

MSc International Political Economy (LSE) 2017

Dissertation submitted in partial fulfilment of the requirements of the degree

Candidate Number: 92104

Number of Words: 9,924

Crises and Coalitions
The 2008 financial crisis and its impact on the
interests, ideas, and institutions driving Australian
grand strategy

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Introduction

Background

As the 2007 Australian federal election campaign concluded on Australia's streets, it was a street on the other side of the world that came to dominate the concerns of the victor, Prime Minister Kevin Rudd throughout his term. With the collapse of Lehman Brothers in September 2008, Wall Street's financial tremors quickly reverberated across the world. In Rudd's first "Address to the Nation" as prime minister, he described it as "the worst financial crisis of our lifetime [...], the economic equivalent of a national security crisis" (Rudd, 2008). In response Rudd announced an "Economic Security Strategy" and guaranteed Australian bank deposits, while Australia's central bank stepped in to provide liquidity to local financial markets.

North of Australia however, movement was afoot. China committed to keep interest rates low, stimulating domestic demand. The economic growth that the following years sustained accelerated its upward movement in the international order, "rejuvenated" to occupy a position of power and influence not seen for centuries (French, 2017). Australia became a prime economic beneficiary of this, led by a booming demand for Australian natural resources. Concurrently, China's regional strategic ambitions grew, developing the largest navy in Asia while asserting itself over territorial claims in the East and South China Seas (Gyngell, 2017). For Australia, the global financial crisis accelerated a growing divergence between its rapidly growing economic interests in China and its traditional US military alliance.

These systemic economic and strategic pressures continued over the coming years, coinciding with a period of unprecedented turmoil in Australian politics. In the eight years following Rudd's 2007 election the Australian public saw the prime ministership change five times between Rudd, Gillard, Rudd (again, briefly), Tony Abbott, and Malcolm Turnbull (Gyngell, 2017).

This sub-systemic upheaval wasn't only constrained to political party rooms in Canberra, however, spilling over to the board rooms in Brisbane, the mining pits of the Pilbara, and to Sydney's beach-side investment bankers. The global financial crisis reoriented the Australian economy to chase booming Chinese demand, provoking politicians and economists to bemoan its role in creating a "two speed economy" (Measham et al., 2013) between the economic "winners" of China's resource demand, and the economic "losers". The systemic shock of the

financial crisis and resultant sub-systemic shifts produced a new, economically and politically powerful “Resource Coalition”, which had a substantial influence on government policies. However, one aspect only obliquely acknowledged in the literature was its influence on Australia’s long term international priorities – its “grand strategy”. Grand strategy¹ incorporates all forms of statecraft – military, diplomatic and economic “means” to achieve a desired “ends” (Silove, 2018, p. 20). Australian grand strategy toward China saw significant variation in this period, shifting from “soft balancing” under Rudd to a less confrontational “dominance denial” strategy under Gillard (Bloomfield, 2015), followed by an even more amicable grand strategy of “economic pragmatism” under Abbott (Gyngell, 2017).

Grand Strategy and Middle Powers

Scholars of grand strategy have typically studied “great powers” such as Great Britain, the United States, Germany, Japan, and ever more frequently, China (Kennedy, 1989). With a preponderance of military power, the military dimension of these great powers is often stressed. The grand strategy of middle powers is much less commonly explored. Too small to coerce or lead the international system as a great power, middle powers nonetheless are vital in upholding existing rules and norms of an international order, while acting as regional leaders to their great power friends and allies. Without overwhelming military power to unilaterally dominate the international system (Carr, 2013), middle powers must rely more heavily on other tools of statecraft to enact their grand strategies, such as diplomatic and economic tools.

Overall research aim, hypothesis and research objectives

The overall aim of this research is to answer the question: how did the 2008 global financial crisis impact Australia’s grand strategy towards China? In answering this question, this dissertation argues that the 2008 global financial crisis acted as a systemic shock on sub-systemic ideas, interests, and institutions, which in turn provoked shifts in Australia’s grand strategy between the Rudd, Gillard, and Abbott Governments. As first argued by Gourevitch (1986), financial crises disrupt pre-existing domestic political coalitions and question assumed ideational norms. In our case, the Australian mining sector emerged as the powerful leader of a Resource Coalition with an overriding economic interest in Australia’s economic and political relationship with China. This coalition broadened domestic ideational consensus to a more amicable view of China’s position in the international order. This sub-systemic shift

¹ Grand strategy is further defined in the literature as “grand principles” and “grand plans”, denoting organising principles and more detailed plans of a grand strategy, or as an actual observed pattern of “grand behaviour” (Silove, 2018). This dissertation draws on all three definitions to justify each prime minister’s grand strategy.

placed an underappreciated influence on successive prime ministers as the institutionally empowered architect of Australian grand strategy.

The consequences of this argument are significant in understanding the drivers of Australian grand strategy, and that of middle powers more broadly. While ideas and interests can change at a sub-systemic level with domestically-derived shifts in sentiment and interest group alliances (Hiscox, 2002), this dissertation argues that as a middle power, Australia's ideas and interests are often most dramatically transformed by broader systemic-level shifts. These shifts could be provoked by wars, economic calamities, or a combination of the two. In turn, domestic interests and ideas play an underexplored role as intervening variables on Australia's grand strategy, and that of other similar middle powers.

In making this argument, this dissertation will pursue the following research objectives:

- *Review* the systemic forces that have historically shaped Australian grand strategy and economic strategy.
- *Review* the domestic ideas, interests, and institutional forces that interacted with Australian grand strategy and economic strategy from the 1980s.
- *Critically evaluate* the shift in Australia's domestic interests and ideas following the 2008 global financial crisis.
- *Formulate* a more nuanced, representative model to analyse the drivers of Australian grand strategy, that can be more broadly applicable to other middle powers.

This dissertation will first examine the existing literature on Australian grand strategy and economic strategy – what this dissertation defines as a long-term, prioritised sub-component “tool” of a broader grand strategy². It will then outline the paper's case study; Australia's grand strategy and economic strategy following the 2008 financial crisis. It will conclude with a discussion of the model and its applicability to other middle powers.

² This is to differentiate from shorter term “economic statecraft” (Baldwin, 1985), in the same way that grand strategy differs from “foreign policy”, despite often being used interchangeably (albeit incorrectly) (Silove, 2018).

Literature Review

Introduction

Australian grand strategy and economic strategy has been covered extensively in broader International Relations (“IR”) literature, and in narrower terms in International Political Economy (“IPE”) literature. This literature review covers both fields, analysing the predominant systemic and sub-systemic views.

The literature review will fulfil the first two objectives of this dissertation, by reviewing the systemic and sub-systemic variables that shaped Australian grand strategy and economic strategy up to and including the 2008 financial crisis. In doing so, it highlights a gap in the literature, with a lack of analysis on the interaction of the systemic shock of the 2008 global financial crisis and sub-systemic ideas, interests, and institutions that drive Australian grand strategy.

The literature review casts a wider time-frame of analysis than the subsequent case study of this dissertation for two reasons. Firstly, the literature discussing the growing strategic pressures following the 2008 global financial crisis is still developing. Secondly, Australia has undergone some distinct economic strategic shifts since British colonisation. There is extensive literature debating the causes of these shifts, and many of these variables remain relevant to analysing Australia’s post-2008 strategic environment.

