

JPRI Working Paper No. 13: October 1995
U.S.-Australia Relations and the Rise of Southeast Asia
by Andrew MacIntyre

As is now widely known, the market economies of Southeast Asia* have been performing extremely well for some time. In the 1960s, the economic and political futures of these countries seemed, at best, stormy and uncertain: poverty was pervasive, the cohesion of nation-states was doubtful, and regional security was iffy. What a difference two-to-three decades can make. Today the region is experiencing a widespread sense of optimism and opportunity as the dynamics of sustained rapid economic growth take hold. Although certainly not eliminated, the incidence of poverty has been dramatically reduced, industrialization is surging, substantial new middle classes have emerged, some political institutions are beginning to develop roots, and the regional security environment is less worrying than it was.

The changes underway in Southeast Asia also have major implications for Australia and the United States, and for the bilateral relationship between the two. I want to consider these under three broad headings: trade links, political openness and human rights, and geopolitical considerations. Before doing so, however, let me place the discussion in context, for it must be emphasized that Australian and American interests in Southeast Asia (and East Asia generally) differ quite fundamentally.

Stated simply, Southeast Asia matters much more to Australia than it does to the United States. This basic fact can be illustrated in many ways (geography, of course, being the most obvious), but for present purposes the relative significance of Southeast Asia as a destination for exports will suffice. In 1993, Southeast Asia consumed 14% of Australian exports, and 6% of U.S. exports. East Asia as a whole accounts for 58% of Australian exports and 27% of U.S. exports. In other words, as a market for exports, Southeast Asia and East Asia as a whole are more than twice as important for Australia as they are for the United States. East Asia is of overwhelming economic importance to Australia, but is only one of three key trading regions for the United States (U.S. exports to Canada and Mexico outweigh its exports to all of East Asia). The United States is a global trader, whereas Australia has become primarily a regional trader.

Although these simple facts are well known to trade specialists, their wider significance is not generally appreciated in either Australia or the United States. One aspect is that the countries of Southeast Asia and Asia generally matter much more to Australia than they do to the United States. Second, and more broadly, Australians tend to assume (wrongly) that America is just as interested in Asia as Australia is. Conversely, Americans (seldom

very conscious of Australia at any time) have not yet realized just how far Australia has turned to Asia. In short, neither side fully recognizes the differential significance of Asia for each other; and, as I shall argue, one of the consequences of the transformation of Southeast Asia will be a widening of the gap between the U.S. and Australian interests.

Trade Links

The most obvious implication of the rapid industrial growth of Southeast Asia is that it creates important new trade and investment opportunities for third countries. This is of particular interest to the United States and Australia, since both are seeking to revitalize their economies and improve their overall trade positions. The possibility of securing an increasing share of the export market and investment opportunities of one of the fastest growing regions in the world is very attractive, and both countries have been active in sending trade and investment delegations to the region.

Along with increasing opportunities in Southeast Asia, however, there has also been increasing competition from Southeast Asia. The rapidly expanding labor-intensive export industries in Southeast Asia have, inevitably, challenged local producers in the United States and Australia. Here Australian and American experiences have diverged fundamentally, with imports from Southeast Asia growing much faster in the United States than in Australia, and with Australia continuing to run a strong surplus with the ASEAN countries, whereas the U.S. runs a substantial deficit. Thus, what for Australia is a very positive trading relationship is for the United States a matter of concern, especially when viewed against the backdrop of its trade relations with Northeast Asia. (Figures 1 and 2 show the development of Australian and U.S. net trade with the region.)

In order to explain the U.S. trade deficit with Southeast Asia we need to disentangle it from the bitter disputes about U.S. trade imbalances with Northeast Asia, especially Japan. Although there are indeed significant import barriers on a range of industries in Southeast Asia, these have typically been the product of straightforward cronyism rather than the carefully calibrated and targeted industrial policies that Washington argues have seriously inhibited U.S. exports to Japan. More broadly, Southeast Asia's trade profile is skewed by the fact the region has become a platform for Japanese, Korean, and Taiwanese investors seeking to export to the United States. Currency realignments, rising domestic production costs in Northeast Asia, and U.S. trade restrictions have resulted in the relocation of the production and export of Northeast Asian manufactures to Southeast Asia. In short, part of the explanation for the Southeast Asian surplus with the United States is that a substantial component of it is made up of the products of Northeast Asian companies, assembled by Southeast Asian workers. A second important contribution to the U.S. trade deficit with Southeast Asia is a substantial trade flow-back to the United States from U.S. firms that have relocated to Southeast Asia, notably in the consumer electronics sector.

