

# STRATEGY

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## Changing pace

ASPI's strategic assessment 2011

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February 2011



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Will Clegg

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First published February 2011

Published in Australia by the Australian Strategic Policy Institute

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Lyon, Rod, 1951-

Changing pace : ASPI's strategic assessment 2011 / Rod Lyon, Will Clegg.

ISBN: 9781921302657 (web)

Series: Strategy (Australian Strategic Policy Institute)

Notes: Includes bibliographical references.

Balance of power--Forecasting.  
National security--Australia.  
Australia--Foreign relations--Asia.  
Asia--Foreign relations--Australia.

Other Authors/Contributors:  
Clegg, Will.  
Australian Strategic Policy Institute.

337.9405

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## Executive Director's introduction

ASPI's strategic assessments are always amongst our most popular publications. The last one was published in October 2008. In one sense, that doesn't seem so long ago. But in another sense, it seems almost to belong to a different strategic world. In October 2008, Barack Obama hadn't been elected president in the United States. The Global Financial Crisis was merely beginning. The G20 Leaders Summits hadn't yet emerged as an important global coordination instrument in a multipolar world. The North Koreans hadn't conducted a second nuclear test, let alone sunk the *Cheonan* and shelled Yeonbyeong Island. The 2010 Non-Proliferation Treaty Review Conference was only a distant gleam in the eye of diplomats. China hadn't begun to flex the foreign and strategic policy muscle that it began to show in 2009 and 2010. Events in the last two years have accelerated the pace of strategic change and we can now sense the shape of a different Asia.

So over recent months we have taken the opportunity to look at the world afresh. The director of our Strategy and International Program, Rod Lyon, and one of our research analysts, Will Clegg, are the primary authors of the report which now lies before you, although I know they would want to thank others, both inside ASPI and out, who contributed ideas and thoughts on specific topics. I trust readers will find value in the key assessments which underpin this latest report. The authors highlight a set of nuanced judgments across a range of topics: that US 'declinism' might have been oversold, but that we should still expect some decline; that the Asian security environment is threatened at least as much by poor great-power relations within it as it is by a possible US–China strategic competition; that the 'Long War' on terrorism still looms before us years after George Bush has left the Oval Office. On those and many other issues, the report offers a range of insights to ASPI's readership. It does not try to be deliberately provocative—but nor does it shy away from hard judgments.

I know some readers, when they finish the assessment, will be asking themselves, 'So where do we go from here?' The final chapter of this assessment provides some initial thoughts on that issue. But ASPI will be trying to answer that question more fully in its forthcoming research program. After all, ASPI's mission is not merely to assess the strategic environment within which Australia lives, but to recommend strategies that would allow Australia to maximise its own interests within that environment. This assessment is, therefore, an introduction to some of the issues that we will be addressing as 2011 unfolds.

**Peter Abigail**  
Executive Director

## Executive summary

The pattern of global strategic influence is shifting. Western influence is in relative decline, as a result of sluggish economic performance in the developed world, rapid growth in the developing world, President Obama's domestic priorities, and the difficulties that Western militaries have faced in Iraq and Afghanistan.

That doesn't mean a Western-shaped world is going to disappear anytime soon. The US, in particular, has substantial reserves of strength, and those reserves will decay only slowly. Moreover, the Obama administration is showing a willingness to engage in the design of new strategic orders—especially in Asia and the Middle East—even as its relative power is in decline.

Still, shifting strategic relativities are now being felt profoundly in Asia, where US primacy seems to be giving way to a new environment characterised by an emerging set of regional power balances. Even in a 'post-primacy' Asian environment, the US will remain one of the key balancing states, and many regional states have an interest in it doing so, but the regional order is certain to become more complex and multipolar.

Many Asian states are feeling pressure to find new saddle-points in that emerging strategic landscape. They're exploring options to enhance their own strategic weight. Overall, the geopolitical transformation now underway in Asia is making for a more competitive—and less predictable—regional security environment.

That more competitive environment is rippling into Southeast Asia, which sits at the intersection between Australia's immediate neighbourhood and the wider world. Southeast Asian states are likely to feel a sense of heightened strategic vulnerability in coming decades. ASEAN was never built to play a power-balancing role, so new patterns of practical security cooperation may arise in the subregion.

