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**China: to grow, or not to grow,
that is the question. The
Australia case**

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China: to grow, or not to grow, that is the question. The Australia case

Abstract:

The question of whether the Chinese economy will outperform the U.S. economy is central to the strategic response to Beijing's assertiveness.

This issue is more pressing for Australia than any other Western country.

Staking everything, in close alliance with Washington, on China being contained through firm deterrence with a crusading strategy that centers Western values and identity, raises the boiling point. But, if deterrence fails, the country may be wiped off the map.

Critics propose a geopolitically-inspired strategy that seeks coexistence through a balance of power.

This reflection is also relevant in these latitudes, if less dramatic. No one can know with certainty what China's economic and technological future holds or whether the Chinese leadership will dare to take action to reclaim territories it considers its own.

Uncertainty and the seriousness of the consequences call for caution.

Keywords:

Chinese economy, strategy, deterrence, threat, China, United States, Australia.

***NOTE:** The ideas contained in the **Analysis Papers** are the responsibility of their authors. They do not necessarily reflect the thinking of the IEEE or the Ministry of Defence.

China, ¿crecerá o no crecerá? Esa es la cuestión. El caso de Australia

Resumen:

El interrogante de si la economía china sobrepasará a la estadounidense es central para dar una respuesta estratégica a la asertividad de Pekín.

Para ningún país occidental la cuestión es más acuciante que para Australia.

Apostar todo a que, en estrecha alianza con Washington, China será contenida por medio de una firme disuasión con una estrategia de cruzada, que pone los valores y la identidad occidentales en el centro, eleva la temperatura de ebullición. Pero, si la disuasión falla, el país puede quedar borrado del mapa.

Los críticos proponen una estrategia de inspiración geopolítica que busque la coexistencia por medio del equilibrio de poder.

Aunque con menos dramatismo, dicha reflexión también es pertinente en estas latitudes. Nadie puede saber con certeza qué depara el futuro económico y tecnológico de China o si el liderazgo chino se atreverá a pasar a la acción para reclamar unos territorios que proclama le pertenecen.

La incertidumbre y la gravedad de las consecuencias aconsejan prudencia.

Palabras clave:

Economía china, estrategia, disuasión, amenaza, China, Estados Unidos, Australia.

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Introduction

Will the Chinese economy surpass the US economy in nominal GDP?¹ This is the question that *Foreign Affairs* magazine asked a group of thirty-five experts in November 2023. The paper completed a series of articles on the causes of China's economic stagnation, the consolidation of Beijing's control over the economy, the effect of the COVID-19 pandemic on China's economic growth and how China's economic slowdown could harm the world.

The responses were distributed as follows: one analyst was completely convinced that this would not happen, twelve thought it would most likely not happen, seven took a neutral position, nine believed it would happen and six were very sure it would happen.

The array of opinions is not reassuring, because it expresses a very open set of scenarios and therefore brings more uncertainty than certainty. Aligning exclusively with one option or another does not seem the right thing to do.

Kissinger explains in his latest book that leaders make decisions at the intersection of two axes: one that links values and expectations and one that leads from the past to the future because, while the past can be known, the future can only be intuited². A perception of the future — in all its vagueness — based on a particular worldview is therefore the starting point for any strategic design. This has to take into account the most likely scenarios without ruling out the most dangerous one, which, in this instance, is obviously that the Asian giant achieves its great national objective of recovering its lost international centrality; according to the survey, this option is more than 50% likely.

This issue is not trivial because making the wrong decision could be decisive. No one can know for sure how Beijing will react in the future, but there is no doubt that the more hostile the relationship is today, the worse it will be in a couple of decades, should China actually overtake the United States in calculations of accumulated power.

Nor is the issue exclusively economic; ultimately, the key to power lies in technological innovation, which in turn is the foundation of both economic development and the effectiveness of the military apparatus.

¹ FOREIGN AFFAIRS. "Will the Chinese Economy Surpass the U.S.? Economy?" (*Foreign Affairs Asks the Experts*). 13 November 2023.

² KISSINGER, Henry. *Leadership. Six Studies in World Strategy*. Allen Lane, New York, July 2023.

