

Report documents extent of US-Australia economic ties

Nick Beams**23 March 2017**

Uncertainty over the policies and actions of the Trump administration has intensified a longstanding debate in Australian foreign policy circles over how Canberra should balance its relationships with the United States, its main military ally, and China, its largest trading partner. Various strategic analysts, former politicians, ex-diplomats and media commentators are seeking to influence, in one direction or another, the axis of a new “Foreign Policy White Paper,” which is due to be released later this year.

Earlier this month, Australian Foreign Minister Julie Bishop delivered a major speech in Singapore, in which she urged the US to remain “strategically engaged” in Asia and “play an even greater role as the indispensable strategic power” in the region. Bishop implicitly appealed to the Trump administration to ensure that its “America First” threats of trade war, and escalation of tensions with China over issues such as North Korea, Taiwan and the South China Sea, do not impact adversely on its key allies, above all, Australia.

The speech was immediately criticised by foreign policy and defence analyst Hugh White, who has insisted that Australia recognises the US is in irreversible decline and orientates, instead, toward China as the region’s emerging economic and strategic power.

White took issue with Bishop’s assertion that the post-World War II “rules-based order” had to be defended, noting that in practice it meant upholding geo-strategic relations where “the rules are set and enforced by the United States.”

“That is the kind of order we had in Asia for many decades, and it worked very well for us and the rest of the region,” he wrote in a comment published in the *Australian Financial Review* last week. “But assuming it can keep working in future is just nostalgia, not policy making.”

White declared that the so-called “Bishop doctrine” of US pre-eminence “seems to be stuck in denial” about “the most important change in Asia’s strategic situation in decades—the radical shift in the distribution of wealth and power away from America towards China.” As long as Australia failed to recognise the scale and consequences of this shift, he continued, “we will be powerless to manage its consequences.”

The debate over foreign policy has been no less forcibly joined by defenders of a continued orientation toward

Washington and the centrality of the US alliance. In particular, this layer has opposed reducing the dilemma of Australian capitalism to a *strategic* relationship with the US as opposed to vital *economic* relations with China. They argue that when investment and finance are taken into consideration, Australia’s economic ties with the US are irreplaceable. Any shift away from its alignment with US could, therefore, have potentially dire economic consequences.

This issue was first raised by Julie Bishop in January 2014, following discussions with US vice-president Joseph Biden, when she declared that the US was not only Australia’s key strategic ally, but its most important economic partner as well.

The economic relationship between the US and Australia was the subject of a paper published earlier this month by Ian Satchwell, senior fellow at the Perth-based USAAsia Centre, entitled *Trumping Trade: Understanding the Australia-United States Economic Relationship*. The paper has been heavily promoted by Kim Beazley, former ambassador to the US, former Labor Party leader and defence minister in the 1980s—when he was nicknamed “Bomber Beazley” because of his enthusiasm for the military and the US alliance.

In a foreword to Satchwell’s paper, Beazley wrote that it broke “new ground” in understanding Australia’s “global personality” and was a “must read” for those who “want a full picture of our relationship with our American ally.” He drew attention to investment figures compiled by Satchwell, noting that, by 2015, two-way direct and indirect investment between the US and Australia stood at \$1.45 trillion. In the same year, just the *increase* in American investment in Australia was greater than the cumulative stock of Chinese investment.

In the course of his paper, Satchwell does not fully engage in the foreign policy debate, but there is no doubt about his aim in highlighting the economic ties between the US and Australia. As he notes in one of the “key points” extracted from the paper: “There are strategic implications that arise from Australia’s failure to understand fully the breadth and depth of this two-way and increasingly integrated economic relationship, and its interplays with other relationships.”

In his introduction, Satchwell criticises the fact that discussions have focused on the notion of a “binary choice” between Australia’s trade with China and its strategic ties with

the US. He asserts that economic relationships with the US, both in trade and investment, have been “under-appreciated.” While China has become Australia’s most important trading partner, the US is Australia’s most important investment partner, as well as its second largest two-way trade partner.

Satchwell’s research goes beyond simple export and import trade data, focussing on the extent of financial ties. He notes, for example, that Australian companies orientated to the American market have shifted entire operations to the US. Sales by Australian firms based in the US now exceed, almost four-fold, Australian exports to the US. In 2013, majority- and minority-owned Australian companies held assets in the US totalling \$322 billion, and generated sales of \$65.3 billion.

Significantly, the main business activity of US-based Australian firms, some 43 percent of all operations, was manufacturing.

Satchwell cites remarks by the Australian trade minister, Steve Ciobo, in January, in which he points out that the stock of US direct investment in Australia is more than double US investment in China. And Australia has seven-and-a-half times more direct investment in the US than it does in China. The two-way investment relationship between Australia and the US, he comments, is “Australia’s largest by far,” with the United Kingdom coming in second.

In 2015, the total stock of Australian investment in the US was \$594.4 billion, which amounted to 69 percent of the level of US investment in Australia, and made up 29 percent of all Australian investment abroad. US investment in Australia stood at some \$860.3 billion—28 percent of total foreign investment in the country. Chinese investment, while rising rapidly, stood at just \$74.9 billion.

Satchwell notes that the US is a leading destination for Australian investment in finance and insurance. According to a study conducted by the Australian Bureau of Statistics, the US ranked first for the number of Australian affiliates abroad in this sector and third in the total number of sales. A study by the Department of Foreign Affairs and Trade showed that between 2002–03 and 2009–10, the number of Australian finance and insurance businesses in the Americas grew by 555 percent, despite the effect of the global financial crisis.

The US is also a major investor in financial and insurance services in Australia, with stocks of direct investment reaching \$US19.7 billion in 2015.

In the area of services, the US is Australia’s top two-way partner by a large margin. The US comprises 15.8 percent of all service exports and imports, compared to China at 9.1 percent. While China is the largest market for the export of services, with the US running second, the US is the largest exporter of services to Australia, showing its importance, according to Satchwell, as the provider of “key enablers of growth and diversification” in the Australian economy.

One significant feature of the trade pattern is that a high proportion of Australian companies that export to the US are

involved in high-tech areas, particular aerospace. Of the goods exported to the US, the largest category is elaborately transformed manufactures (ETMs), led by aircraft, spacecraft and parts.

In 2015, ETMs comprised some 35 percent of all Australian exports to the US, while making up only 11.9 percent of the country’s overall exports. What proportion of these exports is related to defence equipment is not known, but it may well be significant.

Insofar as he directly touches on the foreign policy issues that emerge from his economic analysis, Satchwell points to Australia’s vulnerability in the new situation that has arisen with the Trump presidency. He notes that while Australia is a significant trade and investment partner, its importance to the US is much less than the importance of the US to Australia, with the exception of mining.

The Australia-US relationship, Satchwell writes, is “integrated and complex.” The position of the US as Australia’s most important investment partner, major technology partner and key strategic ally means that an ongoing relationship “remains crucial to Australia’s interests.” The balancing of trade and strategic interests, with the Trump administration threatening trade war against perceived rivals and the disruption of global markets, will be “complicated and replete with risk.”

As Beazley’s positions reveal, Satchwell’s analysis will be utilised by all those who favour “doubling down” on the strategic relationship with the US, including even closer military ties, as the best means for defending Australian capitalism’s economic interests.



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