Systemic Approaches to Australian Economic Strategy

Systemic analyses of Australian grand strategy focus on Australia’s position within the international order, and its relationship to the international order’s prevailing hegemons - Great Britain until the Second World War, and the US thereafter. Traditional IR analyses of Australian grand strategy such as Kilcullen (2007) only consider economic strategy as a peripheral component of grand strategy, instead prioritising security and military factors in the international order.

IPE scholars such as Ravenhill (2001) place greater importance on the influence of systemic economic variables, and its impact on Australian grand strategy. In 2001 Ravenhill (2001) argued that Australia’s US security alliance had little impact on its economic interests in an economically globalised world. Underlying this was an assumption that Australia was a

beneficiary of a hegemonic order stabilised by American military and market hegemony (Ikenberry, 2016, Gilpin, 1981), where systemic stability was maintained through Hegemonic Stability Theory (Kindleberger, 1973, Krasner, 1976).

However post 2008 financial crisis, the three domains in HST assumed by Gilpin (1981) to be dominated by a single hegemonic power were no longer so. Instead, they were divided between two competitive powers, the US and China. Hugh White (2009) first acknowledged this, arguing that Australia's international security and economic interests are inseparable, and that it will be forced to choose between its existing security-based alliance with the US and its economic-based relationship with China. Ikenberry (2016) further contextualised this conundrum within HST, openly questioning how middle powers such as Australia choose a grand strategy under a "dual hierarchy" where hegemonic control of security and markets are split between rival powers.

Subsequent authors have explored White's claim more deeply. Dittmer (2012) sees stability in this "balance of hegemonic power" between the US and China for Australia. Others argue that Australian grand strategy has already incorporated this post crisis systemic shift, as evidenced by "alliance drift" away from the US (Thomas, 2015) towards China, to the opposite – internal and external balancing against China (Reilly, 2012). All of these analyses imply a shift in grand strategy from broad, blunt systemic security and economic variables. None of these authors investigate how sub-systemic ideas, interests, and institutions interact with these systemic variables to elicit shifts in grand strategy.

Bloomfield (2015) reaches for greater descriptive subtlety in Australia's grand strategy across the Rudd and Gillard governments, explaining the shift in grand strategy from "soft balancing" to "dominance denial". Using a neoclassical realist model to incorporate sub-systemic factors, Bloomfield (2015) argues that public opinion for the US and China, bureaucratic rivalries, public support for a government budget surplus, attitudes to Chinese foreign investment and internal political party politics acted as intervening variables against the broader independent variable of rising Chinese power in the regional order. However, he fails to account for the role of the financial crisis in this analysis as a systemic variable, or its impact on his intervening variables.

Sub-Systemic Approaches to Australian Economic Strategy

Parallel to systemic-level literature are sub-systemic explanations of Australian grand strategy and economic strategy.

Interests

The policy influence of economic interest groups dates to the Stolper-Samuelson Model (“SS Model”), which was developed from the earlier Heckscher-Ohlin Model. Each country’s comparative advantage reflects the endowments of their factors of production – classically delineated as land, labour and capital. In turn, countries will export goods that require factors of production that they are relatively abundant in, compared to other countries (Hiscox, 2017). The SS model extends this, arguing that the owners of well-endowed factors of production benefit the most from free trade, and thus will lobby for free trade, while owners of scarce factors will lobby for protectionism (Hiscox, 2017).

Rogowski (1989) applies this to the Australian context at the turn of the 20th century, mapping the development of interest groups along an abundant, pro-trade land factor against protectionist urban labour and capital. Rogowski uses this to explain the formation of the Liberal National coalition and the interests of the ALP through the 20th century. Coram (1993) questions Rogowski’s claims, arguing that coalitions don’t tend to form within factors of production, but within sectors (i.e. the Specific Factors model) (Frey, 1984), due to a lower than assumed level of factor mobility between sectors (Coram, 1993). Hiscox (2002) attempts to add greater nuance to Rogowski’s work by arguing that the SS model’s argument of economic interests by class division along factors of production did hold in Australia during this period due to high factor mobility. However Coram (1993) applies an additional critique to proponents of the SS model in that it only identifies the formation of interests, but not how economic interests form coalitions and gain political power. The identification of interests is a necessary condition in defining the parameters and payoff structure, but alone it is insufficient in predicting how coalitions will form (Coram, 1993).

Adapting his critique of Rogowski (1989), Coram (1993) uses a “Stolper-Samuelson plus coalitions” (p. 139) model to explain the persistence of protectionist policies in Australia through to the late 1970s. Coram’s logic on the transition of economic to political power through the formation of coalitions is particularly valuable for analysing the shift of interests and coalitions following the 2008 financial crisis. Critically, Coram (1993) acknowledges that

systemic changes in terms of trade impact sub-systemic interests and coalition formations. However, he fails to analyse this systemic impact in great detail.

Others such as Okamoto (1996) and Da Conceição-Heldt (2011) take similar approaches, analysing the shift in economic strategy to an open, export-oriented economy in the 1980s, and the economic strategy from 1999 to 2006 under the Howard Government, respectively. Both argue that pro-trade liberalisation interest groups such as the Business Council of Australia (BCA) and National Farmers Federation (NFF) overcame the status-quo resistance of protectionist groups. Da Conceição-Heldt (2011) argues that partisan preferences were also strong, with Labor governments seeking multilateral trade agreements benefiting trade unions, while Liberal-National coalition governments preferred bilateral deals to support manufacturers and the NFF. Absent from both analyses is reasoning for *why* and *how* these pro-trade coalitions were more powerful than status-quo interest groups. Da Conceição-Heldt (2011) fails to justify why preferences for multilateral trade agreements or bilateral trade agreements are so neatly divided along partisan lines. Ideology may play a role in her model, however she fails to discuss this.

Da Conceição-Heldt (2011) also doesn't discuss why one of her case studies – the 2003 Australia US free trade agreement (FTA) was widely believed to be sub-optimal to Australia's economic interests (Weiss, 2004). Capling and Ravenhill (2015) argue that Australia's economically sub-optimal FTAs are likely due to the consideration of other security and strategic factors. However, they fail to merge these considerations into their interest-based model.

Beeson et al. (2011) analysed the bilateral relationships between China and Australia, and China and South Africa, as two resource abundant middle powers. The authors that the economic interests of the resource sector influence the economic strategies of Australia, China and South Africa, overcoming the cultural and ideational differences between three otherwise different states. There is little discussion on variation in grand strategy within and between these states, nor a robust description of how these economic interests developed political power. Beeson (2016) explores this theme further, analysing the rapid prominence that the state of Western Australia (WA) acquired after the financial crisis, based on WA's natural resource export revenues from Chinese demand. Beeson (2016) is correct to highlight their outsized role in supporting the Australian economy in this period, and how state politicians and

economic interests formed a strong pro-China, pro-export coalition to protect their economic interests. However, he fails to rigorously analyse sub-systemic interests, ideas, and institutions, and how they coalesced to produce a politically powerful coalition that influenced Australia's grand strategy. Instead, Beeson presents a state with strong pro-export, pro-China interests, but with little ability influence the prime minister residing in Australia's distant capital, Canberra.

