators are that this is an approach that will likely last well beyond Trump and continue to receive bipartisan support. For allies of the United States, it will also likely result in requests from Washington for more support, buy-in, and burden sharing.

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**In business and education circles — and occasionally in political circles — there is less desire to recognise that Xi Jinping's China presents Australia not only boundless opportunities, but a growing number of challenges as well.**

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In Australia, there is a greater diversity of opinions on the appropriate response to a rising China. Within official government circles, there is an increasing recognition of the challenges Beijing presents Canberra. Policy has followed accordingly, with the introduction of anti-foreign interference legislation, banning Huawei from building Australia's 5G infrastructure, tightening of foreign investment screening, and moves to block Chinese companies from purchasing critical infrastructure in Australia. But, in business and education circles — and occasionally in political circles — there is less desire to recognise that Xi Jinping's China presents Australia not only boundless opportunities, but a growing number of challenges as well.<sup>24</sup>



# Areas of likely convergence between the United States and Australia

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Australia's *2015 Defence White Paper* and *2017 Foreign Policy White Paper* — which are formal articulations of the government's defence and foreign policies — reaffirm its determination to work more closely with the region's democracies to "support a balance in the Indo-Pacific favourable to our interests and promote an open, inclusive and rules-based region".<sup>25</sup>

The 67-year-old Australia-US alliance is well suited to counter instances of direct and overt coercion and interference. Both the United States and Australia are likely to increase cooperation in this context. This especially applies to defence cooperation with respect to the force posture for both countries, the interoperability of capabilities, the greater sharing of intelligence and the Australian hosting of US assets. It also applies to coordinated and joint strategic and military activities in the region.

Already, advances in military technology and civilian technology with military applications are deepening cooperation between both countries. In 2017, US legislation expanded the definition of the 'National Technology and Industrial Base' to include Australia and the United Kingdom with the aim of better enabling innovation and interoperability between the three militaries.<sup>26</sup> Australia is already engaged with the United States in areas such as electronic warfare, hyper-sonics, energy weapons, and quantum applications. This cooperation is certain to continue and increase.

There will also be significant areas of convergence as both Australia and the United States update their legal and regulatory frameworks for protecting critical infrastructure, minimising the impact of cyber espionage, and safeguarding the integrity of their democratic systems. This will be seen in the regulations governing cyberspace, in the selection — and exclusion — of companies to build 5G networks, in the upgrading of foreign investment screening to prevent Beijing's acquisition of sensitive technologies and critical infrastructure, and in ongoing efforts to enhance foreign influence laws.

There is also potential for greater policy coordination and coalition building across the Indo-Pacific region. This should focus on providing economic development that is sustainable, high standard, and market-driven. It should also affirm support for key tenets of the rules-based order, such as freedom of navigation and sovereignty. There are active efforts underway to respond to all of these issues but there is a need for more coordination — by delineating ongoing efforts, adjusting overlapping ones, prioritising among them, and determining which nations are best equipped for which types of missions.

Finally, there will likely be a growing emphasis for both Australia and the United States to do more to protect the integrity of their democratic institutions, processes, and values. As China develops new technologies and capabilities, it will have a greater ability to reach into both countries, exacerbate internal tensions, and monitor diaspora communities overseas. This is a direct threat to the principles of a democratic society and Australia and the United States will continue to be challenged by how best to respond. While each country will need to tailor such responses in accordance with their own domestic circumstances, both countries will benefit from working together to share best practices on maintaining integrity of their institutions, support for their diaspora populations and broader societal resilience.

# Understanding divergence between the United States and Australia

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For all their shared interests and ongoing cooperation, Australia and the United States also have significant differences that are important to acknowledge in order to mitigate their impact on other strategic aims.

The dynamic of the alliance up to this point has been largely shaped by geography and the disparate global roles played by the two countries. The United States has underpinned the liberal international order for more than seven decades. In contrast, as a smaller country, Australia has often found itself adapting to, rather than shaping global developments. While Australia has been one of the United States' more forward leaning allies, Canberra has also been hesitant to get too far out in front in some areas. Now, as the United States and Australia face the growing power and influence of China together, these dynamics shape their respective responses and policy choices in several distinct ways.