Despite the heightened prospects for great-power strategic competition, the spectrum of strategic actors and militarised conflicts continues to widen, stretching our understanding of the concept of



war. War is still ‘politics by other means’, but more actors want to advance their political agendas by the use of force. Non-state actors have increasing capabilities, including the capacity to attack cities with little warning (as happened in Mumbai).

Western militaries must be ready to fight a diverse range of adversaries: they’re as likely to be fighting non-conventional opponents as they are conventional opponents in coming decades. True, conventional opponents typically have larger military forces, but they’re slower to resort to violence. Non-conventional opponents bring smaller forces to battle, but use them directly.

Those big strategic developments (shifting great-power relativities and a broadening spectrum of conflict) will also be caught up in an increasing focus on issues of ‘national security’—a broad agenda of concerns (such as pandemics, transnational crime, natural disasters, climate change and energy security) that might plausibly threaten national-level interests through non-military means. The recent Queensland floods are a potent reminder of how quickly and completely some issues can dominate the agenda. Those concerns will make it hard for policymakers to concentrate on the ‘strategic’—as opposed to the ‘security’—agenda.

So Australia faces three challenges. First, and most importantly, we need to devise a strategy for living in a different Asia—a strategy designed to maintain and advance our interests as Asia’s geopolitical transformation unfolds. Second, we need to find more effective mechanisms to address the problems posed by new strategic actors—so far, traditional military forces and nation-building have proven to be of limited value. And third, we need to find some way to mitigate risks and consequences in the broad national security space—if we don’t, the ever-expanding security agenda is likely to hobble good strategic planning.

Unfortunately, we won’t have the luxury of tackling those challenges as three discrete tasks—they’re more likely to arrive simultaneously and entwined.

## Global overview

### Assessments

- The global financial crisis (GFC) that began in 2008 has 'compressed' a set of strategic changes that were already in train, accelerating the long-running shift in power away from the Western world and towards developing nations.
- The US will remain the world's strongest power for many years yet, and the only one able to exercise power-projection options across the globe. But China, India, Russia, Japan and a few European powers—possibly Brazil—will also sit at the great-power table. Each will show growing capacity to influence events within its own region.
- A set of second-tier powers will also seek to shape world and regional affairs, reacting to shifting great-power balances and the increasing volatility of international relations. Australia will be one of them. The sheer diversity of great powers and second-tier powers may dilute the global consensus on core values.
- Great-power relationships are unlikely to slide towards physical conflict, but they might well become more strategically competitive, and even that could reshape the world as we know it. A sustained escalation in Sino-American tensions, were it to occur, would—like the Cold War—transform global politics, leaving most countries worse off and probably generating new strategic 'blocs'.
- While economic growth is increasing the world's stock of strong, industrialised states—and driving an agenda focused on the relationships between such states—we'll remain in an era in which fragile and failed states will continue to pose special strategic challenges. Non-state actors already exploit 'ungoverned spaces' to pursue their goals, and their reach across state boundaries is growing.

## Analysis

The GFC has yet fully to run its course, and the prospect of a further major disruption to the global economy lingers, threatening the stability of the international system. In gross terms, the crisis has shifted influence away from the world's richest economies, towards Asia and Latin America (Chan 2010). The fast-growing developing economies have continued to benefit from buoyant growth, whereas others—the US and European economies in particular—have become more sluggish. Moreover, it's far from clear that the crisis is over: the US might still be heading towards a 'double-dip' recession. If it is, doubts about its strategic staying power—so far, relatively muted—will increase. And a range of countries that have long coasted on the back of US efforts will be driven to consider a wider portfolio of strategic options.

Europe and Japan, traditionally the second and third 'power cores' of the West, are in no shape to take on new burdens. Europe confronts mounting sovereign debt crises and will probably emerge from the GFC weaker and more inward looking than when the crisis began. The British defence budget is set to contract substantially, and Germany's move away from conscription will reduce the size of its armed forces. It's possible that support for the whole notion of sovereignty-pooling may weaken in Europe, especially within those nations—like Germany—picking up the bill for the largesse of their fellow Europeans.