Ideas

Some academics have attempted to categorise dominant "grand principles" (Silove, 2018) or ideas that capture the broad grand strategic preferences for Australian policy makers (Wesley and Warren, 2000, Gyngell, 2017) criticising others for being too broad in their nomenclature (e.g. "hawks and doves", "free traders and protectionists"). Three consistently described currents of thought are traditionalism, seclusionism, and internationalism. Traditionalism is characterised through a mix of traditional realism and liberalism, centring on retaining Australia's geographic security, while emphasising bilateral relationships (Wesley and Warren, 2000, Gyngell, 2017).

Seclusionism however, views Australia's geographic isolation as an advantage (Wesley and Warren, 2000). To adherents of this belief, Australia is unique and exceptional, and shouldn't make concessions to foreign powers on feelings of inferiority (as they argue traditionalists do), or obligation (as they believe internationalists do) (Wesley and Warren, 2000). Seclusionists shy away from entanglement with the affairs of great powers, preferring to pursue material wealth (Wesley and Warren, 2000).

Internationalism promotes an activist foreign policy in a benign international system (Wesley and Warren, 2000, Gyngell, 2017). To internationalists, globalisation, economic interdependence, and the proliferation of regional international institutions (APEC, ASEAN) give Australia outsized influence as a middle power, and preserve regional stability (Wesley and Warren, 2000). Theories such as neoliberal institutionalism (Keohane, 1984) are prominent, and a focus on absolute gains dominates their logic (Wesley and Warren, 2000).

Wesley and Warren (2000) should be commended for bringing parsimony and clarity to the different ideational strains of Australian grand strategy, extending their analysis beyond assumptions of ideational consensus and narrow definitions of Australian grand strategy, such

as Kilcullen's (2007) aforementioned work. It is also useful in countering the myth of Australian grand strategy as being a bi-partisan consensus (Wesley and Warren, 2000).

However, the authors still evoke exceptionalism in Australian grand strategy, where the three strains co-exist in relative harmony across different pillars of Australian grand strategy. Troublingly, the authors fail to adequately outline how shifts in grand strategy occur. Is it simply the day's dominant international events that bestow primacy of one grand idea over the other? Or is it the product of a contest of ideas between different interest groups? Without this level of explanation, Wesley and Warren (2000) fail to explain how a grand idea dominates at particular junctures. Furthermore, the authors fail to define who the primary agents of these ideas are – whether they're government departments, economic interest groups, political leaders, or even the broader public.

Other authors such as Douglas and Stone (2014) and Scappatura (2014) take a narrower approach to ideas, policy-making elites and their influence on Australia's grand strategy, by examining the role of the Australian American Leadership Dialogue (AALD) as an informal forum of Australian and American political and business elites in socialising the "traditionalist" viewpoint of Australian grand strategy. Most significantly for this dissertation, Scappatura (2014) argues that the AALD successfully socialised Rudd and Gillard before becoming prime ministers.

These analyses add greater specificity to their claims, assigning ideational agency of Australia's grand strategy to elite politicians, government officials, business figures, and academics. Secondly, Douglas and Stone (2014) and Scappatura's (2014) accounts add further depth to explaining the dominance of the "traditionalism" philosophy in Australian grand strategy. However as per Wesley and Warren's (2000) analysis, they fail to explain why traditionalism hasn't always prevailed in Australian grand strategy, and why at various junctures this ideational school has been overcome by seclusionism or internationalism. As this dissertation argues, there is also policy space within traditionalism which isn't accounted for. While Scappatura (2014) claims that both Rudd and Gillard were socialised to traditionalist Australian grand strategy, Bloomfield (2015) notes the different grand strategies they adopted. Clearly ideas played a role in shaping the range of reasonable policy options at their disposal, however traditionalist ideas alone can't explain the grand strategies adopted by these prime ministers.

Institutions

A third theme of sub-systemic research on Australian grand strategy and economic strategy has examined the role of institutions in shaping policy outcomes. Most of these analyses (Gyngell, 2003, Firth, 2011, Francis, 1994) argue for Australian institutional exceptionalism, eschewing analytical approaches used to analyse US grand strategy through bureaucratic rivalries, ideas and interest groups as irrelevant to understanding Australia's grand strategy. Gyngell (2003) emphasises the power of the prime minister as "the most influential individual in Australian foreign policy making" (p. 97), empowered through the National Security Committee (NSC) of Cabinet which they chair. In contrast to US Congress, the Australian parliament has no formal role in ratifying treaties, declaring war, or diplomatic appointments (Gyngell, 2003, Firth, 2011). At best, the Australian Parliament is characterised as a restraining influence on Australian grand strategy by establishing limits on foreign policy options (Gyngell, 2003).

Francis (1994) and Okamoto (1996) adopt this reasoning, arguing that the shift in economic strategy from protectionism to more open trade under the Hawke government in the late 1980s was possible because of the high degree of agency provided to the prime minister (Francis, 1994). The institutional processes unique to Labor party decision-making under Hawke provided even greater ability to sidestep federally-elected Labor party members and determine the government's economic strategy with little party resistance (Okamoto, 1996).

However, these institutional analyses are ridden with narrow, naïve conclusions. While Gyngell's (2003) and Firth's (2011) institutional explanations accurately describe who has power in setting grand strategy (the prime minister) and who doesn't (federal parliament), they don't present a compelling account on how grand strategy emerges, aside from dismissing the formal influence of domestic interests and ideas. Additionally, there is minimal analysis on the impact of systemic variables on grand strategy. Most troublingly, they assert that the prime minister's formulation of grand strategy and economic strategy is devoid of domestic accountability and pressure. If the prime minister was free from domestic political accountability as Gyngell (2003) and Firth (2011) claim, the reader is to believe that the prime minister freely forms grand strategy sub-systemically through their own ideas and experiences, or systemically through realism, as an institutional vessel of Australia's position in the international order, divining the "national interest".

Integrated Approaches

The most relevant approach to this dissertation is an integrated approach that regards sub-systemic interests, ideas, and institutions as an inseparable trio in the mode of Schonhardt-Bailey (2006), while accounting for the systemic shock of the financial crisis. Gourevitch (1986) does just this, in studying the economic strategy of Britain, Germany, France, Sweden, and the US across three economic crises. Gourevitch (1986) argues that policy responses following the shock of an economic crisis follow a predictable pattern. In the preceding years of economic prosperity, policy consensus is supported by a supportive coalition. This consensus is disrupted by the economic crisis, where policy choices and political coalitions are in greater flux. Once a new coalition is found, relative policy and political stability is restored until the next crisis (Gourevitch, 1986).

Gourevitch's model is enlightening in his acknowledgement of the systemic impact of an economic shock on sub-systemic interests, ideas, and institutions. He develops this causal pathway using his earlier work on the impact of systemic factors on sub-systemic factors – the “second image reversed” (Gourevitch, 1978). However, Gourevitch neglects to scrutinise middle powers in his analysis. By doing so he at times blurs the systemic and sub-systemic distinction of his independent variable – the onset of an economic crisis, given that some of these crises had causality from international actors *and* domestic actors within these states. This weakens his “second image reversed” (Gourevitch, 1978) logic, with causality instead flowing in both directions between systemic and sub-systemic variables. This was acknowledged more recently when analysing the US and the 2008 financial crisis (Gourevitch, 2013). Secondly, Gourevitch limits his dependent variable to domestic policy responses to the economic crisis concerned, and not grand strategy. This dissertation takes a different direction, arguing that the field of International Political Economy is not only valuable for understanding economic policy responses to economic crises, but to grand strategy too.

