

# Australia Braces for the Impact of the New U.S. Administration

## **Forecast**

- *Australia will take steps to assume greater responsibility for regional peace and prosperity, but its focus will remain primarily on its economic security.*
- *Fundamental imperatives will discourage a drastic shift in Australia's alignment, despite uncertainty about U.S. policy and structural shifts in the Western Pacific.*
- *Canberra will not tie its national security fate to that of any Asian power.*

## **Analysis**

Australia, like other traditional U.S. allies in the Western Pacific, doesn't quite know what to expect from the Trump presidency. An unusually testy phone call on Jan. 28 between Australian Prime Minister Malcolm Turnbull and U.S. President Donald Trump, reportedly cut short by Trump after the pair clashed over a 2016 deal to resettle refugees, only underscored the sense that this uncertainty may linger.

Ever the patient ally of the United States, Australia has been at this juncture before. Throughout its history, the country has subjected itself to the policy vicissitudes of faraway powers. Australia's extreme geographic isolation gives it a vast buffer against military threats, granting it free rein in its near abroad, along with considerable wealth and stability. At the same time, it puts Australia's economy at the mercy of distant export markets. Furthermore, because Canberra lacks the resources to sustain a globally capable navy of its own, it has tried to prove its value to maritime powers capable of securing critical sea-lanes on its behalf. To that end, Australia has routinely participated in U.S.-led military operations of marginal relevance to its interests — for instance, the United States' recent endeavors in the Middle East. But the new U.S. administration's apparent ambivalence toward traditional alliance networks and its possible willingness to force a confrontation with Beijing have cast doubt on the future of the established economic and security architecture in the Western Pacific. China's own growing clout, meanwhile, has further complicated the picture.

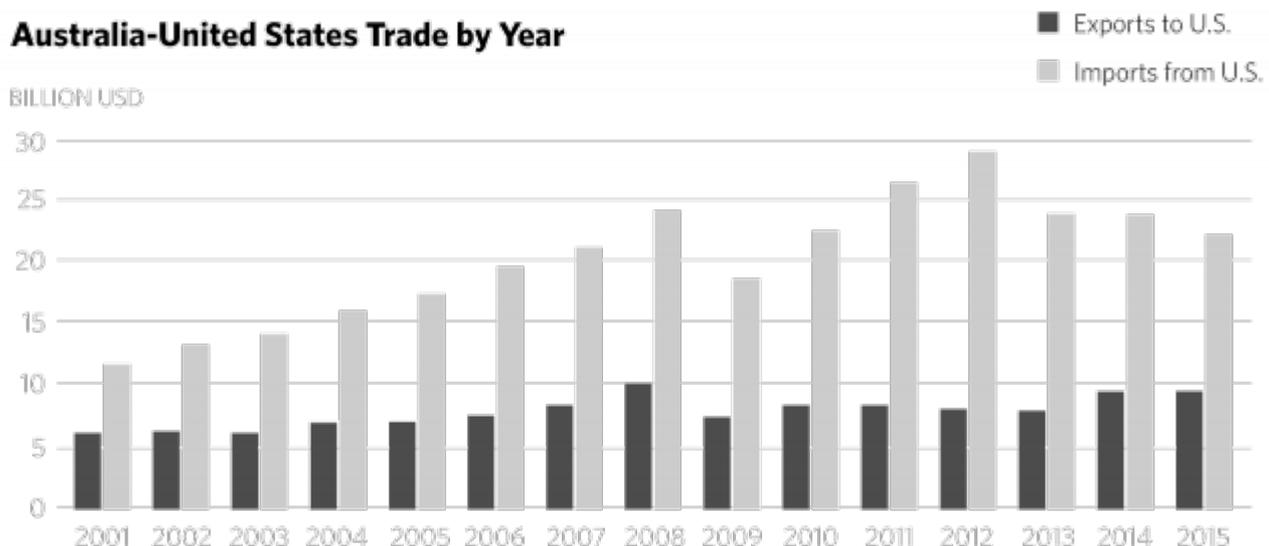
Trump's vow to depart from his predecessor's multilateral approach to Southeast Asia — and his executive order to withdraw from the Trans-Pacific Partnership (TPP) — have prompted Canberra to re-evaluate its position in the region. After the U.S. election in November, former Australian Prime Minister Paul Keating even proposed that Australia "cut the tag" with Washington and focus on boosting defense ties with its Southeast Asian neighbors instead. On Jan. 24, Turnbull effectively acknowledged the profound shift in regional order when he suggested that TPP signatories reformulate the pact to include China in the United States' place. Still, Australia's underlying imperatives have not changed. Isolationism is not an option, and the United States is the only maritime power it can rely on to guarantee the security of the seas. But the shifts underway in Washington and

the Western Pacific are forcing Canberra to consider how to secure its interests and assume greater responsibility for regional peace and prosperity.

