



## **2015 RUSI NSW Blamey Oration**

### **The Strategic Outlook for the Indo-Pacific Region**

**Keynote address presented at the  
3rd International Defence and Security Dialogue  
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Globally there are two big strategic developments: an increase in ungoverned spaces which are attracting extremist groups; and changing power relativities, especially the rise of China. The United States-China relationship will remain crucial as China looks to its military power-projection capabilities to protect its broadening strategic interests. The Middle East will continue to place demands on Australia; and terrorism, cyber, organised crime, people movement, and climate change will persist. China's land reclamation in the South China Sea raises the question of intent and the risk of miscalculation. With growth in defence expenditure in East Asia, the capability gap Australia has enjoyed will diminish and may necessitate increased defence expenditure by us down the track.

I'd like to thank the Royal United Services Institute of Australia and the Field Marshal Sir Thomas Blamey Memorial Fund for inviting me to deliver the 2015 Blamey Oration. I also thank the Institute for its continuing contribution to the national security discourse in Australia.

I wish to acknowledge Field Marshal Sir Thomas Blamey who died 54 years ago today. As you know, Field Marshal Blamey served in both the First and Second World Wars and distinguished himself at Gallipoli where he was mentioned in dispatches. He also attended British India's staff college at Quetta – and today we still have Australian Army officers attending what is now Pakistan's Army staff college. Blamey's contribution to Australia is commemorated by Sir Thomas Blamey Square at the heart of the Defence offices in Canberra.

### **The Global Situation**

Later this year, the Australian Government will launch its Defence White Paper, the work towards which has also included a Force Structure Review. Looked at from a broad, global perspective, there are two big developments shaping up.

The first is the increasing geographic dimensions of ungoverned space which we see from South Asia to the Middle East, to relatively large parts of Africa, into which have tended to flow groups with extremist ideologies. This development does not shape our immediate strategic environment, although it does have obvious domestic and regional implications. It is a development which could, in my view, lead at different times down the track, to the deployment of the Australian Defence Force (ADF) to unexpected places. I hasten to add that this is personal speculation on my part and in no way a formal and/or government view. But the increase in ungoverned spaces is not a decisive shaper of the ADF's force structure.

What is the decisive shaper is the second and more obvious of the two big developments – changing power relativities, and the shape of our own region. That goes to the question of how the world is changing. We live in a world in which economic power and all that flows from it in terms of strategic capability is shifting from the Atlantic, where it has resided since the industrial revolution, back to Asia. The reasons for that are complex, but boil down to the great interconnected threads of the information revolution and the other technologies which drive the development of global supply chains and global finances, all coupled with the power of demographics. At its simplest, it is the story of China's rise, which is now well documented. China's rise was reinforced by the global financial crisis, and China still has a lot of untapped potential. By 2030, more than 200 million Chinese rural workers are likely to have moved to cities. But as China shifts from an investment and export-led economic strategy to one based on consumption, it risks more volatile growth.

We are in unfamiliar territory. A world in which emerging economies are driving recovery while developed countries lag, is one we have not experienced before. One of the clearest ways in which we are seeing global power shift is through its impact on the institutions the world uses to organise itself. Multilateralism is in a period of transition. Organisations like the United Nations and the International Monetary Fund are under structural pressure. Newer forums like the G20 and proto-groups of the emerging powers like the BRICS (Brazil, Russia, India, China and South Africa) reflect this new order – but nothing is yet fixed. That leaves a gap in global leadership. None of the new powers want to take on the sort of responsibilities for global stability and sustainability that have been mainly borne by the United States since the Second World War.

Consequently, we may need to adjust to a world where states end up competing less over who acts to shape the world than over who manages to avoid bearing the costs of doing so. America's superpower stature, however, is not at risk over the short-to-medium term. The United States still possesses a combination of strengths unmatched by any great power: the flexibility of its capital markets and the productivity of its economy; its innovation and technology; its centrality to the global financial system; and its continuing population growth through immigration.

## **The Regional Situation**

The United States is committed to maintaining its global primacy, though, as it juggles many pressing priorities, it looks for much more help from allies such as Australia.

In East Asia and globally, the United States-China relationship will remain the most crucial, even as both sides struggle to keep it on an even keel. What China does and says and what it does not do and say is of ever growing economic and strategic importance to many states. China's leaders see domestic instability as their biggest problem, and they believe that solid economic growth, low inflation, leadership unity, and zero tolerance for organised opposition are the answer. They also believe, though, that military power and other power projection capabilities will protect China's broadening strategic interests and deter the United States.

Japan is still a major power and a key player in the world economy. Despite a declining population, Japan will remain a major power and a critical partner for Australia, we should not forget that. And Europe does not simply belong in the past.

The most worrying challenge in East Asia remains, of course, the Democratic People's Republic of Korea and its nuclear programme. Russia will remain a nuclear superpower, but its economic and demographic challenges are immense. India's economic and strategic rise probably now has enough momentum not to shift into reverse. Serious structural problems will act as a constraint, but its importance to Australia, and to the world at large, will continue to grow.