Calling for a democratic crusade with values at its centre makes sense when uniting an alliance if you are confident of victory but, in the event of defeat, it leads to the greatest danger, because crusades intensify animosity and reduce margins of agreement.

It therefore makes sense to design a strategy for relations with China that considers a wide range of possible future scenarios so as not to put all of Europe's security eggs in one basket. It is not just a matter of taking into account the economic interests at stake, which are many, especially for Germany, whose exports depend to a large extent on the Chinese market. What is essential is preventing the growing rivalry between the great powers from poisoning the relationship between European capitals and Beijing in such a way that, in time, if the People's Republic of China were to become powerful enough, driven by intensified resentment, it would make Europeans pay for any accumulated grievances. This would certainly happen if the Chinese leadership, backed by the facts, believed that European capitals had closed ranks with Washington and would not relent in their efforts to contain Beijing's development and ambitions.

In this paper we will consider the debate on this matter in Australia — the Western country where the issue is most prominent — and then draw some conclusions.

Geopolitics of Australia

Australia, a country whose 1986 strategic review described it as “one of the safest in the world [...], remote from the world’s major centres of military confrontation”³, finds itself in the unfortunate contradictory position that its main trading partner, China — which accounts for almost 40% of its exports and 25% of its imports — is at the same time its biggest strategic rival⁴. As an island nation that conducts 99% of its foreign trade by sea and does not have a large enough population — 27 million people — to protect vital maritime lines of communication on its own, Australia has always based its defence on a close alliance with the thalassocracy of the day, first Britain and, after World War II, the United States, both Anglo-Saxon powers that are very similar in culture and identity.

³ THE ECONOMIST. “Fearing China, Australia rethinks its defence strategy”. 25 April 2023.

⁴ GRAHAM, Euan. “Australia's Security in China's Shadow”, *IJSS The Adelphi Series*, no. 490-492. March 2023.



Figure 1. Australian maritime trade routes
Source: Kamome.

Moreover, as a nation that arose from immigration by Europeans, mainly by the English and Irish, which marginalised the indigenous population in the process, and is surrounded by very different civilisations, Australia's Western identity is a determining factor.

Until 2017, Australia's commitment to globalisation and the intensification of economic ties with China enabled it to develop in all areas. Since then, Beijing's growing assertiveness has forced Canberra to rethink its relationship with the Asian giant.

Australia's Strategic Defence Review

In April 2023, the Australian government published its new *Strategic Defence Review* (SDR)⁵, which is based on the idea that China's military expansion is "the largest and most ambitious of any country since the end of World War II", threatening rules-based international order. It faces an increasingly bleak strategic outlook: in recent years Australia has suffered from Chinese trade coercion, it has lost the advantage of remoteness, its north is within range of Chinese missiles, and the shipping lanes in the Indian and Pacific Oceans that sustain its economy are vulnerable to blockades.

⁵ Available at: [National Defence: Strategic Defence Review 2023 | About | Defence](#)

As a result, the SDR is aligned with the US crusade strategy that pits democracies against autocracies. Canberra, in ever-closer alliance with Washington, is putting all its eggs in one basket and basing its strategic design on robust deterrence to prevent Beijing — an increasingly powerful expansionist geopolitical rival that is challenging the *status quo* — from ever using force to reclaim territories that it claims as its own, most notably Taiwan.

The Australian Defence Force must move from organising and preparing itself to deal with a pluralistic threat and risk landscape to focusing on the Chinese threat. Engagement with Washington and London through AUKUS has become the main focus and pivoting point of its military modernisation. The Albanese government has pledged to invest between 268 and 368 billion Australian dollars (177-243 billion US dollars) over the next three decades to acquire nuclear-powered submarines. At the beginning of the next decade, it will take delivery of three second-use US Virginia-class submarines and, around ten years later, it will begin to have its own submarines based on British design and US technology.

The SDR advocates, among other projects, a pragmatic approach to developing an integrated and layered air and missile defence system in the short term, but does not detail specific plans for the longer term, nor for developing space or cyber capabilities⁶. Overall, this requires a huge budgetary commitment, as reflected in Figure 2.