A theoretical model

Shifts in Australian grand strategy through the Rudd, Gillard, and Abbott Governments are best explained using a theoretical model that sequentially accounts for the systemic impact of the global financial crisis, and its subsequent impact on sub-systemic variables. Other models of grand strategy vary in their weighting of systemic and sub-systemic variables. Trubowitz's (2011) "executive choice" model combines systemic and sub-systemic variables equally, while Narizny (2007) prioritises sub-systemic variables, and Zakaria (1999) systemic variables in a version of neoclassical realism. While all of these models incorporate sub-systemic variables to some degree (Narizny as a dominant independent variable, Trubowitz as an equally-weighted independent variable, and Zakaria as an intervening variable), none of these models broadly incorporate sub-systemic ideas, interests, and institutions as an interrelated trio. A myopic focus on one of these variables at the expense of the others leads to narrow explanations with limited broader explanatory merit, as discussed and critiqued in this dissertation's literature review. This dissertation's theoretical model takes inspiration from Zakaria's (1999) neoclassical realist model by following the causality of an independent systemic variable influencing intervening sub-systemic variables, which in turn impact the resultant dependent variable. However, it shifts Zakaria's (1999) security-focused International Relations view of the international system to instead take an International Political Economy perspective in the tradition of Gourevitch (1986), where the 2008 global financial crisis acts as a single economically-derived systemic independent variable. Additionally, it incorporates sub-systemic ideas, interests, and institutions as an inseparable trio of intervening variables, as advocated for by Schonhardt-Bailey (2006) and Gourevitch (1986).

Thus, this dissertation argues that the systemic shock of the global financial crisis (independent variable) prompted shifts in Australian grand strategy (the dependent variable), by disrupting the pre-crisis consensus of sub-systemic economic interests and ideas. New political coalitions were formed on the basis of new economic interests and ideas (the intervening variables) and were aggregated by the prime minister as the institutional architect of grand strategy. These were considered along with their own self-interests and ideas (also intervening variables), eventually producing a grand strategy³.

³ Figure 3 (p. 18) illustrates this model graphically.

The global financial crisis – systemic independent variable

By definition of being a middle power, Australia has a small but limited capacity to impact the international order (Carr, 2013). By virtue of this, it is disproportionately influenced by systemic variables, without having a large impact on the international system. This justifies the appointment of the global financial crisis as a *systemic* independent variable in our Australian case study, having developed beyond Australia's borders, with a negligible domestically-derived contribution. Thus the model draws inspiration from Gourevitch's (1978) "second image reversed". A contribution of this dissertation to the academic field is to argue that this is particularly the case for middle powers, due to their position in the international order.

Ideas, interests, and institutions – sub-systemic intervening variables

Coalitions of economic interests and ideas serve as the primary intervening variables in this model. Economic interests are assumed to follow the Specific Factors Model, where factor mobility is low between sectors, and is the most commonly used approach by modern IPE scholars (Hiscox, 2017). Economic interests centre on sectors with an economic interest in promoting exports to China via open trade and stable political relations, against a more dispersed, ambivalent economic status-quo. As the following chapters argue, economic interests have played a dominant role across this period as an intervening variable, however these actors can't always be characterised as acting in their pure economic interests at all times, and at all costs (Gourevitch, 1986), a point argued throughout the field of political economy dating to Adam Smith (Walter, 1996).

The role of sub-systemic ideas as coalition-forming compliments or counter-arguments is therefore critical. In this model, the domestic contest of ideas centres on the perception of Australia's place in the world. In the post 2008 context, this can be deduced to a perception of Australia's relationship with China and the US. The extremes of public perception of China were succinctly and bluntly summarised Prime Minister Tony Abbott, who told German Chancellor Angela Merkel that Australia's attitude to China is driven by "fear and greed" (Garnaut, 2016).

The institutional empowerment of the prime minister in foreign policy and grand strategy also serves as a key feature of this model. With tremendous institutional power over the military,

economic, and diplomatic tools of grand strategy (Gyngell, 2017) the prime minister serves as an aggregator of these interest coalitions and ideas, and is the main architect through which Australia’s grand strategy is determined. Unlike Gyngell’s (2003) assessment, the prime minister is assumed to be a self-interested actor, which aligns with other models of grand strategy (Trubowitz, 2011, Narizny, 2007). This is because the prime minister is subject to influence and persuasion when aggregating the contest of economic and ideational coalitions. Secondly, as institutional factors empower the prime minister’s capacity for directly forming grand strategy, they have a high degree of agency. This agency allows space for the influence of the prime minister’s own beliefs and perceptions when forming grand strategy.

Grand strategy – dependent variable

The outcome of these independent and intervening variables is Australia’s grand strategy. The variation in grand strategy across these three governments is relatively narrow, however the shifts are significant enough to be differentiated. With potential for Australia’s economic and strategic interests to become increasingly divergent, identifying these small shifts in grand strategy are crucial to understanding its long-term grand strategic orientation.

Most studies of grand strategies characterise grand strategies between the two extremes of “balancing” and “bandwagoning” (Bloomfield, 2015). In Australia’s context, balancing denotes a rejection of China’s interests, while bandwagoning signifies an acceptance (Bloomfield, 2015). Within these categories are several types of strategies that traverse a scale of intensity of balancing or bandwagoning, as outlined in figure 1 below. Between these extremes lies “hedging”, defined as a strategy that “offset[s] risks by pursuing multiple policy options [...] to produce mutually counteracting effects, under the situation of high uncertainties and high stakes” (Kuik, 2008, p. 163).

Balancing Zone			Hedging	Bandwagoning Zone		
Outright War	Containment	Hard Balancing	See Fig. 2	Allied Alignment	Dependence	Capitulation

Figure 1: Continuum of grand strategies (Bloomfield, 2015).

Within hedging lies a continuum that merits further definition, for this is where Australian grand strategy lay throughout the Rudd, Gillard, and Abbott Governments. Kuik (2008)

divides this into five sub-categories (figure 2). These are the dependent variable outcomes used in this dissertation’s model.

Balancing Zone	‘Sub-Zones’ in the Hedging Zone					Bandwagoning Zone
	<i>Risk Contingency Options</i>		<i>Return-Maximising Options</i>			
See Fig. 1	Soft Balancing	Dominance Denial	Economic Pragmatism	Binding Engagement	Limited Bandwagoning	See Fig. 1

Figure 2: Continuum of hedging “sub-zones” (Bloomfield, 2015).

Soft balancing

Soft balancing is the most aggressive of these sub-zones, being closest to the balancing zone. This grand strategy is characterised by using economic and diplomatic tools to push back on the aggressor by forging closer ties with powerful allies (Bloomfield, 2015). Military balancing is more restricted, and is in response to more generalised threats (Kuik, 2008). Foreign direct investment is judged more sceptically in strategic sectors, while trade links are still pursued (Bloomfield, 2015).

The Rudd Government’s grand strategy can be characterised as “soft balancing” against China (Bloomfield, 2015). This was clearly signalled in the 2009 Defence White Paper’s (DWP) rearmament programme, the tightening of foreign investment laws (Bloomfield, 2015), and Rudd’s efforts as a self-described “brutal realist” (Maley, 2010) to establish an “Asia Pacific Community” as a means to contain China (Beeson et al., 2011).