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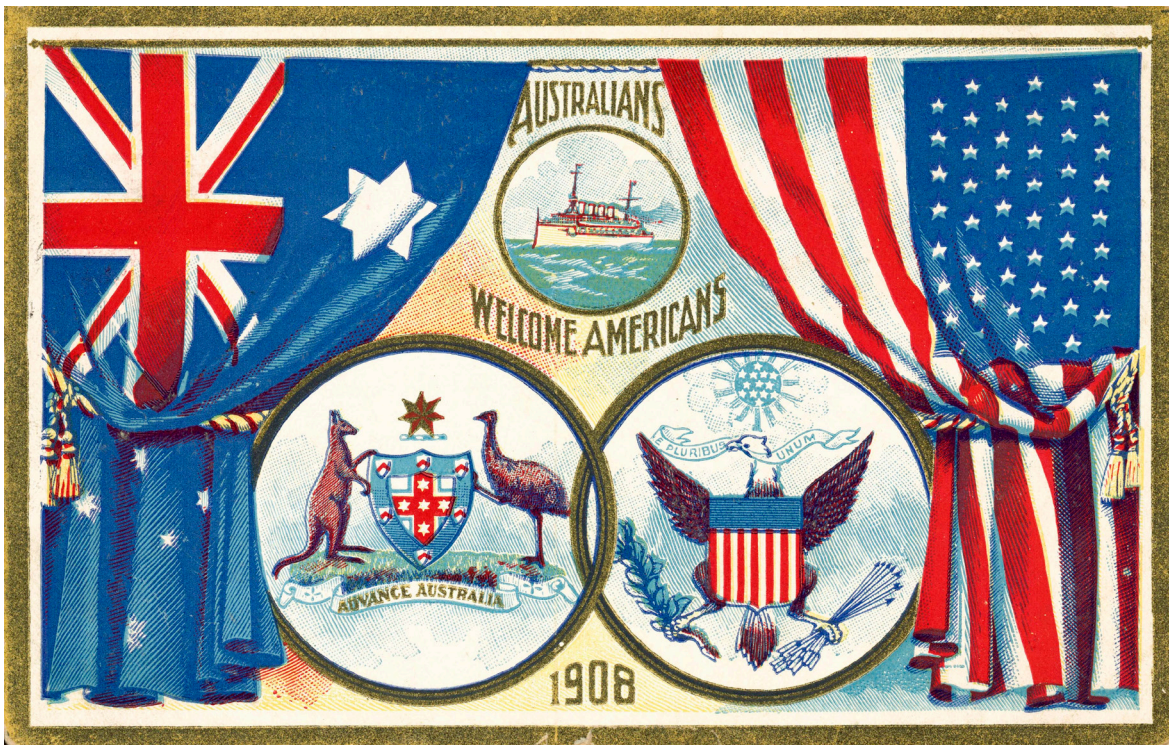
Although the United States may have the ability to either compel other states or deter competitors from doing something through threats, smaller countries such as Australia tend to exhaust possibilities for persuasion before considering other alternatives. In the context of China, this means that the United States has a far greater willingness to take more robust positions towards China than Australia. This is typified by the Trump administration's recent efforts to force

Beijing to agree to economic and trade concessions and Australia's reluctance to join the United States in undertaking Freedom of Navigation Operations in the South China Sea.<sup>27</sup>

These tendencies can also be seen in the degree to which the United States is more willing to contemplate swift and profound shifts in policy vis-à-vis other great powers versus Australia's preference to do so incrementally. From Canberra's perspective, this allows them to both gauge the commitment of Washington to new policy initiatives, as well as assess the response from Beijing. With an increasingly assertive policy towards China from Washington, Canberra will likely seek more explicit guarantees of cover and more reassurance from senior US policymakers.

