

Sanjaya Baru: Anchoring Australia

A continent adrift in the western Pacific is seeking a new Indo-Pacific home

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Nothing exemplifies the tension between geoeconomics and geopolitics quite as well as the identity crisis that has come to grip Australia in recent years.

For over a decade now, Australia has sought to create a new Asian identity for itself as its economic relationship with China and other East and Southeast Asian economies has grown. China is by far Australia's biggest trade partner; Sino-Australian bilateral trade now stands at more than \$105 billion. Japan is Australia's second-largest trade partner, with more than \$66 billion worth of bilateral trade. The United States, a long-standing strategic partner and wartime ally, is a distant third; its bilateral trade with Australia totalled less than \$50 billion last year.

While the transatlantic economies run a huge trade deficit with China, Australia runs a trade surplus. Apart from trade, which is heavily skewed with Australia selling iron ore and food to China while importing manufactured goods, investment flows have been rising, and so have people flows. Australia has also become one of the top destinations for outward Chinese foreign direct investment. A recent estimate puts the value of Chinese non-bond investment in Australia at \$34 billion in the period 2005-2010.

All this has meant that unlike its traditional economic partners in North America and western Europe, Australia has been relatively insulated from the negative fallout of the transatlantic financial crisis and economic slowdown. Among the OECD (Organisation for Economic Co-operation and Development) economies, Australia has recorded among the best growth rates and the lowest unemployment rates. All this upside has made Australia less concerned about the downside, that is, its dependence on exports of raw materials and the destruction of its manufacturing base.

However, the sheer weight of economics and geography has pulled Australia and its Asian neighbours, especially China, closer together. So weighty has this pull been that Australia's former prime minister (present foreign minister) Kevin Rudd could pull his country out of a US-Japan-Australia-India quadrilateral defence partnership after China frowned on it.

Yet, in this age of geoeconomics, the role of geopolitics can't be denied. Thus, Australian Prime Minister Julia Gillard has accepted a US proposal, made during US President Barack Obama's recent visit, to station 2,500 US marines in a new naval base to be developed in northern Australia.

This recent move comes in the wake of the announcement at the last summit of the Asia Pacific Economic Cooperation, or APEC, that the US and Australia would work with seven other countries to launch a new Trans-Pacific Partnership (TPP). Strategic analysts have already dubbed the TPP a geostrategic initiative aimed at creating a new architecture of Asia-Pacific cooperation sans China.

These moves have sent ripples of excitement and worry across Asia even as the US raises its profile once again to re-engage what US Secretary of State

Hillary Clinton has christened as the “Indo-Pacific” region. Singapore’s highly regarded strategic affairs analyst Kishore Mahbubani has dubbed this the “new great game” in Asia.



What is particularly interesting about this new game is that it is a contest between the pulls of geoeconomics and the pressures of geopolitics.

Australia has been busy celebrating its economic enrichment, thanks to China. However, till recently it had neglected the strategic implications of China’s rise. Increased defence spending and development of maritime capability by China have cast a shadow on Australia’s strategic influence in the region. So much so that when Mr Rudd flamboyantly lectured the region on his new idea of an Asia Pacific Community at the 2009 Shangri La Dialogue in Singapore, he was laughed out of court by his Southeast Asian neighbours.

Clearly, Australia has woken up to the new realities of Asia and has now charted a new course for itself. Not only has it sought to woo back the United States into the region, it has also finally reached out to India.

Prime Minister Gillard’s recent decision to secure the Australian Labour Party’s (ALP’s) approval for a waiver that would enable Australia to sell uranium to India is yet another geopolitical move that will strengthen Australia’s “Indo-Pacific” identity. After all, Australia is as much a part of the Indian Ocean as of the Pacific.

When Ms Gillard secures her party’s approval for a change of policy – Australia has been committed to not selling uranium to countries that are not signatories to the nuclear non-proliferation treaty – her government would be able to remove an important political hurdle to closer ties between India and Australia. While there are good geoeconomic reasons why India and Australia must come closer, the geopolitical ones have greater appeal, given that India is nowhere near China as an economic partner for Australia, but is an important maritime power in the Indo-Pacific region.

It is entirely possible that ALP may attach riders to sale of uranium to India, and India may reject such conditions. Indeed, it is possible that in the end India may not buy any uranium from Australia. Not only does India now have enough other sources, but the recent slowdown in its civil nuclear energy programme – for a variety of reasons – may mean that the country’s immediate demand may be limited.

That, however, is not important. The decision to sell uranium – even if with caveats – is Australia’s way of signalling a political shift, and India must recognise this move as such. Ms Gillard has invited Prime Minister Manmohan Singh to visit Australia. No Indian prime minister has visited Canberra since 1986. Time for Dr Singh to go!

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