The 2009 DWP struck a sharp tone over China’s rise, stating that its “long-term strategic purpose [...] appears potentially to be beyond the scope of what would be required for a conflict over Taiwan” (Aust. DoD, 2009, p. 34). This was an unforeseen break from the prior Howard government’s view of China given Australia’s deepening economic relationship, the reputation of the ALP as having a friendlier view of China, and Kevin Rudd’s assumed amicable view given his personal expertise with China (Tubilewicz, 2010). The DWP also called for a major upgrade in Australia’s defence capabilities (Aust. DoD, 2009), which appeared particularly targeted towards future Chinese containment (Bloomfield, 2015).

Secondly, the Rudd Government oversaw a significant tightening of Australia's foreign investment rules. Despite Chinese overall foreign direct investment (FDI) being comparatively low to other foreign investors, Chinese investment into strategic sectors of Australia's economy surged during after the financial crisis (Bloomfield, 2015). Australia's mining sector alone attracted 75% of China's FDI during this period (Bloomfield, 2015). These rules were tightened in response to an attempted takeover of major Australian mining company Rio Tinto by a Chinese state-owned company in 2009, which provoked national security fears in Canberra (Bloomfield, 2015).

Third, Rudd personally sought to establish a new "Asia Pacific Community" (APC). Publicly, Rudd advertised this as an opportunity to improve regional cooperation through institution building (Beeson et al., 2011). However privately he admitted to then US Secretary of State Hilary Clinton that it was an effort to contain a rising China's regional ambitions (Maley, 2010). While Rudd's APC didn't ultimately materialise in form, the substance of Rudd's ambitions were successful through a re-invigorated East Asia Summit with active US membership (Beeson et al., 2011).

Dominance denial

Dominance denial follows a similar emphasis on economic and diplomatic statecraft over military tools, but with a softer stance on foreign direct investment and a stronger pursuit of trade opportunities (Bloomfield, 2015). Diplomatic efforts are made to present a unified position with its regional allies, and to keep powerful security allies engaged with the region (Bloomfield, 2015) to prevent the emergence of a dominant regional power (Kuik, 2008).

The Gillard Government retreated from a soft balancing to a grand strategy of "dominance denial" (Bloomfield, 2015), as demonstrated through their grand plans and grand ideas in three major policy papers, and grand behaviour in offsetting the establishment of a new US Marines presence with an institutionalised annual economic and strategic dialogue with China. The rhetoric and sentiment of these papers struck a softer, less confrontational tone than the 2009 DWP (Jennings, 2013), retreating from singling out China's rise in alarmist tones, pairing its economic growth and strategic interests with other emerging states such as India, and stating its military build-up as a "natural and legitimate outcome of its economic growth" (Aust. DoD, 2013, p. 11). In conciliatory language it is noted that "Australia welcomes China's rise [...] as

a positive contributor to the economies of Australia and other states”, noting that it is not an “adversary” to Australia (Aust. DoD, 2013, p. 11). Additionally, the previously announced defence upgrades of the 2009 DWP were delayed, in a clear shift in government priorities (Bloomfield, 2015).

Secondly, the Gillard Government emphasised a domestically driven economic strategy of improving productivity and investing in education to capitalise on the rising prosperity in Asia, as outlined in the white paper “Australia in the Asian Century” (PM&C, 2012, Henry, 2016). The Gillard Government’s trade objectives were distinctly regional, seeking to harness its geography (The Economist, 2012) by focusing on pursuing both the Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership (PM&C, 2012).

Thirdly, the US alliance was reaffirmed and deepened under the Gillard Government, with the establishment of a US Marines force rotation in northern Australia (MRF-D) in 2011 (Bloomfield, 2015). In isolation, this appears to be an unquestionable balancing signal (Bloomfield, 2015), however when considered in comparison to the Rudd Government’s push for internal balancing via Australian defence force upgrades (Bloomfield, 2015) for “self-reliance in the direct defence of Australia” (Aust. DoD, 2009, p. 12), it becomes clear that the Gillard Government shifted away from soft balancing to outsource some of these defence obligations to the US. This was further underscored the following year with steep cuts to defence funding in the 2012 Federal Budget (Bloomfield, 2015) to its lowest levels since 1938 (Thomson, 2012).

A significant countermove to the Gillard Government’s strengthened US alliance was the 2013 announcement of annual strategic and economic dialogues with China (Bloomfield, 2015). This announcement was the result of two years of Australian diplomacy (Jakobson, 2013), and was announced by Gillard as a fulfillment of her government’s “Australia in the Asian Century” white paper’s objective to strengthen their relationship with China (PM&C, 2013). The announcement was hailed by the media as “the foreign policy triumph” of the Gillard Government, with Australia being one of only a few countries to secure a formalised high-level dialogue with China (Kenny, 2013).

Economic pragmatism

Economic pragmatism attempts to silo political differences between the state and the concerned power, in an attempt to maximise economic gains from trade and investment (Kuik, 2008). Proponents of economic pragmatism argue that the pursuit of profits is politically neutral, and does not denote acceptance or rejection of the concerned power's ambitions (Kuik, 2008).

Unlike the Rudd and Gillard Governments, the Abbott Government didn't release any defence or foreign policy white papers during its term for which to compare grand plans and grand ideas. However in grand behaviour, Australian grand strategy shifted to economic pragmatism, focused on bilateral engagement with the region (Linnane, 2016). This focus saw the successful conclusion of three bilateral trade agreements with South Korea, Japan, and China. Abbott's eagerness to tie Australia's economic prosperity with China regardless of strategic concerns was further shown when the Abbott Government reversed its initial opposition to China's Asian Infrastructure Investment Bank (AIIB), joining in 2015 after the United Kingdom's unexpected decision to join (Sainsbury, 2016). It is believed that Abbott's National Security Committee was initially split between advocating the economic benefits of joining against the strategic security concerns of increased Chinese influence in the region, before Abbott exercised his authority as the final decision maker of grand strategy (Sainsbury, 2016).