Explaining Australia's strong and rising trade surplus with Southeast Asia is more straightforward. Unlike the United States, Australia exports large quantities of natural resources and resource-based products to the region. Although Australia's exports of

manufactured goods have been growing in recent years, they do not outweigh its manufactured imports from Southeast Asia. The addition of the resources exports produces a large net surplus.

More important than the causes of the differing Australian and U.S. trade relationships with Southeast Asia are the consequences. Frustrated by a lengthy history of mounting trade deficits with Asian countries, Washington has taken an increasingly muscular approach in targeting a wide range of what it regards as unfair trade practices. While Japan has certainly been the most high-profile target of U.S. bilateral trade pressures, it has by no means been the only Asian target. Virtually all of the Southeast Asian economies have been singled out by Washington and subjected to punitive trade measures or threats of punitive trade measures. Thailand, the Philippines, Singapore, Malaysia and Indonesia have all been targeted on grounds of inadequately protecting intellectual property rights and violating copyrights and patents. Thailand, Indonesia, and the Philippines have been targeted on market access grounds in a range of industries. Indonesia, Malaysia, and Singapore have been targeted on grounds of violating labor rights, and Indonesia has also been targeted specifically for human rights abuses, particularly in East Timor.

Predictably--and notwithstanding any merits to the U.S. position--this has resulted in widespread resentment and anger within Southeast Asia, which has in turn contributed to a very marked downturn in bilateral relations between the United States and most Southeast Asian governments in the last few years. Although they have typically acceded to U.S. pressure, Southeast Asian governments have seen these various initiatives as little more than a thinly veiled effort to protect declining U.S. industries from more competitive Southeast Asian exporters. Resentment has been building for some time, but under the Clinton administration (particularly its first two years) official bilateral relations with much of Southeast Asia reached an historic low.

Again, regardless of any possible merits attaching to the U.S. position, the reaction in Australia has also been one of deep anger. Australia's position has been exacerbated by the fact that, unlike the Southeast Asians, it runs a very large trade deficit with the United States, and furthermore has had serious damage inflicted on its exports to third parties by U.S. agricultural subsidies. Thus although the circumstances differ, and although Australia also suffers from barriers to manufactured imports in Southeast Asia, it has nonetheless found itself in sympathy with the position of the Southeast Asians. Indeed, Australia has become increasingly critical not just of U.S. trade policy measures affecting itself, but also of those directed at Southeast Asia and East Asia as a whole. This is probably the first time Australia has sided with Asia against the United States on a matter of major bilateral importance.

Political Openness and Human Rights

A second broad set of consequences for U.S.-Australia relations arises from the changes underway in Southeast Asia concerning issues of political freedom and human rights. As a direct result of several decades of rapid economic growth, Southeast Asian countries are

in a state of political flux as they grapple with the possibility of transitions from more or less authoritarian political arrangements to something else. Notwithstanding the hopes of many people inside and outside Southeast Asia, there are few grounds for expecting some sort of smooth transition to stable democratic political systems throughout the region.

Across Southeast Asia there are demands for greater political openness and accountability, increased freedom for political mobilization (including labor unions and radical political organizations), increased press freedom, more equitable distribution of wealth, increased judicial fairness and independence, and in some cases, political secession. The circumstances and political cycles of the various countries of Southeast Asia differ considerably, but in all of them one or more of these issues is likely to become salient from time to time.

In addition to causing conflict within Southeast Asia, such developments will pose significant diplomatic challenges for Australia and the United States. Both countries have deep concerns for human rights and have pursued these in various parts of the world. However, in the case of Southeast Asia it is likely that the two countries will react somewhat differently to human rights and repression problems, and moreover, that this may well further dilute their bilateral relationship. This is particularly the case with Indonesia, but to some extent it will apply to the rest of Southeast Asia as well.

Simply put, for reasons of proximity, size, and economic diplomacy, Australia is likely to give ever greater emphasis to building broader and deeper relations with the countries of Southeast Asia, rather than pressing their governments to curtail human rights abuses. Perhaps the clearest manifestation of this was Prime Minister Keating's vigorous urging of President Clinton last year not to press Indonesia (or China) too hard on human rights issues, and then, for good measure, taking the transcript of their conversation to President Suharto. Unless it becomes clear that Indonesian control of East Timor is untenable, Canberra is unlikely to risk the very good relationship it has built with Jakarta by taking a genuinely tough stance. Ignoring the relativities of size--which do in fact matter greatly--there are some parallels here with Washington's attitude toward the Mexican government's approach to the rebels in Chiapas.