### Australia Turns to Its 'Best Friend in Asia'

The changing dynamic has put Australia's relationship with Japan in the spotlight. In mid-January, Japanese Prime Minister Shinzo Abe rushed to meet with Turnbull — moving a scheduled meeting up by several months — to confer with his Australian counterpart over their trade and security strategies ahead of Trump's inauguration. Japan, once dubbed "Australia's best friend in Asia," is a natural partner in Canberra's efforts to fill the leadership void in the Western Pacific that a more protectionist, unpredictable United States would leave. Both countries have thrived in the U.S.-led security order and in the liberal economic architecture that have dominated the Western Pacific since after World War II. And, to an extent matched in the region perhaps only by fellow TPP-signatory Singapore, each has doggedly defended these systems through the surge of populist sentiment sweeping the globe. Having built their prosperity on the free flow of goods, resources and capital, Japan and Australia are dedicated to reinforcing freedom of navigation norms, deterring aggression near critical sea-lanes and working to reduce trade barriers. That explains why the countries, both U.S. treaty allies and hosts to U.S. naval forces, have been gradually wading deeper into the dispute over the South China Sea — and encouraging other Southeast Asian states to follow suit.

#### Australia-United States Trade by Year



Source: TradeMap

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It's also why the governments in Canberra and Tokyo have been so willing to spend political capital on defending free trade. Japan and Australia signed a landmark bilateral free trade agreement in 2015 — a major accomplishment for Tokyo, whose domestic political obstacles have historically hindered its participation in trade pacts. More recently, Australia and Japan have continued to forcefully campaign for the TPP, even despite Washington's moves to detonate the pact.

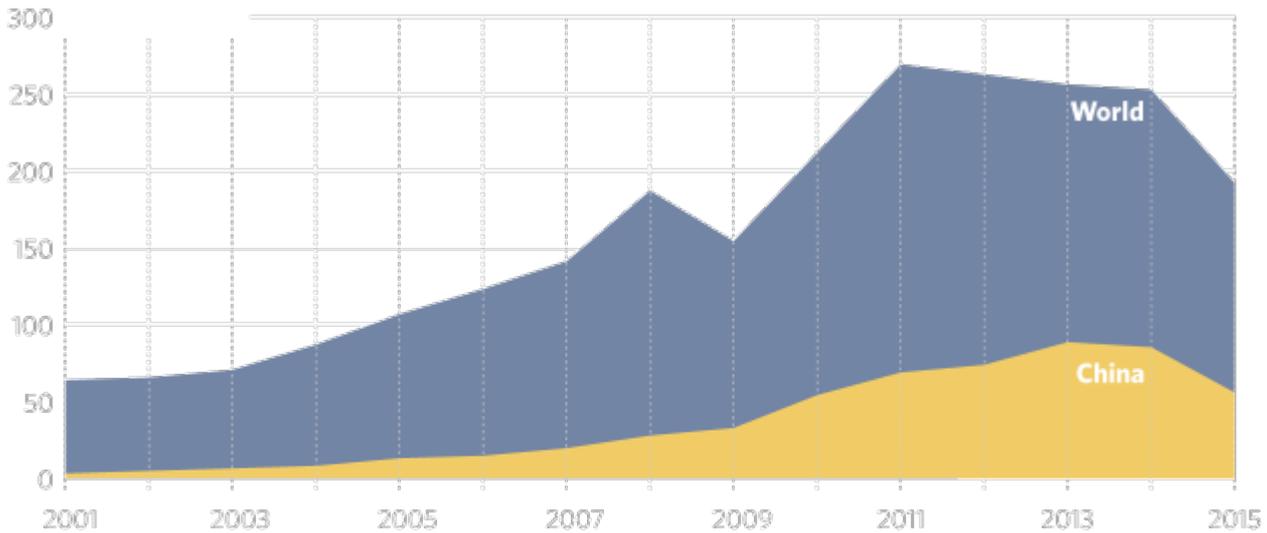
Even so, recent events have exposed the countries' diverging interests and revealed that their partnership will be characterized by, at most, incremental moves to reinforce the regional status quo. Abe and Turnbull's recent meeting in Canberra, for example, produced underwhelming results relative to the leaders' promises: On defense cooperation, the best they could come up with was a minor update to a 2013 acquisition and cross-servicing agreement. Since then, the two countries have disagreed over the future of the TPP as well. Tokyo rejected Turnbull's proposal that signatories give up on U.S. participation in the framework and focus on trying to draw other countries in instead.

