Introduction: A unique strategic position

> We are of European Race. Our fathers came from Europe: we have grown up to think as Europeans, and our interests have been centred in that group of nations from which our stock has come. Whilst racially we are European, geographically we are Asiatic. Our own special immediate Australian interests are more nearly concerned with what is happening in China and Japan than what is happening in … Belgium, Holland, Poland, or other countries farther removed.[1]
>
> — Nationalist Party Senator George Pearce

Australia finds itself in a unique strategic position. Founded as a white settler outpost, the nation's identity, trade and security all flowed from the imperial connection well into the middle of the twentieth century. This connection accordingly shaped most of the frameworks through which Australia interacted with the rest of the world. This early experience of dependence naturalised a policy tradition of strategic alliance with the Anglosphere, depending on relationships with 'great and powerful friends' for the protection of the national interest.

Alongside this cultural heritage and the strategic relationships produced as a result is Australia's geography. Australia is in the Indo-Asia-Pacific region with an area of immediate strategic interest spanning the Pacific and Indian oceans and from the Pacific Islands up through South-East Asia. The divide between cultural heritage and geographic reality has contributed to a sense of isolation, from both the region and the rest of the Anglophone world. Frederic Eggleston, a public intellectual and future minister to China and the United States, captured this sense of

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1   *Commonwealth Parliamentary Debates: Senate* [hereinafter *CPD: Senate*], 27 July 1922, No. 30 (Canberra: Australian Government Publishing Service, 1922), 822.

isolation when he observed that Australia is 'a small nation in an alien sea'.[2] This isolation, in tandem with Australia's immense and virtually defenceless coastline and fixation on maintaining racial and cultural whiteness—as embodied in the longstanding White Australia Policy— has, in the words of historian John Fitzpatrick, given way to a 'threat ethos' in settler Australia: a longstanding suspicion of its northern neighbours, which underscores the importance of powerful Anglophonic protectors.[3] Alongside these anxieties, the Asia-Pacific region offers significant trade opportunities. Managing economic opportunities and fears of a potential threat from the north has been a longstanding feature of Australia's foreign, trade and defence policies.[4]

At the time of writing, the Asia-Pacific region is experiencing a period of disruption and transition as China's economic and military growth challenges US predominance in the region. The China–US contest has been likened to Thucydides's Trap ('it was the rise of Athens and the fear that this instilled in Sparta that made war inevitable'): as each nation flexes its proverbial soft and hard power muscles in a bid to exercise influence in the region, the other party becomes increasingly defensive and conflict is more likely.[5] This contest has played out across many stages—most notably, the China–US trade war that erupted in March 2018 and the ongoing military brinkmanship in the South China Sea. The COVID-19 pandemic has accelerated this strategic trend within the region. Australia, too, has increasingly done away with diplomatic niceties during the pandemic. In an address launching the *2020 Defence Strategic Update* and an additional A$270 billion in defence spending in the coming decade, Prime Minister Scott Morrison openly acknowledged the 'fractious at best' US–China relations. He went on to predict a post-COVID-19 world 'that is poorer, that is more dangerous, and that is more disorderly'.[6]

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2   Frederic William Eggleston, *Reflections on Australian Foreign Policy* (Melbourne: F.W. Cheshire for Australian Institute of International Affairs, 1957), 1.
3   John Fitzpatrick, 'European Settler Colonialism and National Security Ideologies in Australian History', in *Middling, Meddling, Muddling: Issues in Australian Foreign Policy*, eds Richard Leaver and David Cox (Sydney: Allen & Unwin, 1997), 116.
4   For comprehensive studies of Australia's strategic and economic perception of Asia, see Sandra Tweedie, *Trading Partners: Australia and Asia, 1790–1993* (Sydney: UNSW Press, 1994); David Walker, *Anxious Nation: Australia and the Rise of Asia 1850–1939* (Brisbane: University of Queensland Press, 1999).
5   Thucydides, *The History of the Peloponnesian War*, cited in Graham Allison, *Destined for War: Can America and China Escape Thucydides's Trap?* (New York: Houghton Mifflin Harcourt, 2017), vii.
6   Scott Morrison, 'Address: Launch of the 2020 Defence Strategic Update', Speech, Royal Military College, Duntroon, ACT, 1 July 2020, available from: www.pm.gov.au/media/address-launch-2020-defence-strategic-update.

