

LOWY INSTITUTE

FOR INTERNATIONAL POLICY

**A FOCUSED FORCE:
Australia's Defence Priorities in the Asian Century**

**Lowy Institute Paper 26
April 2009**

EXECUTIVE SUMMARY

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The biggest questions for this year's Defence White Paper concern China. How does China's rise affect Australia's strategic situation, and what does it mean for our defence needs? It's an awkward time for the Rudd government to face up to these momentous issues, especially in view of the global economic crisis. That crisis has not made the questions go away. It is still likely that China's economy will overtake America's within a few decades, and as that happens China's strategic and political power will steadily grow. America will lose the position of uncontested strategic primacy that has kept Asia so stable and Australia so safe over the past four decades.

What will this Asian Century be like? Much depends on how China uses its new strength, and how the US and others respond. All the major powers have immense incentives to build a new stable order that accommodates China's power and preserves the peace. But history shows how easily these power transitions slide to strategic competition and war. Australia faces two great challenges in this situation. First, to do whatever we can to help build a new peaceful Asian order which matches the new realities. Second, to do what we can to ensure that if that fails, Australia will be able to look after itself in the more turbulent Asia that would result. That second task is the key question for Australia's defence policy today, and the focus of this paper.

Any government would be tempted to avoid this question by saying that we do not know enough about the future to decide what defences Australia might need. China's rise might falter, for example. Quite true, but we have little choice. Armed forces take so long to build that unless we begin before the future is certain, we will leave it until too late to respond to events as they occur. The whole art of good defence policy is therefore to make clear and rational decisions today about how best to meet highly uncertain future threats.

That is hard, so in defence, governments usually decide simply to keep doing what their predecessors did. For the Rudd government, that means following the Howard government's White Paper, *Defence 2000*, which significantly widened Australia's strategic objectives, but did rather less to build the forces to achieve them. Kevin Rudd and his colleagues will therefore face two questions. Do they stick with *Defence 2000's* more ambitious objectives, expand them further, or trim them back? And if they maintain or expand them, how do they reshape the Australian Defence Force to match, and how much do they spend to do so?

The first step should be to assess the kinds of risks that Australia's armed forces should manage. Some will argue that addressing security problems like global warming and terrorism will be more important in future than more traditional military tasks. Ministers are likely to conclude that serious though these problems are, armed force is not the answer to them, and that the more traditional tasks remain important, and should be the focus of defence planning. They are also likely to conclude that while Australia has interests all over the world, our defence planning should give priority to strategic risks in our neighbourhood and the wider Asia-Pacific region.

These will start close to home. Indonesia remains Australia's only close neighbour that could pose strategic risks to us, but that risk has been limited not only by generally good relations but by Indonesia's weak air and naval forces. There is no reason to expect relations to sour, but if Indonesia's economy grows strongly it will most likely expand its air and naval forces over coming decades. Australia therefore cannot assume that its wide margin of advantage over Indonesian forces will last all that much longer.

Elsewhere in Australia's immediate neighbourhood the biggest risks we face are from weak and failing states. Australia's concerns about their stability and its commitment to help have both increased sharply in recent years. There remains a clear risk that even bigger problems could arise, especially in key neighbours like East Timor, PNG and Fiji, and if that is so then Australia could want options to respond militarily. Whether we would actually do so would depend on the wider regional situation.

Just as Australia's strategic outlook has been dominated in past decades by American primacy in Asia, so in future will it be shaped more than anything else by what follows as American primacy fades and China grows. The biggest risk is not that China itself becomes a direct threat to Australia, but that the erosion of American power unleashes strategic competition among Asia's strongest states, which in turn increases the risk that Australia could face a number of military threats to its interests or even its territorial security.

We can escape that risk if the US, China, Japan and eventually India can avoid escalating strategic competition by negotiating a new set of understandings to replace those that have kept Asia so peaceful for the past forty years. The essential basis of any new understanding would be a more equal sharing of power among these key states. But is America really willing to treat China as an equal? Will China settle for anything less? And can either treat Japan as an equal? And will Japan – still a huge power – settle for less than China gets? Unless these questions can be resolved, it is hard to see how escalating strategic competition can be avoided in the longer term. That would pose all kinds of new strategic risks for Australia. Would we side with the US if it gets dragged into confrontation and conflict with China? Or would we stand aside and see our alliance dwindle? Either way, we would face more challenging strategic risks and harder choices than we have faced since the 1960s.