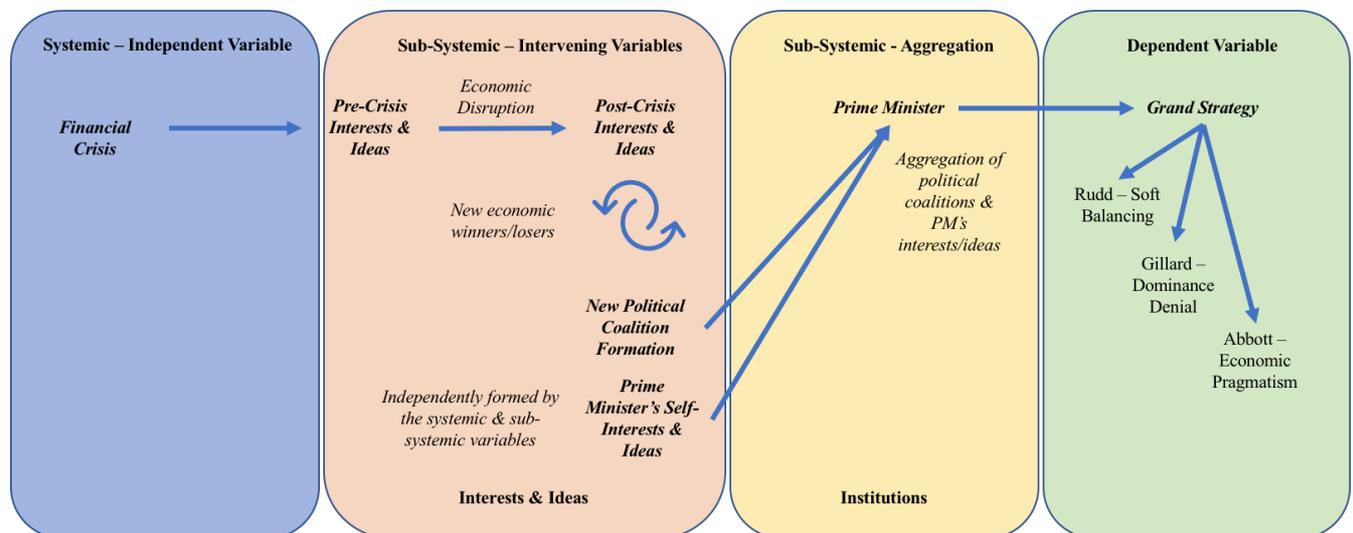


Figure 3: Model of Australian grand strategy 2008 - 2015

Case Study

A systemic shock

Due to its conservative, strongly capitalised banking system, tight financial regulations, a healthy government fiscal surplus, and sound monetary policy, Australia was able to avoid domestic financial contagion from the 2008 global financial crisis (Gyngell, 2017). The economy slowed significantly in the fourth quarter of 2008, however positive economic growth returned in the following quarter in 2009, making Australia the only OECD country to avoid a recession of at least two consecutive quarters of negative growth (McDonald and Morling, 2011).

One of the key drivers for this rebound in growth was the surging demand from China (McDonald and Morling, 2011). From 2008 onwards, Australian exports shifted from a relatively even distribution amongst its top five export destinations to be heavily skewed towards China (figure 4).



Figure 4: Australia's exports (DFAT, 2018a)

China's demand for Australian exports was highly concentrated on natural resources. This demand drove up commodity prices and increased Australia's real exchange rate in the aftermath of the financial crisis (Gruen, 2011), transforming its terms of trade (Measham et al., 2013). The stronger Australian dollar had varied effects on the Australian economy depending on whether businesses were exporters of natural resources or an input to this sector, or as an

exporter or importer in another sector. Thus, despite Australia’s resilience to the financial crisis, it still served as a systemic shock that transformed the country’s economic profile, and with it the pre-crisis consensus of sub-systemic interests, ideas, and institutions, ultimately influencing Australian grand strategy.

Mining Interests – The foundation of the Resource Coalition

Chinese demand for Australian natural resources accelerated a shift in investment and employment to the mining sector (Gruen, 2011), providing the foundation for its economic dominance of the post-2008 Australian economy. Of Australia’s mineral exports, it was the sparsely populated state of Western Australia that dominated the trade, exporting 90% of Australia’s total value of unprocessed minerals to China in 2013⁴ (Beeson, 2016). WA’s mining sector has predominately served export markets, and has a history of meeting the demands of foreign multinationals and its export destinations (Beeson, 2016). The years following the 2008 financial crisis were no exception as WA mining magnates such as Gina Reinhart and Andrew Forrest used their mineral wealth to accrue prominent public profiles, leading the formation of the Resource Coalition (Beeson, 2016). The extent of the alignment of WA’s political and economic class was clearly outlined when then WA state Premier Colin Barnett declared in 2012 that Beijing was becoming more important to the state than Canberra (Beeson, 2016).

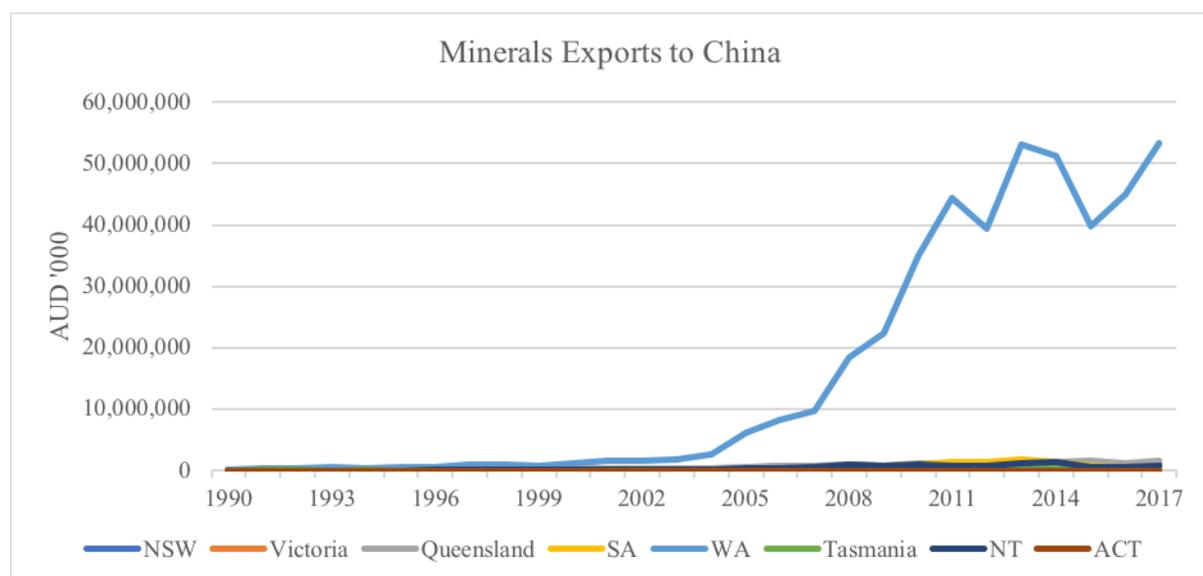


Figure 5: Natural resource exports to China (DFAT, 2018b)

⁴ See figure 5.

The systemic shock of the financial crisis to Australia's terms of trade also created knock-on benefits to sectors providing inputs to the mining sector such as construction, manufacturing, business services, and transport (Rayner and Bishop, 2013). The mining sector was estimated to add 11.5% gross value added to the Australian economy in 2011/2012, while broader inputs to this sector contributed an additional 6.5% (Rayner and Bishop, 2013). This highlights the broader economic power that the mining sector accrued through this period, and ultimately the political Resource Coalition that could be formed.

Insights into the specific grand strategic interests of the Resource Coalition and their linkage to Australia's economic interests can be found in the 2017 foreign policy white paper submission from the sector's primary lobbying group, the Minerals Council of Australia (MCA). Although the document lies beyond the time period of the case studies, their broad views can be assumed to be consistent with the case study's period, given the continuity of the sector's economic interests and a similar international strategic environment. In this document, the MCA highlights the sector's value to the Australian economy as a direct and indirect employer, that has only achieved a level of growth and efficiency through Japanese and Chinese FDI (MCA, 2017). They stress the value of competitive taxation, infrastructure, competition policy, and industrial relations as domestic levers that greatly impact their success as an exporter to international markets (MCA, 2017). They argue for transparency and liberalisation of government attitudes to foreign investment, and for the Australian government to join China's Belt and Road Initiative (MCA, 2017). And finally, in an overt acknowledgement of their interests in influencing Australian grand strategy, they push to establish a "National Economic and Security Council" including foreign affairs, defence, and intelligence officials, and "senior members of the business community" (MCA, 2017, p. 9).