Part of the issue is that Australia and Japan view the potential changes in Washington's foreign policy somewhat differently. Where the United States' unpredictability has bred alarm and action on security matters in countries such as Japan and South Korea, it has largely bred caution in Australia. The discrepancy is partly the result of differing priorities that will limit cooperation between Australia and its potential Pacific partners in Northeast Asia, particularly over how to manage China's increased assertiveness. Canberra has no overlapping territorial claims with Beijing, and most shipping between Australia and Northeast Asia bypasses the South China Sea. Furthermore, though Canberra is wary of Beijing's potential to expand its influence in the South Pacific, Australia's geographic position puts it more or less beyond the range of China's power projection. This doesn't mean that Australia can ignore the threat of conflict in the South China Sea. But it gives the country greater freedom to keep economic interests at the center of its relationship with China — its largest trading partner and an indispensable market for Australian commodities. For now, Canberra will focus primarily on enforcing the underlying norms and principles of the postwar system and adapting it to better accommodate China's rise, a strategy exemplified in its 2014 free trade deal with Beijing.

## Australia and China

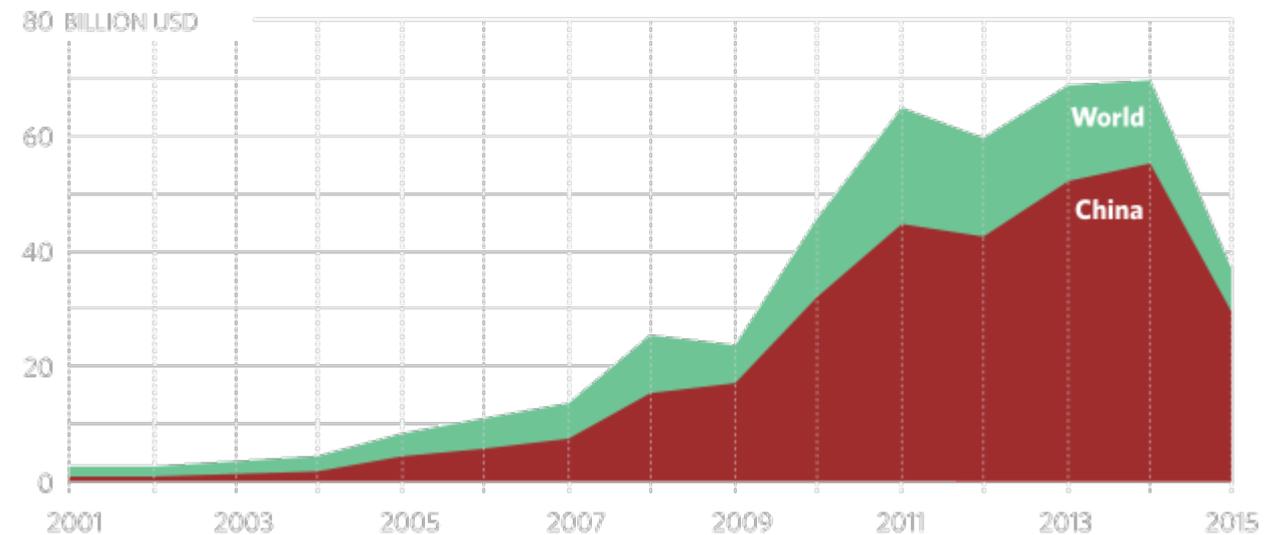
China is far and away Australia's most important export destination. Exports to Beijing totaled \$56.5 billion in 2015 — 29.6 percent of the total. Japan, the second-largest destination, by contrast, accounted for only \$20.5 billion (10.7 percent).

### All Products



### Iron Ore

Beijing consumed 79 percent of Australia's annual exports of iron ore, a key commodity. In fact, iron ore exports to China account for about 15 percent of Australia's total exports.



Source: TradeMap

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## Domestic Politics Get in the Way

Australia's risk aversion also stems from its fracturing political landscape, which has kept the country's leaders preoccupied with internal matters. Since 2010, Australia has been through three governments and four prime ministers. Australians voted against the country's two major parties in record numbers in a July 2016 election, reflecting growing unease about the country's vulnerabilities to global forces such as free trade and migration. Although the protectionist impulse

has been far weaker in Australia than in Europe or the United States, its effect has been magnified because of the power that minority blocs can wield in the Australian Senate.