⁶ “Australia's 2023 Strategic Defence Review”, *IISS Strategic Comments*, vol. 29, comment 09. May 2023.

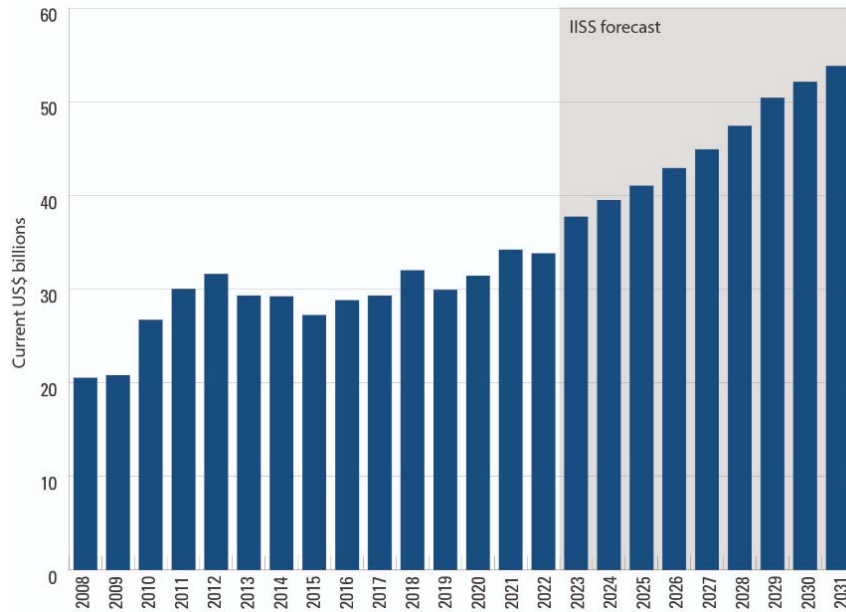


Figure 2. Projected developments in Australia's defence budget
 Source: IISS.

The new strategic design has bipartisan support, which is similar to what is happening in the United States. Most of its critics are therefore outside of parliament. Some say AUKUS and the new defence posture are too provocative towards Beijing, others that they will be too expensive⁷. The more serious problem is that, if deterrence ultimately fails, if China is not contained and eventually uses force to take control of Taiwan, Australia faces an existential threat.

This has sparked intense debate. Professor Hugh White, a recognised expert on security issues in his country, argues that the risks of deterrence are greater than the risks of living in a world where China could become dominant in the Indo-Pacific and puts forward a geopolitically-inspired strategy.

“It is important to be clear about what all this “deterrence” talk means. It means that Australia, along with other countries, should threaten to go to war with China to force it to abandon its ambitions to “take back” Taiwan and establish primacy over East Asia. However, Wong [the foreign minister] has no illusions about what such a war would mean. “Let me be absolutely clear: a war over Taiwan would be catastrophic for everyone. We know there would be no real winners” [...]. But if

⁷ THE ECONOMIST. *Op. cit.*

Wong is going to tell the world that Australia would be willing to fight a war that “would have no real victors”, she must be truly willing to explain to Australians why she believes that the costs and risks of fighting a catastrophic war would be less terrible than the consequences of not fighting one⁸.”

White bases his argument on China’s determination to alter the *status quo* — clearly spelled out by Beijing in the Chinese government’s white paper *The Taiwan Question, Reunifying China in the New Era* —⁹ and the idea that a US-China war over Taiwan is a real possibility. Therefore, if deterrence fails, Australia will be faced with the choice of a war that could wipe the country off the map or of giving in to a *fait accompli* that would result in a toxic and dangerous regional security context, with US leadership completely discredited.

“Australia faces a choice. We can commit to supporting the *status quo* in Taiwan, or we can work to sustain a strong US role in a new stable multipolar order in Asia, but we cannot do both. This is a difficult choice, reflecting the reality that the Taiwan issue is not just about Taiwan. The whole future of regional strategic order is at stake. Our concern to protect Taiwan’s democracy must be balanced with our interest in maintaining peace and restoring stability in Asia. This is one of the most difficult and important foreign policy issues we have ever faced¹⁰.”