Situations of this sort have the potential to irritate the Washington-Canberra relationship. Canberra may become concerned that U.S. punitive measures will generate unhelpful problems for Jakarta or, perhaps, simply be exploited by Washington to restrict economic competition from Jakarta. Washington, by contrast, may be irritated by what it will see as craven behavior by Canberra. Such incidents are unlikely to cause major problems in U.S.-Australian relations, but they do have some potential for further diluting bilateral ties.

Geopolitical Implications

Largely because of the sustained economic development in Southeast Asia, governments in the region are no longer so overwhelmingly preoccupied with the elementary internal problems of mass poverty and nation- and state-building. This in turn has contributed

directly to the willingness and ability of Southeast Asian governments to articulate and advance their interests both regionally and globally. This trend is being supported by the steadily growing technical competence of the bureaucratic and intellectual elites of the region, resulting in increasingly sophisticated conceptions of national interests as well as increasingly sophisticated capabilities for projecting these interests. This can be observed both at the level of the individual nations (viz. Singapore on its penal code, Malaysia on the environment and the East Asian Economic Caucus (EAEC), and Indonesia on the Non-Aligned Movement and the Bogor APEC summit) and on a collective or regional basis (viz. the Asean Regional Forum and arguments about an 'Asian conception' of human rights).

One particularly significant manifestation of this general phenomenon is the increasingly outward-looking military postures being adopted by Southeast Asian governments. In most (but not all) of Southeast Asia there is increased spending on defense and, in particular, expanded acquisitions of air and naval weapons systems capable of projecting force well beyond national boundaries. This shift is a function of several factors: threats to national security that are no longer overwhelmingly domestic, increased budgetary spending power, and a changing regional security environment following the Cold War.

Such developments pose no major concerns for the U.S. so long as the arms acquisitions programs do not in themselves become regionally destabilizing. For Australia, however, the situation is quite different. Together with the widely noted softening of the U.S.-Australia bilateral defense relationship, Southeast Asian military changes have given rise not only to a serious drive by Australian defense-planners for greater military self-reliance but also, importantly, to a major new push for "regional engagement." In short, building cooperative bilateral and multilateral defense links with Southeast Asian countries has become a top priority for Canberra.

Let me summarize my argument thus far. Australia is being pulled into an increasingly Asia-centric orbit. To say this is not to deny that there remain deep economic, political, social, and strategic ties between Australia and the U.S. It is simply to argue that in relative terms, the force of these ties is not as strong as it once was and, moreover, that it is likely to continue to ebb.

There are also forces at work that could serve to keep the U.S. and Australia quite closely engaged with one another. First is the possibility that another major power may attempt to assert itself in the region in a destabilizing manner, thereby compelling Australia (and Southeast Asia) to seek U.S. military support. Second is the emergence of multilateral institutions for economic and security cooperation that serve to enmesh the United States and Australia in regional policy coordination activities. There is force to both of these propositions, but here too there is scope for doubt.

The first scenario is, of course, built around the possibility--many would say, emerging reality--that China will flex its growing military muscles to secure, for instance, the Spratly Islands and the mineral resources presumed to lie beneath them. The current situation in the South China Sea--let alone any further deterioration--is plainly a matter of

deep concern in Southeast Asia. And it is also a matter of serious (if indirect) concern for Australia, since a stable and prosperous Southeast Asia is of great importance to Australia. Not surprisingly, then, all countries of the region--Australia included--have been urging the United States to remain actively engaged in Asia, with a strong forward deployment of forces. Stated bluntly, the re-emergence of China is a stark reminder to all in the region of just how much they need the United States.

The question is whether the United States is really willing to play ball. There are several reasons for doubting that the U.S. would in practice be willing to intervene decisively if China took aggressive unilateral action. First, as a practical matter, actually preventing China from, say, forcefully taking the Spratlys would be very difficult. Second, it is unclear that the U.S. public would be willing to support a conflict with China over some uninhabited islands (or, for that matter, over any dispute involving Southeast Asia). 'Saving' Taiwan might be domestically acceptable, but 'saving' the Spratlys would be an altogether different proposition. Third, there are grounds for suspecting that the United States's long simmering resentment over Japan's and most of the rest of Asia's free-riding on defense may be reaching significant heights. Notwithstanding the Pentagon's recent reaffirmation of a forward U.S. defense commitment in Asia in the so-called Nye report, the recent bitter dispute with Tokyo over auto trade has brought the question of linkage between security and trade sharply into focus. There have been a number of increasingly sharp critiques of Washington's willingness to maintain defense guarantees in the face of chronic unfair trade. And, after years of disavowing such sentiments, some senior government officials have also begun to indicate a preparedness to link security and trade in Asia.