Closer to home, Southeast Asia should remain stable enough to sustain reasonable levels of growth. But, with patchy governance, and the possible exception of Vietnam, its emerging economies will not emulate the takeoffs of Singapore or the Northeast Asian power-houses.

Intelligence-led law enforcement operations have degraded regional terrorist networks, although events in the Middle East have reinvigorated the challenge. Extremist groups can be expected to strike from time to time.

Among the countries of Southeast Asia, Indonesia matters most. Its transformation over the past 15 years has been remarkable. It is in Indonesia's own interests that it continues to embed democratic traditions and maintain solid economic growth – but it will not be without its challenges.

## **The World's Most Volatile Area**

The most volatile area of the world stretches from the India-Pakistan border, through Afghanistan and the Middle East, and across through Africa. It is in that broad expanse that intractable conflicts, nuclear-armed states, endemic poverty, major power competition, and Islamist terrorism all come together – the growing ungoverned spaces that I mentioned earlier. Since 1948, there has been no year

in which Australian military forces have not been serving somewhere in the Middle East. The region will continue to be a major source of demands on, and hazards for, Australia.

### **Considerations for Australia**

For Australia, both the subject matter of global politics, and the players in it, range beyond individual countries. Pressures for co-operation and competition are increasing across the range of what is sometimes called the global commons – the high seas, outer space, the climate system and cyber space. The ‘headline’ transnational challenges – terrorism, cyber, organised crime, people movement, and climate change – will persist and change shape, rather than diminish or disappear. More and more actors are now involved. New technologies have empowered groups and individuals ranging from pirates to fraudsters, from people smugglers to computer hackers, who can now have a real impact on state power.

Cyber power is now becoming an important dimension of state power, including for Australia, helped by the cyber dimension of our alliance with the United States. If it is integrated with other types of power, cyber power can have more pluses than minuses for us.

Australia is well placed in this changing world. We have quality human capital and natural resources. With our liquefied natural gas, coal and uranium, we are already a significant energy exporter. We are also a significant exporter of agricultural produce. So we have a lot of what the world will want in the 21st century.

Our trade and export patterns are diversified globally. China, Japan and Korea take just over 50 per cent of Australia’s merchandise exports. Our inward and outward investment and financial flows are becoming more diversified, but remain dominated by the United States and the member countries of the European Union. We also have expanding economic interests in the Middle East, Africa and Latin America.

Of the 193 countries that make up the United Nations, we are the 6th largest in land area, the 13th or 14th largest economy, and around the 50th most populous. In other words, of the 193 countries in the United Nations, about 140 have a smaller population than Australia. We have the 12th or 13th largest defence budget in the world.

We also have a proud record of international engagement, both globally and in our own region; from the establishment of the United Nations in 1945, to the South Pacific Forum, to APEC2, to the East Asia Summit, to the G20; from the support for Indonesia’s independence in the 1940s, to the Colombo Plan, to ASEAN’s3 first Dialogue Partner, to Cambodia, to East Timor.

What we do not have, though, is a natural, weighty grouping such as the European Union or ASEAN. Our history has consistently been to be put into what

can only be described as 'the Others', as in the 'Western European and Others Group' (WEOG) in the United Nations. Hence, our bilateral, regional and global diplomacy does need to be active and creative, as it generally has been over the decades.

## **The Outlook**

Looking out over the next 20 or so years, the inter-relationship between the United States, China, Japan and India will provide the backdrop and centre-point to much of what unfolds in East Asia and beyond. Much as the Cold War provided the backdrop and centre-point to the second-half of the 20th century.

### ***United States***

As I mentioned earlier, the United States–China relationship sits at the centre. This invariably opens up the question of where and how Australia positions itself. Expressed in its most simple and basic terms, our relationship with China and the United States can be summarised in one simple phrase: friends with both, allies with one. By its geography, as well as its economic and strategic interests, the United States is a Pacific nation. It is not going anywhere. We do not want it to go anywhere. Indeed, the United States presence has underwritten the stability of the region for decades. Our people-to-people, cultural, economic and strategic relations with the United States also span the decades. In fact, United States investment has been fundamental in enabling much of our growing liquefied natural gas exports to China.

Over 1 million United States servicemen passed through Australia during the Second World War. We have shared facilities in Australia and have trained and exercised together for many years. The force posture initiatives announced by President Obama and Prime Minister Gillard in November 2011 build on the history of our defence relationship, with the rotation through northern Australia of United States Marines and United States aircraft. The latter element is still being developed and will involve more training and exercising. It is not limited by aircraft type. It does not involve basing and it is not directed against any other country.

### ***China***

As close as we are to the United States, we do have our own interests and set our own course. Our relationship and interests in China are sometimes different to those of the United States, as witnessed by the decision to join the Asian Infrastructure Investment Bank, subject to governance arrangements.

Like so many other countries, Australia is a beneficiary of China's rise. The story of our relationship with China is well known by far our biggest trading partner, an increasingly important investor, established and developing foreign policy, economic and defence dialogues, and growing people-to-people links – all now encompassed within what is called a Comprehensive Strategic Partnership.