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Western powers will obviously continue to pay attention to international flashpoints, but their preoccupation with their 'home fronts' will provide opportunities for others to expand their roles in both global and regional affairs.

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Japan, the West's civil power in Asia, is still experiencing a difficult and protracted transition towards a multiparty political system. Its economy remains stagnant. It's ill-placed to provide stronger global leadership as the other two Western power centres weaken. The US, Europe and Japan will all have to deal with politically painful spending cuts, tax hikes and significant unemployment, and the fiscal problems will get worse the longer hard decisions are delayed. In all three places, attention in coming decades will be focused on domestic challenges. Western powers will obviously continue to pay attention to international flashpoints, but their preoccupation with their 'home fronts' will provide opportunities for others to expand their roles in both global and regional affairs.

Still, no-one is rushing to wrest the mantle of global leadership from the Americans. China, India and Brazil all have the potential to exercise more global influence than they currently do, but remain developing countries. Russia, Japan and a collection of European countries are still important powers, but none has the individual weight to be a true global leader. Furthermore, a new set of second-tier powers, found typically—but not exclusively—in the world's top 20 economies, will be increasingly prominent (Table 1). They include South Korea, Canada, Indonesia, Iran, Turkey, Mexico, Saudi Arabia, South Africa—and Australia. Among this disparate group, as among the top-level players, there are prospects of a weakened global consensus, faltering global leadership, and competing visions of the future.

**Table 1: Gross domestic product, twenty largest economies, 2010 (US\$ billions, purchasing power parity)**

Country	GDP (in US\$ billions)
United States	14,720
China	9,872
Japan	4,338
India	4,046
Germany	2,951
Russia	2,229
Brazil	2,194
United Kingdom	2,189
France	2,160
Italy	1,782
Mexico	1,560
South Korea	1,467
Spain	1,374
Canada	1,335
Indonesia	1,033
Turkey	958
Australia	890
Iran	864
Taiwan	807
Poland	722

Source: CIA world factbook (as at 3 February 2011).

Former Mexican foreign minister Jorge Castaneda has argued recently that retooling international institutions to reflect better the broader distribution of power might well weaken the level of global commitment to core values of democracy, human rights, nonproliferation and environmental protection (Castaneda 2010). Castaneda points out that many of the rising powers still lack vibrant and well-organised civil societies, and so cannot bring to the international arena values of which they have little experience domestically. We certainly face a less 'Western-shaped' world, but we also face a world of frayed global leadership, for the simple reason that rising powers will be able to frustrate long before they are able to lead.

Even in a more multipolar world, China and the US will sit at the top of the ladder, forming a tense dyad, economically interdependent but driven by different world views. This codependency is already pressing Beijing and Washington into uneasy accommodation. At the economic level, they play a non-zero-sum game, both believing they can profit from their codependency. But there are signs that the Sino-American strategic relationship is increasingly vexed. A sustained escalation in Sino-American tensions would transform world politics, disrupting the global economy and leaving China, the US and most other countries worse off.

The GFC hasn't resulted in a redefinition of the rules or institutions governing global finance. The G20 has proved to be an effective forum for crisis management, but it's done little to address the issue of systemic risk in a complex and opaque global financial system. Even if globalisation continues without interruption, it's far from clear whether a world populated by more strong industrial states, fewer fragile agrarian states, a fluid mix of religious and

nationalist ideologies, dense global networks, and globally integrated economies will be more or less stable than the world we've come to know.

Trend analysis is a fragile element of forecasting, but demographic trends are important because—short of a major catastrophe—they have reasonably predictable consequences for the populations of regions and states. World population is increasing, ageing, and becoming more urbanised. It's projected to grow by about 1.2 billion by 2025, from 6.8 billion to around 8 billion. Asia and Africa will account for the bulk of the growth, while less than 3% will occur in the West (NIC 2008:19). That growth will place new political, social and economic strains on some countries that are ill-equipped to address them, exacerbating the risk of state failure.