With China and the US representing Australia's greatest trading partner and greatest security partner, respectively, Australia's position amid the unfolding power transition is a tenuous one. According to military and intelligence strategist Hugh White, Australia has historically 'taken for granted' that its security would be protected by a great and powerful friend. Australia's neighbours have accordingly been relatively insignificant in terms of strategic planning. The rise of China undermines 'the geopolitical foundations on which Australia's strategic outlook has been built'. Until recently, White's proposed solution for the 'new world' Australia faces was a power-sharing arrangement between China and the US in which Australia would act as a mediator.[7] In this scenario, Australia would not be forced to choose between China and the US and could continue to enjoy economic and strategic benefits.[8] White has since renounced this power-sharing thesis as unachievable because of the US decline and China's resolve to not share power.[9] White's reversal was vindicated in the latter half of 2020, as two Australian journalists fled China fearing detainment following police questioning, and China and Australia launched a series of punitive trade measures against a raft of each other's exports.[10]

As this book will reveal, the situation Australia now faces is not a novel one. Rather, it is grappling with geopolitical issues that go well back into the nation's history. The assertion that Australia has historically taken for granted that its powerful allies will provide for its military security effectively discounts the nation's distinctive geographical interests in policymaking. The strategic outlooks of Britain and the US, as global powers, have predominated, often at the expense of Australia's immediate regional and particular interests. Australia has long considered itself a Principal Power in the Asia-Pacific, with certain rights and responsibilities in regional

7   Hugh White, *The China Choice: Why America Should Share Power* (Melbourne: Black Inc., 2013), 12.
8   White's thesis has been developed over the past decade and a half in a series of publications. These include, Hugh White, 'The Limits to Optimism: Australia and the Rise of China', *Australian Journal of International Affairs* 59, no. 4 (2005): 469–80; Hugh White, 'Powershift: Australia's Future Between Washington and Beijing', *Quarterly Essay* 39 (2010): 1–74; White, *The China Choice*.
9   Hugh White, 'Without America: Australia in the New Asia', *Quarterly Essay* 68 (2017): 1–81.
10   Matthew Doran and Stephen Dziedzic, 'Australian Correspondents Bill Birtles and Mike Smith Pulled Out of China After Five-Day Diplomatic Standoff Over National Security Case', *ABC News*, 8 September 2020, available from: www.abc.net.au/news/2020-09-08/bill-birtles-mike-smith-evacuated-china-safety-concerns/12638786; Prianka Srinivasan, 'China's Trade War With Australia Is Affecting A Growing Number of Industries. How Did We Get Here?', *ABC News*, 10 December 2020, available from: www.abc.net.au/news/2020-12-10/chinas-trade-war-with-australia-export-industry/12967190.

decision-making. A prominent feature in Australia's foreign policy history has been navigating the strategic priorities of the great powers and compelling them to acknowledge the nation's Principal Power status.

This book assesses the interrelation between Australia's geography and great-power relations and the development of a foreign policy over the period 1921–57. This chosen period is a somewhat unusual one. This book holds the view that the years 1921–57 mark a period of transition, in terms of both the economic and strategic situation in Australia's region and the nation's relationships with Britain and the US. Moreover, the focus on years not usually prioritised in studies of the genesis and development of Australia's foreign policy—the tendency generally being to centre on World War II and the years immediately following—uncovers a much longer process of theorising and experimentation by Australian policymakers and intellectuals.

In 1921, Australia relied on the UK and its imperial machinery for diplomatic representation and economic and material security. The unprecedented changes under way in the Asia-Pacific region challenged this relationship. The US was the emerging Pacific hegemon, yet isolationism precluded the development of a complete regional policy. Japan's rise threatened to displace British commercial and military influence, exacerbating Australia's longstanding fears about aggressive regional expansion with potential designs on the Australian continent.[11] By 1957, US defensive predominance was unequivocal, the Sterling Area was very much in its twilight and Australia was conducting its foreign affairs planning in line with the US order. While 1957 was not the end of high-level Australian–British relations, with significant commercial, military and cultural links present well into the 1960s, it marked a departure from the traditional Australian–British relationship of patronage and protection and the point at which the centre of gravity in Australian foreign policy shifted decisively to the US.[12]

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11 D.C.S. Sissons, 'Attitudes to Japan and defence, 1890–1923' (MPhil thesis, University of Melbourne, 1956); Neville Meaney, *A History of Australian Defence and Foreign Policy 1901–23. Volume 1: The Search for Security in the Pacific, 1901–1914*, 2nd edn, and *Volume 2: Australia and World Crisis, 1914–1923* (Sydney: Sydney University Press, 2009).