Beyond the mining sector and its related inputs however, it is notable how other sectors remained relatively insulated from the systemic shock of the financial crisis (Lowe, 2018). The systemic impact of the financial crisis produced a "deep but narrow" economic relationship between Australia and China, that was captured by the Resource Coalition (Beeson and Wilson, 2015, p. 24). This served to dilute competing economic interests and concentrate Australia's post financial crisis economic recovery around natural resource exports to China.

Ideas

The Australian public's ideas of Australia's grand strategic priorities, and its security and economic relationships with the US and China were mixed throughout the period of analysis. While the public's support for Australia's military alliance with the US fell to its lowest level as the financial crisis erupted in 2007, it maintained close to a 80% rating of being "fairly" or "very important" for the remainder of the study period (Oliver, 2018).

Attitudes regarding Australia's relationship with China were complex, and often contradictory. When respondents to the annual Lowy Poll were asked of the likelihood that China would become a military threat to Australia within the next 20 years, responses oscillated between a likelihood of 39% and 48%, without a clear trend in any direction (Oliver, 2018). When asked who they thought the world's leading economic power was in 2010 and 2011, a consistent majority of 55% answered China, against less than 32% answering the US (Oliver, 2018). Yet in 2015, the Australian public saw China overwhelmingly as an economic partner versus a military threat (77% against 15%), despite the aforementioned predictions of China becoming a military threat (Oliver, 2018). When asked in 2012, Australians strongly credited China's demand for Australia's natural resources over government economic policies as the leading cause for avoiding a recession (Hanson, 2012). This gratitude has nationalistic limits however, with a majority of Australians across multiple polls in the analysis period believing the Australian government allows too much Chinese investment into Australia, in clear contrast to their views of other foreign investors (Oliver, 2018). Despite these complex views, Australians were overwhelmingly optimistic (87%) in 2013 when asked if Australia could concurrently have a good relationship between their security ally (the US) and economic partner (China) (Oliver, 2018).

Yet despite Australians having a more suspicious view of Chinese investment and its military ambitions, there is evidence to suggest their malleability to powerful economic interests seeking their political backing. For despite the relative stability of their views on China and the US, it was an economic priority of preserving Australian jobs that was ranked the highest foreign policy priority when respondents were surveyed from 2007 to 2011 (Hanson, 2011). It was the preference of economic priorities over defence that made public opinion on China vulnerable to persuasion by the Resource Coalition (Bell and Hindmoor, 2014). With their

formidable economic foundation, these ideas were used as a “magnet” for political coalition building (Béland and Cox, 2016).

Institutions

The economic power of the mining sector and its ability to shape compliant public ideas and perceptions was concentrated into political influence on Australian grand strategy by institutional features of the Australian political system. For while the prime minister has almost supreme institutional authority in forming grand strategy, they must retain their grip on power to do so. Throughout the case study period, this was not an easy task. Three related institutional features contributed to this: the constant fragility of the prime minister’s position as leader of their political party, which was heightened by narrow or non-existent Lower House majorities throughout the Labor years of 2007 to 2013, and the disproportionate political representation of WA in the Upper House.

Firstly, the prime minister is the leader of the political party or coalition that holds power – a majority of seats in the Lower House. However, between the two sides of politics, this leadership is open to near uninhibited challenge from their own political parties. The risk of a leadership challenge is exacerbated when the governing side’s Lower House majority is tight, as the prospect of losing government looms larger. This was particularly so during Labor’s narrow Lower House majority from 2007 to 2010 and even more so after the 2010 election, when Gillard was forced to rely on the support of four MPs outside of the ALP to form a minority government. The persistent Upper House minorities further amplified the risk of blockage of the sitting government’s political agenda, hindering the ability to govern effectively.

Finally, during the period of this case study the equal representation of states in the Upper House further increased the political power of WA. This contrasts with the seats of the Lower House, which are determined as a proportion of population (Parliament of Australia, 2018) – so that Australia’s east coast cities of Melbourne, Sydney, and Brisbane are heavily represented. The net effect of this was that a narrow economic sector had accumulated vast political power, driving the economic performance of a thinly populated state. Through the characteristics of Australia’s parliamentary system, this state was afforded the same representation in the Upper House as their more populous east coast neighbours, providing

them a platform to advance the Resource Coalition's agenda through formal and informal lobbying. Furthermore, with the economic growth of the entire country largely driven by WA's mining sector for this period, political support was drawn from across the remaining states too, broadening the Resource Coalition's political support.

Coalition formation – the product of interests, ideas, and institutions

Thus, the subsequent Resource Coalition that was formed was a product of an inseparable trio of interests, ideas, and institutions. This coalition was led by the WA mining sector. The financial crisis served as a catalyst for the transformation of Australia's trading orientation – a “generational change in Australia's comparative advantage” (Gruen, 2011, p. 134). The newly acquired wealth of the resultant resources boom enlarged the economic interests of the mining sector to attack any objectionable domestic policies, and any inflammatory grand strategy that may offend China, their primary client (Measham et al., 2013, Beeson, 2016, Beeson and Wilson, 2015).

This economic power allowed them to build their coalition through side payments and persuasive campaigns to shift the ideas and perceptions of the Australian populace. While the distant mining pits in the Western Australian Pilbara were a stark contrast to the political hallways of Canberra, they provided the economic muscle that any prime minister needed to prevent an economic downturn and with it, certain political disaster. The Australian economy needed Chinese demand for natural resources much more than China needed Australia, who remained a minor economic partner by trade volume compared to other states in this period (Beeson and Wilson, 2015).

With tight votes in parliament and nervous internal party politics that continuously threatened to undermine the sitting prime minister, institutional factors sharpened an already politically powerful coalition, resulting in the Resource Coalition having significant influence over Australian grand strategy. However, to understand the shifts in grand strategy between these prime ministers, it is necessary to more closely examine their role as aggregators of these sub-systemic forces with their own self-interests, ideas and agency as the architect of grand strategy in finer detail.

The Rudd Government (2007 - 2010)

Rudd's grand strategy was derived principally from his own ideas, where as prime minister he was institutionally empowered to enact his soft balancing strategy. Equipped with the institutionally granted agency in forming grand strategy, Rudd's more hawkish China views overrode the more amicable, economically pragmatic views espoused by the Resource Coalition. Rudd had previously demonstrated his willingness to exercise his agency as prime minister to override norms and conventions, such as his decision to personally select his cabinet members when forming his first ministry following the 2007 election (Grattan, 2007).

However it was an interrelated domestic economic policy of implementing a Resource Super Profit Tax (RSPT) on the mining sector that ultimately eroded Rudd's political popularity (Bell and Hindmoor, 2014), ending his prime ministership, and with that his grand strategy of soft balancing. The RSPT was a domestically-focused effort to recoup a growing fiscal deficit following the Rudd Government's economic stimulus to the Australian economy. To the Resource Coalition this was a threat to their profitability, and risked jeopardising their booming export market to China (Beeson, 2016, Bell and Hindmoor, 2014). To ensure business stability, the Resource Coalition was eager for the Australian government to pursue a grand strategy of economic pragmatism toward China to minimise any political risks of Chinese retaliation to their business relationship, to minimise government intervention in the market, and to secure the appearance of consistent Australian government support. Rudd's soft balancing grand strategy and efforts to institute a mining tax provided none of this, according to the mining sector, and served to solidify the Resource Coalition across a number of Australian business sectors.