Legal and illegal global migration are also climbing. As of 2010, the United Nations estimated that there were 214 million migrants across the globe, an increase of about 37% in two decades. Developed and rapidly developing urban centres require workers, and despite growth patterns in a substantial part of the developing world many migrants still have much to gain by obtaining work abroad. The world population is also becoming more urbanised. In 2010, just over half (50.5%) of the world's people lived in urban centres. That figure will swell to almost 70% by 2050, with growth concentrated in Asia and Africa (UNDESA, 2010:1–2).

Changing demographics may well change patterns of conflict. Developed societies with ageing (and sometimes shrinking) populations will be looking for new ways to exercise force—ways that require fewer young males. For example, a city bias is already evident in terrorist targeting for the simple reason that even when terrorists want only a few people dead, they want many people watching. And advanced militaries are showing greater interest in modes of warfare—strikes by armed drones, for example—that place fewer soldiers at risk.

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## Conflict between states, including nuclear-armed states, remains possible...

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Conflict between states, including nuclear-armed states, remains possible, and it would take only a few cases of proliferation of weapons of mass destruction—especially nuclear weapons—to drive existing nonproliferation regimes into crisis. Moreover, advanced conventional weapon-systems continue to spread. States pursuing an anti-Western agenda, such as North Korea, Iran and Venezuela, may see more opportunities for strategic cooperation as the Western-shaped world passes. However, warfare will be defined by continuity as well as change. Whereas the internet and space provide new arenas for conflict, human instinct remains unchanged—'fear, honour and interest' will remain important motivations in international affairs in the future, as they were in Thucydides' day.

Increasingly influential non-state actors populate the world alongside states. The proliferation of communications and guidance systems (such as mobile phones and GPS receivers) and bomb-making technology continues to increase the strategic weight and reach of radicalised non-state actors. Growing, internationalised skill-sets in improvised explosive devices (IEDs) are an especially worrying phenomenon, felt across an increasing number of countries. It's likely that IED technology will spread to many regions of the world.

Ungoverned spaces, internal dissent and non-state armed groups all provide states with increased opportunities for competition, and there's the potential for new forms of 'proxy' war to emerge if relations between the great powers sour.

When considering the widening spectrum of possible 'war-makers', it pays to keep in mind Robert Art's helpful distinction between two separate 'uses' of military force:

When used forcefully, the effects of military power are easy to identify. A state unleashes its military forces, and it either achieves its objectives or fails to. The adversary is defeated or coerced; or it remains victorious and unbowed; or the battle is fought to a draw ... When used peacefully, states employ their military power in more subtle ... ways. Used peacefully, military power is held at the ready, and its exact influence on political outcomes becomes more difficult to trace. The war-waging use of military power is akin to a powerful flood; it washes away all before it. The peaceful use of military power is akin to a gravitational field among large objects in space: it affects all motion that takes place, but it produces its effects imperceptibly. (Art 2004:3)

For all their record of war, states tend to use military power peacefully rather than forcefully. By contrast, non-state actors—like terrorist groups—are more inclined to use military power forcefully rather than peacefully. That difference matters when we think about the likely future of conflict—and whom we might be fighting.

# The United States

## Assessments

- President Obama has done much to restore the US's 'soft power' credentials, but he and his successors now confront a harder challenge: retaining US global pre-eminence by restoring the domestic wellsprings of America's power.
- Domestic revitalisation is necessarily a long-term project and will be complicated by the US economic outlook and the increased polarisation of US domestic politics. Analysts are already predicting that the US will be a 'frugal superpower' (Mandelbaum 2010) in the near future—one that counts the dollar-cost of its global role. Some are more brutal in their judgment, canvassing the possibility of a superpower that is 'superbroke' (Friedman 2010).
- On the positive side of the ledger, the Americans inherit a strong position in global politics. And, as Walter Russell Mead once dryly noted, Rome didn't burn in a day (Mead 2010).
- Again on a positive note, the Obama administration has become more proactive in Asia. Especially over recent months, the US has become a more interventionist power at the region's troublespots. In its relations with Japan, its closer partnership with South Korea (especially after the *Cheonan* sinking), its commitment to South China Sea issues, its restoration of military relations with Indonesia's Special Forces (Kopassus), and its reaffirmation of the ANZUS alliance, Washington shows more signs of returning to the Asian 'main game'.
- That proactivity was overdue. The Asian security order that rested on US primacy has been decaying for years. The challenge for Obama and his successors is one of redesign—finding new ways to bring (relatively declining) US power to bear at key regional fulcrums.