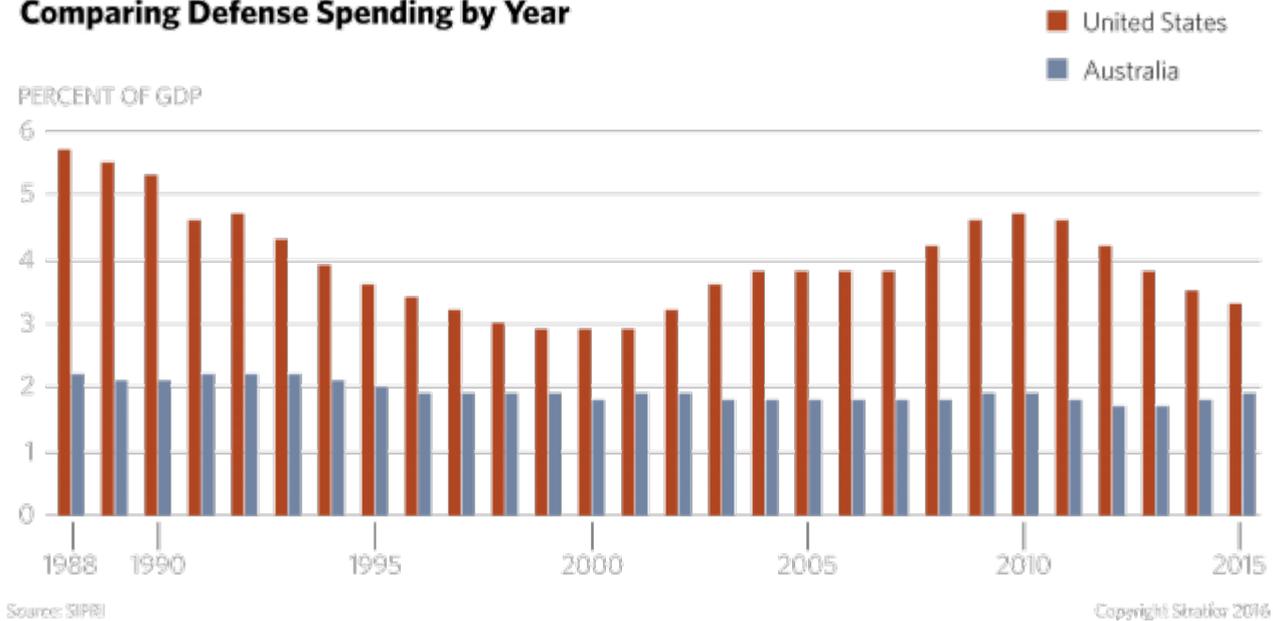
The perpetual gridlock and frequent power transitions have hamstrung Australia's government, disrupted its policy continuity and made its leaders reluctant to spend political capital on initiatives abroad — especially those that risk economic repercussions in politically important sectors. By contrast, Abe's political dominance in Japan gives his government freedom to act decisively on contentious issues such as remilitarization (an effort Australia has encouraged) or funneling Japanese development aid, private investment and security assistance into Southeast Asia.

Already, domestic affairs have impeded Canberra's attempts to boost military cooperation with Japan. In 2016, for example, an independent senator from South Australia led the charge to scrap a \$38 billion deal to buy 12 Japanese submarines in favor of an agreement with France that would ensure the vessels are built partly in Adelaide, much to the dismay of Australia's defense partners. (Washington supported the original deal, since it would have enabled Japan to develop its nascent defense industry and since Japanese submarines are more compatible with their U.S. counterparts.)

### **A Cautious Approach**

Throughout its history, Australia has toyed with decreasing its reliance on U.S. security guarantees — thereby limiting its exposure to policy swings in Washington — in pursuit of firmer partnerships with Asian powers such as China. After all, China has a greater economic incentive to sustain Australia's national security than the United States does. Nonetheless, Canberra has stayed a firm U.S. ally, in part because a national security strategy based on mutual economic interest is inherently unstable, but also because the United States is still the only global naval power. Australia also seems to believe that the United States will eventually return to its traditional postwar role in the Western Pacific.

## Comparing Defense Spending by Year



Until then, though, Canberra will prepare for a wide range of possibilities in Washington's foreign policy toward the region — from disinterest in established alliance structures to hawkish moves to constrain China. For the Australian government, this means investing heavily in its own forces (the 2016 defense white paper outlined a \$26 billion jump in annual defense spending over the next decade), while bolstering other regional trade and investment networks, with willing participation in trade initiatives led by Beijing. The country will also continue to pursue bilateral trade deals elsewhere to reduce its economic reliance on both China and the United States. It has already made nine such deals since 2000, and Canberra and London have started laying the groundwork to sign a free trade agreement once the United Kingdom has left the European Union.

On regional security issues, however, Australia may respond to uncertainty with even greater circumspection. As the country tightens military ties with neighbors such as Singapore and Indonesia, it will refrain from taking any action that might nudge the region closer to a showdown. Australia will also be hesitant to elevate defense cooperation with countries such as Japan to the level of a formal alliance, which would tie its security fate to flashpoints in Northeast Asia. It will even extend this cautious approach to defense cooperation with the United States; Canberra has so far resisted U.S. pressure to conduct freedom of navigation operations in the South China Sea. Though Australia will not deviate from its alliance with the United States, it has little choice but to find ways to engage the changing region on its own terms.

**Source: Stratfor Intelligence Briefs 7/17**