12 James Curran and Stuart Ward, *The Unknown Nation: Australia After Empire* (Melbourne: Melbourne University Press, 2010).

The central task of this book is to examine the gradual development of an assertive and pragmatic Australian foreign policy. The Australia of the interwar years is often seen as lacking instinct and confidence in international matters, preferring instead to deal 'with the world one step removed through Whitehall'.[13] This approach seemingly remained when Australia transferred its dependency to the US following the collapse of the British imperial war effort in the Pacific theatre in 1941–42.[14] As this book demonstrates, this assessment misreads Australia's approach to foreign policy and its interactions with Britain and the US in the years before and after 1941–42. There was a pragmatism—rather than uncritical loyalty to Britain or toadying to the US—that informed Australia's Asia-Pacific policy in the period covered in this book. Granted, this pragmatism at times necessarily took the form of alignment and it was not without its weaknesses. Nevertheless, this book highlights a far more engaged and assertive policymaking practice—one informed by the lessons gleaned from past failures and successes. This is a lens not previously applied in the existing literature.

The Australian governments of the interwar years recognised the shifting power distributions under way in the global and Asia-Pacific orders. The 1920s and, in particular, 1930s reveal the genesis of a distinct Australian foreign policy that developed in response to this recognition. This policy was tailored to the nation's particular geography, size and strategic capabilities and informed by the acknowledgement that, while necessary security partners, neither Britain nor the US completely served the national interest. The Australian government identified in this the need to intervene in the policies of the great powers to ensure its particular interests were incorporated. In the pages that follow, this book investigates how this interventionist approach to foreign policy that was conceived in the interwar years went on to shape the governments of John Curtin, Ben Chifley and Robert Menzies—at least until 1957, the point at which there was a shift as Australia accepted that the 'Fourth Empire' and the

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13   Christopher Waters, *Australia and Appeasement: Imperial Foreign Policy and the Origins of World War II* (London: I.B. Tauris, 2012), 7.

14   Harry Gelber, *The Australian–American Alliance: Costs and Benefits* (Melbourne: Penguin Books, 1968), 25; Eric M. Andrews, *A History of Australian Foreign Policy: From Dependence to Independence* (Melbourne: Longman Cheshire, 1979), 70–2; T.B. Millar, *Australia in Peace and War: External Relations Since 1788* (Canberra: Australian National University Press, 1978), 21–3, 92.

maintenance of a British world system were unattainable.[15] It demonstrates a marked continuity in how Australia's political elite approached foreign policy and defined the national interest.

Both Australia's junior-partner status and the dynamics of Anglo-American competition and alliance complicated attempts to navigate great-power relations. In the period 1921–57, America's priorities were not always acceptable to Britain or Australia. Postwar plans for Japanese reconstruction as the Asian bulwark against communism, for instance, were seen to undermine the foundation of British economic power (preference and protectionism within the Sterling Area), the Commonwealth's status in the Asia-Pacific region and Australia's economic and physical security.[16] Similarly, as US military predominance was solidified during the 1950s and Australia signed the Australia, New Zealand, United States Security Treaty (ANZUS) and Southeast Asia Treaty Organization (SEATO), it remained unclear whether the US could be relied on to lead in the Asia-Pacific region in a way that was conducive to Australia's national interest. The Menzies government accordingly promoted—albeit with little success—US–British cooperation in the leadership and defence of the Asia-Pacific region. The focus on the interplay between the great powers presented in this book underscores Australia's gradual and uneven transition from the British order to that of the US, as Australian leaders made frank assessments about which relationship best served the nation's interests in the Asia-Pacific.

