



Asia Pacific Bulletin

Number 180 | September 18, 2012

Confusion Down Under: Australia and the US Pivot to Asia

BY MARK THOMSON

Foreign observers of Australian defense policy are no doubt scratching their heads at recent events. Within six months of US President Barack Obama's administration announcing the US pivot to Asia, the center-left Labor government of Australian Prime Minister Julia Gillard slashed defense spending and effectively shelved plans to expand Australia's defense force—plans that were released with great fanfare only three years earlier. The numbers are stark. A 10 percent year-on-year cut to the defense budget, and over the next two years defense spending as a share of GDP will fall below 1.5 percent—a figure not seen since the dark days at the end of the Great Depression in 1938.

Mark Thomson, Senior Analyst at the Australian Strategic Policy Institute (ASPI), explains that “The challenge for Australian policymakers will be to reconcile the growing expectations of the United States with the reality of what Australian taxpayers are willing to spend.”

The turnaround is dramatic. The government's 2009 Defense White Paper laid out a vision for a strengthened Australian military built around a more capable navy. Initiatives included a doubling of the submarine force from six to twelve boats, and a new class of larger and more capable frigates to replace the aging Oliver Hazard Perry guided missile frigates. These measures are now all under question.

Of course, Australia is not alone in cutting back on defense, in the aftermath of the 2008 financial crisis the United States and many European countries are doing the same. But there is an important difference. Unlike the vast majority of developed countries, Australia has emerged almost unscathed from the recent global financial crisis. Economic growth is back close to pre-crisis levels and unemployment is hovering around 5 per cent. More importantly, Australian government debt is small by international standards.

So what is going on? It is not that Australia has suddenly felt more secure. If anything, events in the region have elevated fears that the rise of China will upset the strategic stability upon which Australia's prosperity is built. Nor is there any sense that Australia can relax because the United States has reasserted its commitment to the Asia-Pacific. It is understood that the United States expects its allies to do more rather than less to support its pivot to Asia. Rather, the recent retrenchment in Australian defense spending is largely the result of domestic politics.

The Australian polity has an acute aversion to deficits and debt. And while it took the necessary Keynesian measures to sustain aggregate demand in 2008 and 2009—and managed to avoid a recession as a result—the race is now on to return the budget to surplus and pay down the debt as quickly as possible. Do not bother searching for an economic explanation for there is not one. At 16 per cent of GDP, Australia's government debt is the envy of the developed world. Nonetheless, the two sides of Australian politics have worked themselves into a prisoner's dilemma over budget deficits. Each knows that a more measured approach would be better, but neither is willing to say so lest they be accused of weakness. Consequently, both sides of the

“One thing is clear. With Australia and the United States each entering a period of defense austerity, there is a heightened priority to build a shared understanding of each other’s expectations regarding the future of their alliance.”

The East-West Center promotes better relations and understanding among the people and nations of the United States, Asia, and the Pacific through cooperative study, research, and dialogue. Established by the US Congress in 1960, the Center serves as a resource for information and analysis on critical issues of common concern, bringing people together to exchange views, build expertise, and develop policy options.

The *Asia Pacific Bulletin* (APB) series is produced by the East-West Center in Washington. The views expressed in this publication are those of the authors and do not necessarily reflect the policy or position of the East-West Center or any organization with which the author is affiliated.

political aisle have become committed deficit hawks, and defense spending rates high among the casualties.

It is hard to say how long Australian defense spending will remain hostage to fiscal politics. On current projections, military spending will start to recover around mid-decade in tandem with economic growth. But this depends on continuing recovery in the global economy and sustained demand for Australian resources from China, neither of which is assured.

Moreover, and irrespective of what financial pressures emerge, there is also a feeling that Australia’s appetite for defense investment has reached a peak and is now in decline; the post-9/11 decade of strategic urgency has been eclipsed by the post-financial crisis decade of economic insecurity. Even without these shifting perceptions, based on past experience the scene is set for cuts following withdrawal from Afghanistan. The long-term pattern of Australian defense spending is cyclical; defense investment rises in times of conflict and falls in times of peace—well in excess of the actual cost of operations.

The challenge for Australian policymakers will be to reconcile the growing expectations of the United States with the reality of what Australian taxpayers are willing to spend. There is more than a little confusion and muddled thinking going on at the moment. Both political sides agree that defense is important and the US alliance is critical, but neither is willing to incur the domestic political cost of running a deficit or diverting resources from other areas of public expenditure.

For the moment, the issue is being held in abeyance by the United States’ own substantial defense cuts—it is hard to argue for others to spend more when you are spending less. At least that is what Australian politicians appear to be counting on. Almost any official pronouncement on Australian defense spending is prefaced with the observation that the United States and most other developed countries have already cut their defense spending. But it is hard to sustain this argument given that the Obama administration appears committed to an increased US presence in the Asia-Pacific irrespective of reductions to the overall US defense budget.

It remains unclear how much pressure there will be for Australia to do more in the longer term. Although retired US Deputy Secretary of State Richard Armitage and commander of US Pacific Command Admiral Samuel Locklear have each publicly expressed concerns about Australia’s defense cuts, the reality is that Australia has carried a disproportionately small share of the common defense burden in the region since the end of the Second World War—and that is unlikely to change.

Now, it is simply a question of degree. In the meantime, Australia is providing unwavering political support for the US pivot to Asia, including hosting up to 2,500 US Marines for training in the north of the country. Further options for closer US–Australia military cooperation are not only possible, but are likely to be perceived as cost-effective alternatives by Australian leaders.

Ultimately, events in the wider world will determine the trajectory of Australian defense spending and, in turn, the further development of the Australian defense force. A crisis over the South China Sea or a coup in a South Pacific island could see things change quickly. But, absent a clearly identified strategic imperative, it will be hard for any Australian leader to ramp up defense spending once it has fallen into abeyance. Until such time as circumstances force a rethink of the political priority for defense, Australian policymakers will have to find creative ways to support the US pivot to Asia.

One thing is clear. With Australia and the United States each entering a period of defense austerity, there is a heightened priority to build a shared understanding of each other’s expectations regarding the future of their alliance.