- Obama has also stepped up Bush's war against violent extremism, but the US still needs to identify instruments that maximise its leverage vis-a-vis non-state actors and then use those instruments effectively. This more efficient packaging of power is especially important given the US fiscal outlook, the high probability of defence budget cuts, and the urgent need to recapitalise US armed forces.

## Analysis

President Obama has restored the US's soft-power credentials, adding to Washington's global authority and making US foreign and strategic policies more attractive. The 2009 Pew poll reflected a dramatic improvement in global perceptions of the US, reporting that:

Improvements in the U.S. image have been most pronounced in Western Europe, where favourable ratings for both the nation and the American people have soared. But opinions of America have also become more positive in key countries in Latin America, Africa, and Asia, as well. (Pew Global Attitudes Project 2009)

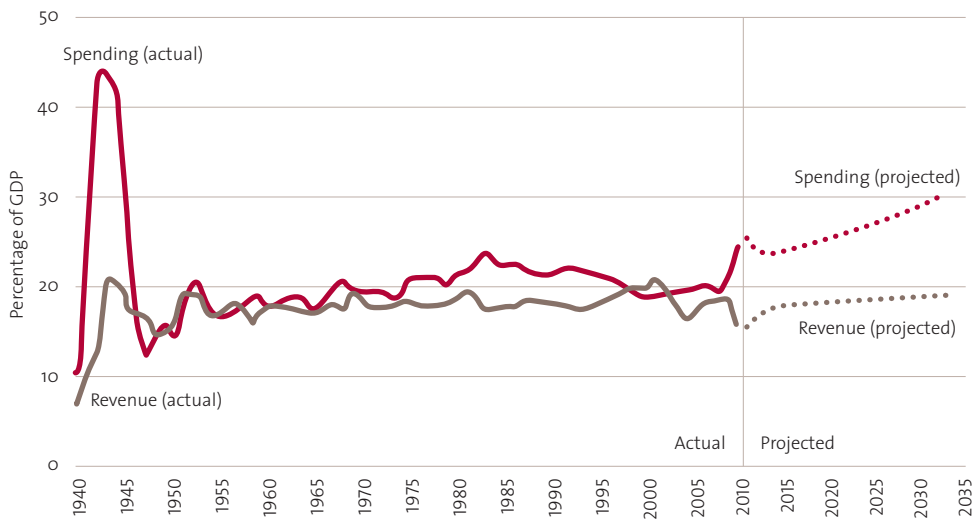
On the other hand, anti-Americanism is still strong in parts of the Muslim world, such as Pakistan and Iran, and elsewhere in the developing world where nationalist elites exploit anti-Americanism to legitimise their rule. Notwithstanding that fact, the world is now less likely to see the US as an arrogant bully than as an assertive partner or, in some quarters, a vacillating superpower.

But the gains that Obama has achieved in US soft power have been offset by America's hard-power difficulties. Growth in emerging economies, the GFC and the symbolic and material costs of ongoing wars in Afghanistan and Iraq are contributing to a decline in the US global pre-eminence. True, Obama intends to retain US strategic and economic primacy by rebuilding America's middle class; shoring up the country's traditional strengths in science, technology and education; boosting its exports; and mending its broken financial sector. He reaffirmed that commitment in early September 2010 when he argued that the withdrawal of US combat troops from Iraq signalled that it was 'time to turn the page' to pressing problems at home. It's too early to assess whether this necessarily long-term project of domestic revitalisation will be a success—it's not something Obama can achieve alone. Key reforms will be difficult to secure if the polarisation of US domestic politics that has occurred over the past two years continues. The shooting in January this year of Arizona Congresswoman Gabrielle Giffords seems unlikely, by itself, to herald a new era of civility and bipartisanship in US politics.