The secondary aim of this book is to examine the idea of an integrated policy—that is, one that balanced Australia's regional realities with great-power relationships and, in assessing those relationships, ensured Australia's economic, diplomatic and strategic interests were met. The primary focus here is the importance of trade. Among Australian historians and political scientists, there was a longstanding tendency to view strategy and diplomacy as 'high politics' and the true work of foreign

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15   The 'Fourth Empire' refers to Britain's attempt to maintain its great-power status in the years after World War II. The British Commonwealth of Nations was central to maintaining the British world system, with the British and Australian governments hoping to engage the disparate regions of the Commonwealth to develop specialist area knowledge for regional economic, defence and diplomatic arrangements. For an overview of the Fourth Empire, see David Lee, *Search for Security: The Political Economy of Australia's Postwar Foreign and Defence Policy* (Sydney: Allen & Unwin, 1995), Chs 1 and 2.
16   The Sterling Area was a group of countries—mostly members of the British Empire—which pegged their exchange rates to the pound sterling, conducted trade in sterling and stored their currency reserves in London. Ian M. Drummond, *The Floating Pound and the Sterling Area: 1931–1939* (Cambridge, UK: Cambridge University Press, 1981), 3–7, 10.

policy, while trade and economic policy were considered 'low politics' and served only, as Coral Bell wrote, to 'illuminate … diplomatic and strategic decisions'.[17] In reality, the economic, diplomatic and strategic components of foreign policy intersect and shape one another, the policies pursued and the relationships formed. In 1987, the departmental machinery of government underwent a major restructure and the creation of the Department of Foreign Affairs and Trade (DFAT) formalised this interrelation and a much broader understanding of foreign policy.[18]

The assessment in 1987 that there was an interconnection between trade, strategy and foreign affairs and that this was somehow a new assertion overlooks what has long been a feature of the way Australian actors approach foreign policymaking. Amid the strategic and economic uncertainty of the interwar years, Australian policymakers came to appreciate the interrelation between trade, diplomacy and defence. An integrated foreign policy emerged in response to this realisation. In the 1930s, this was a policy in which trade served to expand Australia's regional presence in a bid to engage with and placate Japan, while simultaneously alleviating some of the commercial upheaval of the Great Depression. In the 1940s, trade and economic development played a central role in Australia's plans for the new postwar order in its immediate region. Australia hoped to facilitate the creation of a 'self-subsisting' regional system that would foster political and economic stability in South-East Asia and the South Pacific.[19] By the late 1940s and into the 1950s, economics and trade were central to Britain's waning capabilities in the Asia-Pacific, signalling to Australian actors the need for an extensive economic and strategic adjustment.

While parts of this story have certainly been covered elsewhere, the broad and comprehensive approach offered in this book is a new one. This book is grounded in close study of archival documents, several of which are previously unused or underexamined elsewhere. Moreover, to understand

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17   Lee, *Search for Security*, 1–6; Coral Bell, *Dependent Ally: A Study in Australian Foreign Policy*, 2nd edn (Melbourne: Oxford University Press, 1984), 2. For works critiquing the division of trade, diplomacy and security, see Stuart Harris, 'The Separation of Economics and Politics: A Luxury We Can No Longer Afford', in *Academic Studies and International Politics: Papers of a Conference Held at The Australian National University, June 1981*, ed. Coral Bell (Canberra: ANU Department of International Relations, 1982), 75–83; Stuart Harris, 'The Linking of Politics and Economics in Foreign Policy', *Australian Outlook* 40, no. 1 (1986): 5–10.

18   Two separate departments, the Department of Foreign Affairs and the Department of Trade, became the Department of Foreign Affairs and Trade in 1987.

19   'Pacific Area Research Reports, April 1943', Papers of William Douglass Forsyth, National Library of Australia [hereinafter NLA], Canberra: MS 5700/7/16/3.

the interconnection between trade, strategy and diplomacy in foreign policy decision-making, attention has been given to discussions within and across key departments such as the Department of External Affairs (DEA), the Prime Minister's Department, the Cabinet and War Cabinet, the Department of Defence and Department of Trade and Customs (later Department of Trade).