As China's economy has grown, so too has its military modernisation. This has enabled China to make significant and welcome contributions to international peace-keeping, to counter-piracy efforts, to humanitarian assistance and disaster relief, and to the search for MH370.

Our own defence engagement with China has also been able to be progressed through some limited exercising and other confidence-building measures under the umbrella of the annual Defence Strategic Dialogue.

Obviously, the Australia-China relationship is still developing the appropriate balance of trust and confidence and in many respects, a never-ending journey in international and strategic relations. It as has been readily acknowledged by successive Australian and Chinese leaders, differences will emerge from time to time.

As a regional country with over 50 per cent of its merchandise trade passing through the South China Sea, Australia has a national interest in safe and stable maritime routes, and freedom of navigation and overflight.

Successive Australian governments have not taken a position on the competing claims in the South China Sea. Rather, we consistently call on all parties to resolve their differences peacefully and in accordance with international law. We support the ASEAN chairman's statement in April and have urged adherence to the 2002 Declaration on the Conduct of Parties in the South China Sea. Australia has also encouraged all claimants to reach agreement on a Code of Conduct. It is in that context that we are concerned about the unprecedented pace and scale of China's land reclamation activities in the South China Sea over the last couple of years. Over the last year alone, China has reclaimed nearly four times the total area of the other five claimant states together. The speed and scale of China's land reclamation on disputed reefs and other features does raise the question of intent and purpose. It is legitimate to ask the purpose of the land reclamation – tourism appears unlikely!

China now has more law enforcement and coast guard vessels in the South China Sea than the other regional countries put together. And, given the size and modernisation of China's military, the use by China of land reclamation for military purposes would be of particular concern. It is not constructive to give the appearance of seeking to change the facts on the ground without clarification of actual claims. It is legitimate to raise such questions and express such concerns because tensions and potential miscalculations are not in anyone's interest.

### ***Southeast and East Asia***

With few exceptions, our Southeast Asian neighbourhood will probably become increasingly wealthier and more confident. For the first time, we will have a neighbour, Indonesia, which will have a bigger economy than our own. This will require psychological adjustment by Australia, as will an Indonesia which

continues to embed democratic norms. We will need to rethink engagement strategies and expectations.

The changes in East Asia, both economic and strategic, will see a real growth in defence expenditure. This will not be directed against us, but it will mean that the capability gap we have traditionally enjoyed in the wider region will significantly diminish and, in some instances, disappear. This, in turn, will raise questions not now, but well down the track as to whether we will be able to meet our defence needs. With a defence expenditure of around 2 per cent of GDP. European Union countries and Canada are in different strategic circumstances, so we should not look there for comparisons.

### ***South Pacific***

The growing wealth of East Asia will not be shared across much of the other part of our neighbourhood, the South Pacific. Here, climate change and other constraints may present us with opposite challenges to wealth and confidence. Over time, that could lead to serious questions of labour mobility if some of the smaller South Pacific Island countries are to develop sustainable economic growth.

### ***India***

Beyond the immediate neighbourhood, we are developing a more substantive partnership with India, as evident in the outcomes of meetings between Prime Ministers Abbott and Modi. But our economic relationship remains too narrowly based and the defence relationship is still developing. So there is enormous potential for growth over the next 20 years.

### **Conclusion**

Finally, I would like to round out the presentation by saying a few words about the Defence Organisation. We have just undergone a First Principles Review led by David Peever, former Managing Director of Rio Tinto Australia, and consisting of other distinguished Australians, including the former Chief of Army, Lieutenant General Peter Leahy, who is with us today.

The theme of the review was 'One Defence', which I very much welcome given that I am on the public record as saying that Defence is too much like a federation and needs to be more like a unitary state.

Implementation of the review will do that. It will involve a lot of change, some of it quite bold, and further downsizing of the Defence Public Service, which has already been downsized by 15 per cent over the past three years. At the end of the 2-year implementation process, however, I believe that we will be a sharper, more integrated and flexible organisation. Combined with the Force Structure Review, the Defence White Paper, and the Government's commitment to grow the Defence budget to 2 per cent of GDP, I believe we will be in much better shape to meet the challenges outlined in my presentation.

**The Author:** Dennis Richardson became Secretary of the Department of Defence on 18 October 2012, prior to which he was Secretary of the Department of Foreign Affairs and Trade. He was Australia's Ambassador to the United States from 2005 to 2009 and prior to that Director-General of the Australian Security Intelligence Organisation (1996-2005). A career diplomat and public administrator who graduated from the University of Sydney with a Bachelor of Arts (Honours) in 1968, he has served in various senior public service roles in the Departments of Immigration and Multicultural Affairs, and Prime Minister and Cabinet; and has held diplomatic postings in Nairobi, Port Moresby and Jakarta. He was appointed an Officer in the General Division of the Order of Australia in 2003. [Photo of Mr Richardson: Department of Defence]