So the White Paper needs to ask how these developments in the wider Asia-Pacific might affect Australia's security, how armed force could help protect those interests, and what kinds of operations would be required. *Defence 2000* defined a concentric hierarchy of five strategic interests from the defence of the continent to preventing the domination of Asia by a single Asian power, with a series of strategic objectives to match, and sketched two distinct operational options to achieve them. In the new White Paper the government will find it hard to justify paring Australia's interests and objectives as strategic risks grow, and may even have to consider expanding them. That will require it to focus more closely on how those objectives can best be achieved. The operational concept of maritime denial which has underpinned much Australian defence thinking for decades probably remains the best bet, but to exercise that option in tougher circumstances will require more carefully designed forces.

The blunt truth is that our current and planned forces will not be able to achieve the strategic objectives set for them over the past decade, let alone any wider objectives that may be set in future. The Army is too small for the stabilisation operations we expect it to undertake in the immediate neighbourhood, and our air and naval forces are too small and insufficiently advanced to offer the operational options we seek. Today the 'Balanced Force' we have inherited from the 1970s has a little bit of many things but not enough of anything to achieve a significant strategic result. It will therefore be fine if the next few decades are as peaceful as the last few. But is that a good basis for defence policy?

To provide future Australian governments with genuine military options to protect Australia's strategic interests if Asia becomes more contested, our defence planning needs to focus on the capabilities that provide those options most cost-effectively. That means making harder choices about the kinds of forces we need and those we do not. What would such a 'Focused Force' look like?

For the Army, it means giving priority to expanding the number of infantry battalions to increase our capacity for stabilisation and other lower-intensity operations, especially in Australia's immediate neighbourhood. These forces need good firepower and armoured vehicles, but we should not invest in land forces for intense continental or amphibious warfare, because Australia will never have the capacity to achieve significant strategic effects in Asia with land forces. In conventional conflict our strategic weight will depend on air and naval operations.

At sea, we should invest in a much bigger fleet of submarines, which are most cost-effective for maritime denial, and stop building highly vulnerable and extremely expensive surface ships for which there is no clear strategic purpose. And in the air we need to ensure a robust air combat and strike capacity against the kinds of forces that major-power adversaries will have in the 2020s and 2030s. That means aircraft at least as capable as the JSF, and many more of them than is now planned.

This kind of force would cost a lot of money. Today ministers are focused on the short-term fiscal consequences of the economic crisis, but the key decisions they face in defence concern long-term capability development priorities which will not make much impact on the budget for ten years or more. The question then is what level of long-term defence spending are we prepared to consider? For more than a decade Australia has spent 2% of GDP on defence, which is the lowest level since the Second World War. With better management we could sustain our present force over coming decades at about that level of spending, but our relative strategic weight would decline. But to build a Focused Force which could achieve Australia's long-term strategic objectives as they are now defined, we would need to spend 2.5% of GDP or more. This is not unthinkable: it is comparable with our defence spending in the 1970s and 1980s.

Ministers will be tempted to say we can afford all the forces we need within current funding projections if those dollars are spent more efficiently. That may be wishful thinking. Large efficiencies in defence are possible, but they will require really forceful leadership to achieve, and that has been lacking for a long time. And even if new brooms can turn defence on its head, the long-term trends suggest that Australia has no choice but to spend more on defence or accept a steady decline in strategic weight. A mere 20 years ago, Australia's economy was the second-largest in Asia after Japan: larger than either India's or China's. How quickly the balance has shifted.

That raises deeper questions about Australia's place in our region and indeed the kind of country we are. Will we remain a middle power in the Asian century, or join the small powers? Addressing these questions will pose a challenge for our political processes, in the same way that climate change does. But we have faced such choices before. When Britain's power declined in the late 19th century and when modern Asia appeared after the Second World War, Australia remade its place in the world to meet new conditions. We face a similar challenge today, and the new Defence White Paper is an important opportunity to start addressing it. Whether it does so will help indicate if our leaders are up to the task of preparing Australia for the Asian Century.