A strategy based exclusively or primarily on deterrence, without a parallel process to address sensitive issues, requires a sustained effort and crisis-proof robustness that is not currently assured. Nor does it guarantee that China will be contained. Beijing can either wait until the time is right or let time play in its favour, while, as Robert Gates explains:

“The United States faces more serious security threats than it has faced in decades, perhaps ever. Never before has it faced four allied antagonists — Russia, China, North Korea and Iran — at the same time, whose collective nuclear arsenal could double its own within a few years. Not since the Korean War has the United States faced powerful military rivals in both Europe and Asia. And no one can

⁸ WHITE, Hugh. “The two big flaws in Penny Wong’s talk of deterrence over Taiwan”. Lowy Institute. 26 April 2023. Available at: [The two big flaws in Penny Wong’s talk of deterrence over Taiwan | Lowy Institute](#)

⁹ Available at: [China releases white paper on Taiwan question, reunification in new era \(www.gov.cn\)](#)

¹⁰ WHITE, Hugh. *Op. Cit.*

remember a time when an adversary had as much economic, scientific, technological and military power as China does today. However, the problem is that, just when events demand a firm and coherent response from the United States, the country is unable to provide one¹¹.”

Moreover, during the Cold War, the strategy of containment did not eliminate the danger of war between the superpowers. However, as Kennan¹² predicted, at least then the US had the advantage that, over time, the power differential would grow in its favour. Now the opposite is true.

Professor White believes it is likely that in the Indo-Pacific, as in the world at large, multipolarity will become more pronounced, with Washington’s power in Asia gradually declining and Beijing’s in the Western Pacific and New Delhi’s in the Indian Ocean emerging. It would then be in Australia’s interest to develop a diplomatic and strategic design that seeks a balance of power by forging closer ties with South-east Asian countries — especially Indonesia — that occupy the inter-oceanic space, stand between the two emerging great Asian powers and do not wish to be drawn into a confrontational bloc alignment. The relationship with the US should remain important for Canberra, but should neither be unconditional subordination in its dispute with China, nor an all-or-nothing gamble, while maintaining links with all relevant actors in the region.

Professor White believes that the best thing for Australia would be for the hegemonic power of the US to continue forever, but Canberra will have to learn to live in the world as it is, using its initiatives to encourage the best possible scenarios, ensuring that this great island nation does not sleepwalk into the abyss and being aware that it has some difficult and decisive years ahead of it¹³.

One of the key issues in tilting this debate towards the Australian government or towards the critics has to do with the title of this paper: “Will China’s economy be able to outperform the US economy?” I once asked Rory Medcalf, one of Australia’s most prestigious and influential experts, what would happen if China finally wins in the dispute between the two superpowers. That is not going to happen, he replied. The will to win is

¹¹ GATES, Robert M. "The Dysfunctional Superpower. Can a Divided America Deter China and Russia?", *Foreign Affairs*. 29 September 2023.

¹² X (KENNAN, George F.). "The source of Soviet conduct", *Foreign Affairs*. July 1947.

¹³ WHITE, Hugh. "Sleepwalk to War: Australia’s Unthinking Alliance with America", *Quarterly Essay*, no. 86. 27 June 2022.

undoubtedly a principle of the art of war and is indispensable for victory, but it is not a sufficient guarantee of success. No one can say with certainty that Beijing will not achieve its goal; the future is always open to the unexpected. Moreover, such a possibility cannot even be categorised as such, and for many it is even quite likely.

Recently, the US request for Australia to join Operation Prosperity Guardian with a warship to protect maritime traffic in the Red Sea against attacks by Yemeni Houthi militias, and the Australian government's decision to send military personnel but not a ship, have deepened the debate over its defence policy.

Taking a long view

No Western country knows China better than Australia, and none is more threatened by the rise of the Asian giant. What happens in the Indo-Pacific region will have global repercussions. The debate in this island nation, which the whim of history has placed at the centre of the hurricane, can serve as a starting point for strategic reflection in Spain and Europe.

We can start by agreeing that “rules-based international order” is a thing of the past: it was already described as “Western strategic nostalgia” in the 2019 IISS *Strategic Survey*. Today, it is only defended by Western powers and their most like-minded allies. There can be no international order with the backing of only a fraction of the world.