On the economic front, Australia remains wary of supporting an economic offensive against China for several reasons. First, Australia benefits in some ways from the status quo. For example, genuine economic liberalisation in China would be a mixed blessing for Australia, at least in the short and medium term. China's state-led economy privileges state-owned enterprises (SOEs) and national champions, who purchase significant amounts of Australian commodities.<sup>28</sup> Australia exports enormous amounts of mineral, energy and agricultural commodities, as well as services, such as education and tourism.<sup>29</sup> Australian firms do not suffer the same degree of problems with forced intellectual property transfers and theft as do other economies. As a result, Australia has largely avoided the worst aspects associated with the opaque and arbitrary nature of the Chinese political economy.

It is from this perspective that Australia is concerned about the outcome of a potential trade deal between the United States and China. Without more information about what sort of deal might be reached, or the ability to provide input into the terms of the deal, it is difficult for Canberra to calculate what effect any deal would have on Australia. Furthermore, while the relative size and importance of the US economy would likely limit retaliatory actions upon it by Beijing, Australia could feel



Postcard commemorating the visit to Australia of the American 'Great White Fleet' in 1908  
(Australian National Maritime Museum Collection – purchased with USA Bicentennial Gift)

disproportionate economic pain — although China's unilateral capacity to inflict prohibitive economic costs on Australia without suffering significant economic losses itself may well be overestimated.<sup>30</sup>

In the arena of existing international institutions, given its relative size, Australia is more concerned about preserving even seriously flawed or ineffective institutions than the United States. For example, even though Australia recognises the flaws of the World Trade Organization (WTO), it will nevertheless seek to preserve the relevance and integrity of the institution, because of the benefit it offers smaller economies. In contrast, the Trump administration's frustrations with the fundamental inability of the WTO to address Chinese economic practices, such as the massive subsidies provided to SOEs and national champions, its 'Made in China 2025' indigenous innovation drive,

and intellectual property violations has led Washington to downgrade the importance of the WTO and attempt a bilateral re-ordering of the economic relationship instead.<sup>31</sup>

Finally, the United States is generally much more willing to receive, or simply has become accustomed to, criticism in the Indo-Pacific region. In contrast, Australia prefers to be seen as a good neighbour and regional citizen, and therefore works harder to find consensus before acting. The result of this is that the United States is prepared to take action, and try to bring along allies after the fact, whereas Australia prefers to build the coalition before taking action.



# Bridging the gap

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The United States and Australia have a long and storied history as close allies. They broadly admire each other and share the values that only liberal democratic societies can.

And yet, at this present time, there are frustrations between Canberra and Washington. The United States would like Australia to engage more consistently in the Indo-Pacific, to be less cautious about calling out China's destabilising activities, and to lessen its commercial dependence on China. Canberra would like the United States to clarify its objectives, strategy and resources in greater detail and to be clearer about what it would like Australia to do. It would also like the United States to refrain from counter-productive actions, such as picking fights with allies over issues that could be resolved quietly and behind closed doors.

At this juncture, both countries would be well served by clarifying their expectations of each other. Doing so, however, first demands understanding of where their interests align and are likely to engender greater cooperation and second, knowing where their interests diverge and are likely to generate friction, frustration, or disappointment. There are areas where Australia and the United States can continue, and even intensify their collaboration. But there are other areas where they will have to be content to undertake efforts independently.

So, how can Australia and the United States be better allies to each other given the rapidly shifting conditions and differing perspectives on several key issues? As two sovereign states, Australian and US interests will never perfectly align. Looking only for areas of overlap inevitably leads to a lowest common denominator approach to the alliance. Given the stakes involved and the magnitude of the challenge both countries face, it is clear that such an approach is insufficient. In practical terms, the policy — and indeed political — debate requires a re-framing of the alliance. There needs to be a shift from merely asking where the two countries can logically cooperate, to taking a more strategic approach.

There are several lines of effort that follow from this analysis.