In exploring the development of an assertive and integrated policy, this book has been split into three parts and follows a broadly chronological structure. Part 1 explores the economic and strategic uncertainty of the interwar years and the genesis of an Australian foreign policy in response. Chapter 1 sets out the strategic setting in the interwar world, adopting the view that the 1921–22 Washington Naval Conference was the point at which Britain's relative decline became undeniable and the US began to assert regional hegemony. This chapter examines how the conference and a series of other developments in British world leadership forced on Australian policymakers the need to give more serious attention to affairs in the Asia-Pacific. Against the backdrop of the Great Depression and the Manchurian Crisis, Chapter 2 explores the opportunity trade offered for regional engagement and the building of Australia's diplomatic capabilities. This chapter also considers how, as Australia reorientated towards the Asia-Pacific, the nation attempted to similarly shape the focus of empire policy. The third chapter examines the much-derided 1936 Trade Diversion Policy, when Australia launched a trade war against Japan, sacrificing the economic and diplomatic relations it had carefully constructed. Rather than a 'disastrous experiment' by a naive nation, as it has been labelled, the Trade Diversion Policy is presented in this chapter as a case study in the expectations of alliance—both Britain's expectation of loyalty and Australia's perception of the economic benefits of the imperial connection—and how they differed in application.[20] In the context of Australia's nascent foreign policy—predicated on integrating the national interest within the imperial outlook—the Trade Diversion Policy underscores the increasing inadequacy of the imperial machinery to achieve this goal.

Part 2 focuses on Australia's preparation for regional conflict and its response to British and US wartime strategy and postwar plans for the management of the Asia-Pacific region. Chapter 4 argues that Australia was acutely aware

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20   Norman Harper, *Australia and the United States* (Melbourne: Thomas Nelson, 1971), 94.

of the limitations of imperial defence planning for the Asia-Pacific region and developed a policy over the period 1937–41 in response. In the same vein as the Allies' approach to the European aggressors, Australia coupled rearmament with appeasement. British actions threatened to derail these efforts and, in so doing, reiterated the diverging priorities of the UK and Australia. This chapter also touches on Australia's increasing initiative in relations with the US as the nation looked beyond the Empire for security assurances in the Pacific. Chapter 5, which examines the years 1942–45, explores the approaches taken by the DEA, Department of Defence and Prime Minister Curtin to finding a common goal of carving out a distinct role for Australia in the postwar Asia-Pacific. It explores the Australian–US antagonism that developed on Australia's realisation that its wartime ally could not necessarily be relied on to build a postwar order that would provide for its interests. The Australian government articulated its status as a Principal Power in the region and set out a strategy for how it would manage in the region in the postwar period. Central to this strategy was a renewed system for Commonwealth cooperation, the regionalisation of defence planning and establishing a friendly yet robust counterweight to US influence in the Asia-Pacific region. As detailed in Chapter 5, these principles were captured in the 1944 Australian–New Zealand Agreement (ANZAC Agreement) and Prime Minister Curtin's renewed framework for Commonwealth relations—which he called the Fourth Empire—both of which sought to articulate Australia's predominant role in the Asia-Pacific region and secure a Commonwealth defence machinery premised on cooperation and strategic zones of responsibility.

The final part of this book explores how Australia's postwar foreign policy drew together threads from interwar and wartime policy thinking and lessons learnt. This policy was directed towards expanding the nation's economic, diplomatic and defensive capabilities in South-East Asia and the South Pacific amid the shift from British world leadership to that of the US. Chapter 6 assesses Australia's return to the Commonwealth connection following the war, focusing on the level of reliance and cooperation that existed in the Anglo-Australian relationship and the regionalism and self-interest behind plans to rebuild the British world system. The Commonwealth was to be the basis of a cooperative regional security relationship. Central to this relationship was the preservation of the Sterling Area (these markets, of course, being essential to Britain's economic wellbeing and preserving its influence in the Asia-Pacific region), finding continuity in the Chifley government's approaches and

the Colombo Plan for Cooperative Economic and Social Development in Asia and the Pacific, which was introduced in the first year of the new Menzies government. Finally, Chapter 7 provides a revised assessment of the ANZUS Treaty and Australia's realignment with the US. The Menzies government remained uncertain about the US taking on the leading role in the Asia-Pacific region and advocated for a Commonwealth–US strategic partnership. Ultimately, it was only after Britain's declining global power became apparent to the world in a series of crises and policy realignments in 1955–57 that Australia was forced to make frank assessments of the great powers, their priorities and capabilities and which relationship best served the national interest.

Each chapter in this book foregrounds Australia's search to define its national interest and cultivate a policy tailored to its geography, strategic capabilities and relationships with the great powers. In so doing, this book identifies a comprehensive and explicitly pragmatic approach in Australia's foreign policy tradition that has not previously been identified.