More broadly, it is being argued that the U.S. has given undue attention to Asia, that ultimately U.S.-style capitalism is too fundamentally different from that of Asia, and that the U.S. would be better advised to shift the focus of its energies to Europe and the Americas. The fact that Senator Dole, the leading Republican challenger in the next presidential election, has picked up such themes suggest that they may now be commanding much greater political currency. Finally, all official statements aside, it is possible that Washington may actually see some advantage in standing back and allowing China to behave in an assertive fashion. Not only would this spare Washington the high cost of seeking to stop Beijing, but Beijing's actions could have the welcome side-effect of complicating the decision-making of Japan and the other 'unfair traders' of Asia and reminding them of the value of good relations with the United States.

A second countervailing variable that may serve to keep the U.S. and Australia closely engaged with one another is the emergence of multilateral institutions for economic and security cooperation within the region, most notably ASEAN Regional Forum (ARF) and APEC. Both of these institutions are very important developments in terms of addressing regional economic and security issues. But what effect will they have on U.S.-Australian relations? Certainly both institutions serve to engage Canberra and Washington in important multilateral dialogues, but it is less clear that this in itself will do much to alter the fact that in fundamental areas their interests are diverging. In the case of the ARF, for example, Canberra had to grapple with strong opposition from the Bush Administration to

the very idea of a regional defense forum. Similarly, not only was Washington very skeptical of the concept of APEC to begin with, but even now that it has been enthusiastically engaged by Canberra and the rest of Asia, Washington's preferences for the development of APEC continue to diverge on some fundamental issues.

The changes underway in Southeast Asia have important implications for both Australia and the United States, and for the bilateral relationship between them. I believe that Australia is being drawn closer to Asia and that it is becoming an increasingly regional economy. The likelihood of Australia resisting the economic pull into Asia is small. And as it continues to move slowly toward Asia, its shared interests and ties with the United States are likely to diminish in relative and perhaps absolute terms.

There is also a difference in the significance for the U.S. and Australia of their bilateral relationship continuing to atrophy over the next decade or so. For the United States, the implications are not great simply because Australia is not very important to it. Along with the remaining strategic communications systems located on Australian soil, the most significant potential role Australia has for Washington is as a friend and well-placed ally with good 'regional credentials' in East Asia generally and Southeast Asia in particular.

For Australia, however, the further weakening of the relationship with the U.S. is of great significance. Over the last decade the Australian government has vigorously and enthusiastically supported the reorientation of Australian thinking to focus on Southeast Asia as well as Asia more generally. This has been an appropriate strategy. The challenge for Canberra now, however, is not so much how to promote economic integration with Southeast Asia, but what to do as this increasingly becomes a reality. Australia has yet to come to grips with this, precisely because 'getting close' to Southeast Asia is still seen--incorrectly--as a distant prospect. But as links with the U.S. loosen, there will be many hard issues to consider.

First, what will it really mean for Australia no longer to have "a great and powerful friend" on its side strategically? How, for instance, will Australia deal with the issue of realistically funding defense self-reliance? Second, what would be the implications of a slowing or--worse still--serious disruption of rapid economic growth in Southeast Asia? And third, although Samuel Huntington's thesis on the clash of civilizations has been widely criticized, is it realistic to assume that Australia will somehow smoothly mesh its society with the very different and diverse cultures of Southeast Asia? Will cultural differences really count for nothing?

These are real and difficult questions Australia has yet to grapple with in a serious way. However, contrary to the wishful thinking of those who decry Australia's turn to Asia and long for some sort of return to a European or perhaps North Atlantic past, there is in fact no real alternative. For Australia, there is no turning back. The real question is how to manage these long-term changes to ensure that there are as few bumps as possible along the way. One of these is going to be a slowly but steady softening of the relationship with the United States.

* I use the term 'Southeast Asia' to refer to the ASEAN-5 (Malaysia, Thailand, Indonesia, Singapore, and the Philippines), the term 'Northeast Asia' to refer to Japan, South Korea, China, Taiwan and Hong Kong, and 'East Asia' to embrace both regions.

ANDREW MacINTYRE is an Australian political scientist at the Graduate School of International Relations and Pacific Studies at the University of California, San Diego. He is the author of *Business and Politics in Indonesia* (Allen & Unwin, 1990), and the editor of *Business and Government in Industrializing Asia* (Cornell University Press, 1994). This paper is an abridged version of one presented to the Asia Impact conference of the Australian Centre for American Studies, University of Sydney, July 12-13, 1995.