## 1. Invest to compete

Given the scale of the challenge, both Australia and the United States need to commit more resources towards both domestic and foreign initiatives. Domestic initiatives to increase long-term competitiveness, resilience, and innovation, and further investment will ensure that citizens are better equipped to thrive in the industries of growing importance in the 21st century. Australia and the United States can and should debate the best mechanisms for doing so, but without significant increases in government support for domestic education, research and development, technology and infrastructure, both societies will be less well equipped to meet the challenges they will continue to face.

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In the foreign arena, this applies to more disciplined and consistent messages when engaging the region and a more targeted approach to the deployment and purpose of aid, in addition to traditional aims of humanitarian assistance and development.<sup>32</sup> With respect to aid, it must be a priority to find new ways to enable and facilitate the use of private investment as a complement to government assistance. And in the defence realm, the conversation should not only be what level of defence spending constitutes appropriate burden-sharing but, rather, what level meets the requirements for maintaining a favourable balance of power in the region.

Calls for increased government spending should always be met with skepticism, and there is room for debate about the appropriate balance between public and private sector investment. However, in this instance, the intention is that government spending is better coordinated and aligned with strategic objectives.

## 2. Enhance regional architecture

The security and trade architectures of the Indo-Pacific region need to be strengthened. Recent years have seen multiple, ongoing, and overlapping efforts undertaken by Australia and the United States to promote an open and liberal trade architecture and to update the set of security relationships in the region to promote stability and deter aggression. These are indeed positive steps, although they have not yet proved sufficiently robust to meet their stated — and their implied — objectives.

US security architecture in the Indo-Pacific region has long been based on a hub-and-spoke model, with the United States sitting at the centre of a number of different bilateral treaty alliances. Over the past several years, Washington has updated many of its bilateral alliances, sought out new partners, proliferated the number of trilateral relationships, and reconstituted at least one quadrilateral grouping. Unclear, however, is what the cumulative effect of this proliferation of arrangements adds up to, and whether they offer what is required to blunt and deter further Chinese coercion. Australia and the United States should explore what such a networked alliance system might yield, assess how to harness the widening set of security relationships in and beyond the region, and suggest what new structures would advance such a process.

One particularly promising grouping is the deepening strategic, defence, and intelligence trilateral relationship between the United States, Japan and Australia. The growth of this group is a development of major consequence for the region and ought to be fast-tracked and better promoted. Additionally, Tokyo should be encouraged to take the diplomatic lead on joint initiatives more frequently given its high standing and the trust placed in it, especially by Southeast Asian nations.<sup>33</sup> The United States and Australia should also make a point — in substance and rhetoric — to link the US-Japan Security Treaty and Australia-US Security Treaty together as two anchors which augment one another and which bring peace and stability in the region.<sup>34</sup>

With respect to economic architecture and trade agreements, both Australia and the United States must accept that the risks and sacrifices demanded of each other and other nations in countering destabilising Chinese policies and actions must be shared and dispersed, as must emerging benefits and opportunities. The original purpose of the Trans-Pacific Partnership (TPP) remains the gold standard. The TPP addressed some areas in which the WTO fell short. It was designed to increase collective pressure on China and create new opportunities for its members. Economic and diplomatic risks and costs of Chinese displeasure were shared. The TPP also left open the prospect of China eventually joining if it agreed to abide by relevant rules and standards.

The TPP ought to remain one paradigm for the United States and Australia encouraging other states to take constructive forward-leaning action in the region. Moving ahead, economic and trade agreements pursued and promoted by both countries should not only ostensibly increase mutual market access opportunities for firms from signatory countries, but promote desirable rules and standards at the same time.

## 3. Talk more to the public

In both Australia and the United States, more public discussion is needed about the challenges associated with China's rise. Currently, there is a gap in both countries between governmental perceptions of the challenges posed by China, and public opinion. Without more consistent political leadership and communication, that gap is unlikely to narrow. Moreover, in the absence of clear explanations of how Beijing's actions threaten American and Australian values and interests, steps taken to mitigate those challenges will likely appear as either provocative or counter-productive.