“There is no need to explain that today’s world is fragmented. The great powers’ bickering is back with a vengeance and the global multilateral order is unable to provide an effective framework for governance. With war raging in Europe and the potential for multiple crises in the Indo-Pacific, cooperation among key global actors remains a rare commodity. In the past, it might have been assumed that economic issues would be key to forging global cooperation. Today, that is not a real possibility. Instead, the militarisation of almost all aspects of inter-state relations is creating challenges that most states are struggling to meet.”¹⁴

Similarly, it is well known that developing countries, now known as the “Global South”, do not accept that Western powers continue to determine the rules of global governance.

¹⁴ PANT, Harsh V. “Global Governance in Today’s World: Bringing ‘Global South’ to the Centre”, *ISPI Annual Trends Report*. December 2023.

“The Global South brings together countries with such varied interests and ideologies that the term may no longer be a useful tool. However, if the Western world hopes to counter the growing aggressiveness of Russia and China, rebuilding strong relations with these countries is more important than ever”¹⁵.

In addition to the situation described above, there is the potential impact of new technological developments, especially artificial intelligence. Kissinger went so far as to state:

“We are in the classic pre-World War I situation where neither side has much room for political concessions and where any upsetting of the balance can have catastrophic consequences [...]. The fate of humanity depends on whether America and China can get along [...]. The rapid progress of AI, in particular, leaves them only 5 to 10 years to find a way”¹⁶.”

There is too much uncertainty about the evolution of power relations between the two giants of world geopolitics to develop a single strategic course of action vis-à-vis the Asian giant.

The possibility that the People’s Republic of China could become the dominant power in the Indo-Pacific may be bad news but is not the end of the story. As has been needed so often in the past — like in Spain after '98 or the Civil War — a compromise will have to be found. In the event of Chinese success, the more hostile the relationship with Beijing has been, the more difficult this will be. This calls for caution.

The most reasonable strategy from a European perspective is one that, by aligning with like-minded powers, seeks to contain Chinese ambitions without direct confrontation and always maintains an open line of strategic dialogue. This is essential to keep mistrust within tolerable limits, to resolve potential disputes, to allow major global challenges — such as energy transition, sustainable development, health and food crises — to be addressed, and to prevent an unwanted incident from pushing the parties towards war.

Britain and France still retain important territorial relics of their imperialist past, and the rise of China may put them in jeopardy. To this effect, Beijing is likely to find common

¹⁵ MOHAN, Rajan. “Engaging With the Global South”, *Foreign Policy (Global Reboot, podcast)*. 8 December 2023. Available at: [Engaging With the Global South — Foreign Policy](#)

¹⁶ KISSINGER, Henry. “Henry Kissinger explains how to avoid world war three”, *The Economist* 17 May 2023.

ground with New Delhi. Beijing's resentment of the abuses committed in the Opium Wars is also well known and may produce a boomerang effect. All this could put Europe to the test. It cannot be ruled out that former colonial powers will end up paying a higher price for the sins of their youth.

In any case, only a much more united and integrated European Union will be able to regain control of its own destiny and face the coming decades with a reasonably clear horizon.

Conclusion

The strategy in response to Beijing's growing assertiveness will depend on whether or not China is thought to be able to overtake the United States in calculations of power.

The issue is more pressing for Australia than any other Western country, as it is in the eye of the storm in any confrontation between the two giants of world geopolitics.

The crusading strategy that Canberra has adopted in its new Strategic Defence Review, in close alliance with Washington, aligning security interests with values and identity, has sparked heated debate in Australia.

The Australian government has put all its eggs in one basket, assuming that US power will continue to prevail in the Indo-Pacific. However, if deterrence fails, the country would face an existential threat.

Critics advocate a geopolitically-inspired strategic design that seeks coexistence with Asian powers through a balance of power.

This approach, although less dramatic, is equally valid for Spain and Europe. No one can say for sure what the future holds. It is therefore necessary to develop strategies that are open to different scenarios. Putting values at the centre of the design also limits options and makes possible defeat much more dangerous and painful. In any event, you always need have a Plan B.

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