The Gillard Government (2010 – 2013)

Gillard's grand strategy of dominance denial can be explained by an acquiescence to the pro-China mining coalition, where institutional constraints to her ability to govern forced her to attempt to minimise political conflict with the Resource Coalition, allowing their interests to gain traction. Upon succeeding Rudd as prime minister, she re-opened negotiations with the mining sector, introducing a new, vastly weakened Minerals Resources Rents Tax (MRRT) from Rudd's original RSPT (Bell and Hindmoor, 2014). Secondly, she was less ideologically set on Australian grand strategy, and was willing to minimise the prime minister's agency after internal perception that Rudd exceeded the norms of this institutional right.

Gillard's self-interests were extremely acute and were forced by institutional factors not specific to her ability to formulate grand strategy, but more fundamentally to maintain her hold on government. The 2010 Federal election was a "hung" parliament, meaning neither of the major political parties were able to form a governing majority of 76 seats in the 150 seat lower house. Gillard was only able to secure government through the support of three "independent" members of parliament and one member of the Greens party (Liddy, 2007). While she remained free to formulate grand strategy without parliamentary approval, and therefore the support of these additional four votes, the circumstances of a minority government maintained her vulnerability to external political pressure from the Resource Coalition, where she couldn't afford to incite their ire for fear of party instability.

The Abbott Government (2013 – 2015)

The Resource Coalition found a more natural political ally when Liberal party leader Tony Abbott won the 2013 federal election and pursued a grand strategy of economic pragmatism towards China. Abbott's economic pragmatism was driven by a natural ideational and political alignment with the Resource Coalition, where he could exercise his agency without conflict to his own ideology. Ideationally Abbott was a climate change sceptic and fervent critic of the ALP's MRRT, which he immediately set about reversing upon taking office.

Abbott sought to "securitise" a number of shorter-term foreign policy issues, which was often judged as an effort for domestic political diversion (Linnane, 2016, McDonald, 2015). This included warnings of a rising domestic and international terrorist threat, the reframing of asylum seekers and Australia's borders as a security matter, and an eagerness to participate in anti-Islamic State military intervention in Iraq and Syria (Linnane, 2016, McDonald, 2015). Notably however, this tendency didn't extend to China, where he instead maintained a strong grand strategy of economic pragmatism. Abbott exercised his agency on China issues, siding with the economic pragmatists of his cabinet when deciding to join the AIIB. He also abstained from criticising China's human rights record, preferring to focus on concluding the FTA with China, alongside FTAs with South Korea and Japan.

Institutionally Abbott was more comfortable than his predecessors, with a 13 seat Lower House majority (Parliament of Australia, 2013a), although his government was forced to negotiate

with a record number of minor party senators in the Upper House to pass legislation (Parliament of Australia, 2013b). Ultimately however, Abbott was succeeded by Malcolm Turnbull after sustained unpopularity with the Australian public, however unlike Rudd's downfall, this was not at the encouragement of the Resource Coalition.

Conclusion

This dissertation has analysed the impact of the 2008 financial crisis on Australia's grand strategy, showing how the systemic shock of the crisis disrupted the pre-crisis coalition of interests, ideas, and institutions. It demonstrated how economic crises can dramatically alter the calculus of a state's economic "winners" and "losers", particularly for a resource rich economy such as Australia. It uncovered how the international political economy can interact with a state's grand strategy, and in our case, how Australia's Resource Coalition influenced Australian grand strategy in the years following the financial crisis.

Could the Resource Coalition have been as influential absent the systemic shock of the financial crisis? Indeed, Chinese demand for Australian resources – the foundation for the Resource Coalition - preceded the financial crisis, extending back to 2005 (Batellino, 2010). However, there are several reasons to believe that without the systemic shock of the financial crisis, the mining sector wouldn't have gained the economic power and leverage to form an influential coalition on Australian grand strategy for the period that it did.

Firstly, the financial crisis amplified already growing Chinese demand in terms of export volumes, but more importantly it prompted a surge in value of these exports (Batellino, 2010). This was valuable in absolute terms, in that it enriched the mining sector and provided them with capital to form an effective coalition and persuasive public relations campaign. It was also valuable in relative terms, in that for Australia, the systemic shock was very beneficial to this narrow group of resource related sectors, with little impact on other sectors. This unequal economic re-distribution translated to an uneven level of political power. Concurrently, Australia's prime ministers through this period were acutely preoccupied with reviving the Australian economy, to avoid a recession that would be severely damaging to their political self-interests. The financial crisis catalysed the formation of the Resource Coalition and provided them with a receptive audience in a self-interested prime minister. This is the core of this dissertation's argument. Note however, this is not to say that a grand strategy harmful to the Resource Coalition's interests could not occur. In fact, it did when Rudd chose to prioritise his own interests and beliefs over the Resource Coalition's when aggregating these factors to determine a grand strategy.

Secondly, the spike in commodity prices through this period wouldn't have occurred without a surge in Chinese demand. China's demand for Australian natural resources was in turn a

product of their own efforts to stimulate their economy to protect against a downturn from the financial crisis (Beeson and Wilson, 2015). This systemic trigger for an Australian mining boom isn't unusual – in fact most of Australia's previous mining booms have been sparked by systemic events, such as the California gold rush in the 1850s and the subsequent Australian gold rush, and the shift in global commodities prices and the boom of the late 1970s (Batellino, 2010).

Systemically, the economic impact of the financial crisis saw relative shifts in the economic balance of power from the US to China. It was this shift that accelerated the decoupling of economic and security responsibilities that had previously been assumed to co-exist within the literature of Hegemonic Stability Theory. This decoupling was the key complicating factor for the grand strategies of the three prime ministers studied in this dissertation – whether to prioritise Australia's economic or security interests.

Interestingly, as the systemic shock of the financial crisis subsided, and commodity prices returned closer to historical norms, the political influence of the Resource subsided. Today the fastest growing export sectors to China are services such as tourism and education (Lowe, 2018). However, neither dominate the Australian economy as the mining sector has. Additionally, they are advancing in a more stable, post-crisis Australian economy. In recent years, pressure for economic pragmatism has been replaced with renewed security fears arising from China's regional behaviour, continued investment into Australian infrastructure, and most alarmingly, over attempts to influence Australia's political system through political party donations.

More broadly, this dissertation presents interesting avenues for further research into the grand strategy of other resource rich middle powers, such as South Africa. The “resource curse”, where the dominance of the resource sector ultimately harms the development of other areas of the economy by shifting the terms of trade away from their favour (Batellino, 2010) is a phenomenon typically thought to impact the economic performance of developing countries (Beeson and Wilson, 2015). However, the findings of this dissertation suggest that the resource curse can impact developed countries too. Even more interesting however, is that resource abundance can affect the *grand strategic* orientation of a state, including middle powers. With greater attention being paid China's economic interactions with developing states, this

dissertation shows that developed countries – particularly middle powers - are not immune to their economic and strategic influence.

Going forward, this dissertation presents an interesting avenue for further study into the impact of economic crises on grand strategy, highlighting the futility in analysing political and economic issues separately. The 2008 financial crisis is a reminder of what classical economists such as Adam Smith knew well – that economics and politics are inextricably intertwined. This edict is as true today as it was during the Scottish Enlightenment.

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