In the United States, although there is an emerging consensus that China presents a challenge to both American values and interests, there is less agreement on the exact nature of the challenges, and even less on the appropriate response. On the one hand, China is the only country that the majority of Americans

now view as a competitor, and it is the only foreign policy issue — other than terrorism — that Americans worry will adversely affect their jobs, industries, prosperity, values, and security.<sup>35</sup> On the other hand, until Washington can better explain to Americans why it is competing with China, in which domains, and with what resources, it is difficult to say how long any administration would be willing to sustain this competition.<sup>36</sup>

In Australia, the government needs to be more upfront with its public about the challenge China poses to its interests and values, its efforts to weaken the alliance with the United States, and Beijing's attempts to revise key aspects of the existing rules-based order. Canberra's strategic, security and intelligence policymakers seem to be well ahead of the Australian population when it comes to understanding issues like the nature of the challenge posed by China to democratic values and institutions, and the critical importance of the US-Australia alliance to Australia and the broader region.<sup>37</sup> For the alliance to remain relevant, the Australian government needs to ensure that such a gap is narrowed through the public gaining a better understanding of the challenges Australia is facing and how the alliance with the United States benefits Australia and the region.

## 4. Coordinate better

Strategic and tactically-consequential decisions by the United States which affect allied interests should be coordinated in advance. Failing to do so can blindside allies and prevent them from being able to properly calculate the risks and benefits for their own countries. Moreover, if allies like Australia do not fully understand what Washington is trying to accomplish, or its strategy for doing so, they will be less inclined and less willing to help. Bringing Australia into the conversation earlier will give Canberra the confidence that US policymakers are taking into account their interests as well.

Tighter coordination should also be used to diminish the risks allied states face. Such coordination could mitigate the challenges of China's well-known tactic

of economic coercion. For example, if Beijing were to deliberately reduce the number of Chinese students or tourists it sends to Australia as a way to put pressure on Canberra, the United States should consider cutting the number of tourist and student visas it gives to Chinese visitors. Australia should recognise that the United States is prepared to accept a large disruption to its own markets and trade in its attempt to rebalance the global trading relationship with China, and will look to Australia to support these efforts, even if not to the same scale.

## 5. Diversify markets

China will remain an important economic partner for both nations, but Canberra and Washington should ensure that they are not overly dependent on any single market, making them intolerably vulnerable to economic coercion or to political frictions with Beijing. Australia and the United States need to reframe the terms of their engagement with China, albeit in different ways.

Washington is in the midst of a debate about what appropriate decoupling of the US and Chinese economies might look like. The undeniable challenge is the degree to which the world's two biggest economies are already intertwined and interdependent. However, as the strategic competition between the United States and China intensifies, both countries will be looking to determine how to protect their industries, their ability to innovate, and their critical infrastructure.

In Australia, there is a nascent conversation about how the government can support and encourage business and higher education to diversify their sources of revenue, investment and trade.<sup>38</sup> As Australia's largest trading partner, China accounts for 30 per cent of Australia's export market, and 31 per cent of Australia's education exports (nearly three times as much as India, the second largest source).<sup>39</sup> This reliance leads many in the business and education communities in Australia to become some of the biggest advocates of a closer Australia-China relationship. The most obvious solution to this issue would be active diversification.

To some degree, the largest Australian exports to China — iron ore and coal, are fungible and capable of being sold to other buyers on the global market. And Australian education is an attractive investment for not only Chinese middle-class families, but for an increasing number of families across the world. If Australia can identify and tap into a more diverse array of export markets and sources of investment, it would spread risk and enable greater economic and political resilience in the event of political displeasure from Beijing.

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It is true that democratic governments cannot force private firms to make decisions that are commercially irrational or unacceptable to their stakeholders. This is not being suggested. One virtue of a more open conversation about the comprehensive challenge China poses is that private firms ought to take into consideration the predatory, coercive, and punitive actions China occasionally inflicts on other economies for non-commercial reasons as part of a firm's normal risk management calculations. Private firms should have no reason to be ignorant about the reality that the Chinese political economy and market operates differently to the open and market-based economies of liberal democratic countries.

Moreover, private firms ought to be encouraged to consider themselves 'responsible stakeholders' within a rules-based system in addition to creators of economic wealth and value.

## 6. Earn regional leadership

Australia and the United States have begun focusing their time, energy, and resources on the Indo-Pacific. They can do more. For a long time, the alliance cooperated best and most seamlessly further afield, most notably in the Middle East. But as China is expanding its influence across the region and intervening in the domestic affairs of more countries, the alliance has been responding by shifting its strategic orientation closer to Australia's neighbourhood. Both countries have publicly recognised this, with former US Secretary of Defense James Mattis proclaiming that the Indo-Pacific "is our priority theatre", and Canberra's 2017 Foreign Policy White Paper stating its intentions to "support a balance in the Indo-Pacific favourable to our interests and promote an open, inclusive and rules-based region". What remains to be seen is how they will follow up on those statements.

Australia has committed itself to regaining its strategic focus on the Pacific and earning regional leadership. As Australian Prime Minister Scott Morrison stated in November 2018, Canberra would be "returning the Pacific to where it should be — front and centre of Australia's strategic outlook".<sup>40</sup> This came with a commitment from the Australian government for A\$2 billion for regional infrastructure projects; another A\$1 billion for Australian businesses operating in the Pacific; a joint naval base on Manus Island in Papua New Guinea; annual meetings between defence, police and border forces in the region; and new diplomatic posts throughout the Pacific Islands. The results of these promises will now depend on how Canberra prioritises this critical region, re-orientes military assets, and the speed with which Canberra can follow up.<sup>41</sup>

Moreover, Australia can use its preexisting inclination for consensus building to take the lead in communicating with other countries in the region and developing initiatives which are constructive and beneficial for regional partners. This would utilise Australia's particular expertise and better position the United States to deepen alliance relationships as stabilising rather than disruptive factors.

In the South Pacific, the United States should support Australia's efforts in the region, as Canberra is best suited to take the lead in this area. But if Washington expects more of Australia in the Pacific, it will need to follow through on its resource commitments. The White House has signaled its attention to the region but will need to do more to strategically increase aid and investment,<sup>42</sup> to acknowledge the effects of climate change in the Pacific, and to build capacity in the region to combat corruption.

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**"America First," might have political utility in the United States, but it works less well for alliance management and undercuts more successful prosecution of a China strategy.**

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Additionally, for Australia and America to make headway in the Pacific, it would be helpful for the US administration to stop taking punitive measures against allies and resolve differences behind closed doors and in a less provocative manner. The United States' increased focus on the region has been marred by the Trump administration's economic policies. There is a clear reason to take a strong stand against China's market distorting policies. However, the message becomes diluted when the United States is simultaneously complaining about European, Japanese and South Korean economic policies. Resorting to tariffs against these allied countries makes it difficult for the United States to lead any collective response against Chinese practices — a lost opportunity when these countries have similar complaints about Chinese economic practices.<sup>43</sup> It also puts allies like Australia in an awkward position of trying to support the US-led action against Chinese economic practices at the same time that the United States is also pushing for actions against other allies. "America First," might have political utility in the United States, but it works less well for alliance management and undercuts more successful prosecution of a China strategy.

## 7. Acknowledge differences

As strategic competition heats up, both Washington and Canberra will have to work to ensure that differences in approach do not put them at cross purposes. While Australia and the United States share a common vision for a free and open Indo-Pacific and have interests and values that are perhaps more aligned than any other two alliance partners, their viewpoints will occasionally differ — usually in tactical terms but also occasionally in strategic terms. The ability to work through areas of divergence will determine the alliances' relevance in the future.

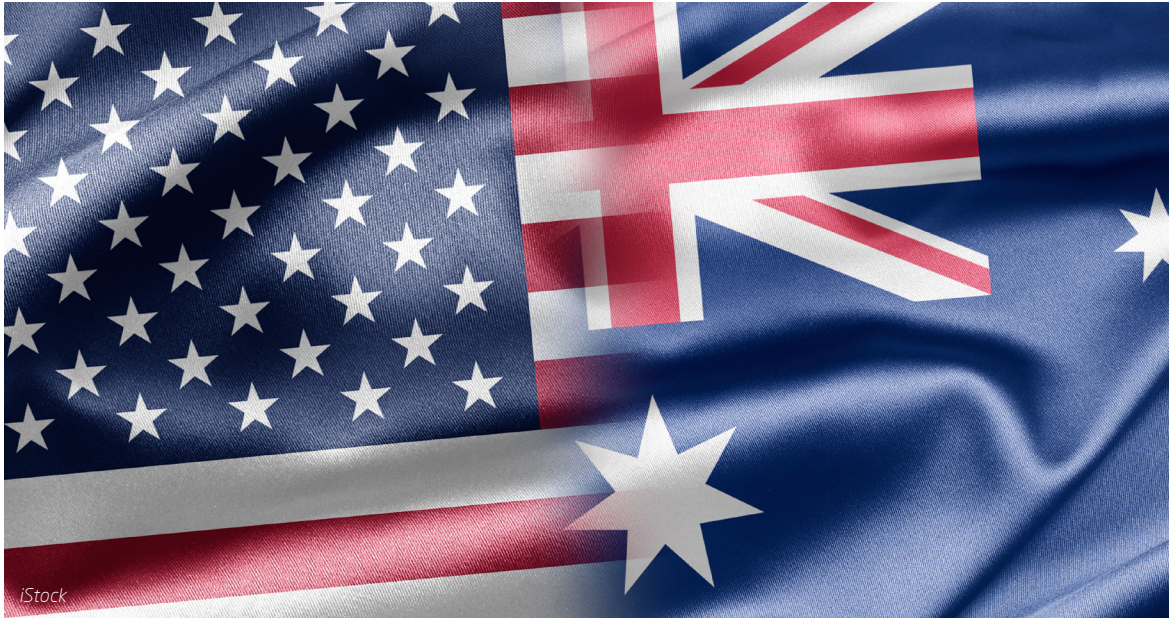
The Trump administration has declared China a long-term strategic competitor and has taken a host of more proactive policies in response to Chinese actions. If the United States is going to continue its effort to decouple its economy from China's, it is not yet clear how deep or quickly the decoupling will move or which industries would benefit or suffer. As the United States takes on the challenge of redefining the terms by which the world engages with China to make it fairer for everyone, it will benefit from a united front amongst its allies. In order to achieve this, it will be critical for the United States to clearly articulate its intentions, demonstrate its willingness to make sacrifices, and work to ensure that the priorities of its allies are also taken into account.

The challenges posed by China are not just a threat to the United States, they are matters of regional and global concern. As Australia continues to reckon with the challenges China poses in the economic, security and human rights realms, it would do well to look past some of the immediate differences in approach and tactics and focus more on the overlap in priorities and objectives. In doing so, it will become clear that many of the actions being taken by the United States now will ultimately benefit Australia in the long run.



## Strengthening the alliance

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The US-Australia alliance has been indispensable for more than seven decades, but it has also always been a work in progress. In the present environment, both Australia and the United States are confronting an increasingly assertive China, which is bringing new challenges to the alliance. As China continues its backsliding, Canberra will have to determine how much it is willing to say publicly about China's worsening domestic human rights record, unfair trading policies, and coercive practices.<sup>44</sup> The United States and its allies in the region can shape the way they engage with China, but not if they are divided on a collective response on the issues and areas that will be decisive.

Shared history, values, and prosperity have allowed the US-Australia alliance to thrive for the better part of a century. But the closeness of the relationship can easily drift into complacency. Washington and Canberra have long affirmed their cooperation and shied away from highlighting their differences. But it is precisely their closeness that should allow them to undertake the exacting work of candidly exploring those differences, asking more of themselves and demanding more from each other in order to take on the multifaceted challenges of great power competition. This is the path to recapitalising their alliance and modelling how to revitalise other alliances in the region.

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