The GFC hit the US economy hard, and medium-term growth prospects remain weak. Jobs growth is slow, the economy remains dependent on finance, and the financial sector remains fragile despite regulatory reform. Assessments of the US economy vary within the economics profession. Some, such as Joseph Stiglitz and Paul Krugman, argue that a 'double dip' recession is inevitable unless the federal government can stimulate growth, noting that monetary policy is nearly exhausted and that political divisions will probably prevent the delivery of a new fiscal stimulus. Public debt continues to mount, state governments are cutting back on social services, and the federal government is expanding its structural spending by extending health care and other benefits to more citizens. The gap between federal spending and revenue is acute and projected to get worse (see Figure 1), increasing federal debt.



Figure 1: US federal spending and revenue, 1940–2035



Source: USJFCOM (2010:20).

There are mounting concerns about the strategic implication of this debt. The US Joint Forces Command's *Joint operating environment 2010* identified federal debt as a primary threat to US national security (USJFCOM 2010: 19-21), but the markets seem confident that the US can carry its debt—bond yields are very low. The US economy is large and diverse, and the US dollar is the world's global reserve currency. Still, market sentiment can change quickly and there might be little warning were the US economy to suffer another major economic shock. We've already witnessed a series of dramatic and unexpected economic results in quick succession, and the US economy remains laced with risk.

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Despite domestic challenges, the US will probably remain the world's strongest power for some decades.

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Despite domestic challenges, the US will probably remain the world's strongest power for some decades. It's endowed with the biggest and most technologically advanced economy, has high rates of investment in high-technology sectors, high per-capita income, a uniquely capable military and a robust nuclear arsenal. It remains a close and important ally for Europe and Japan, among other rich and powerful strategic actors. The US population will continue to grow as a result of immigration from Latin America and will remain relatively young, unlike the populations of Europe, Japan and Russia. Over the medium to long term, the prospects for US power look good.

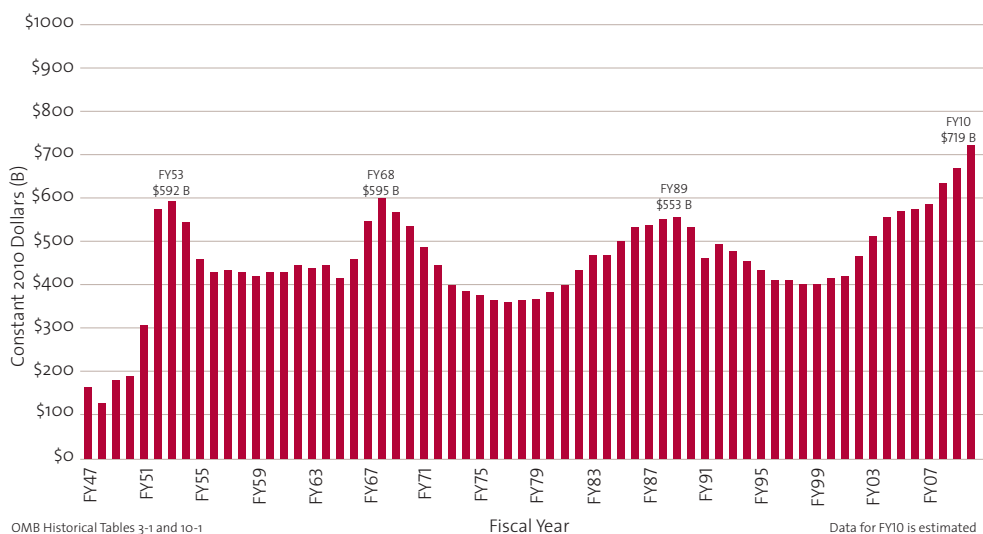
The Obama administration has also stepped up on two key fronts: the US's strategic commitment to Asia and the struggle against violent extremism. Its recent increased traction in the Asian theatre is especially noteworthy, given earlier observations among Asian states that the Asian century was largely playing out without the US being present. And the 2010 Quadrennial Defense Review weighted US strategy and investments heavily towards the broad issue of transnational terrorism, especially the wars in Afghanistan and Iraq. So far, the economic pinch in the domestic economy is not translating much into diminished strategic roles.

Still, after nine years of war and the GFC even defence spending is starting to feel the pressure, and prominent US strategic analysts are touting the attractions of strategic 'restraint' (for example, Cronin 2010). The US needs to develop strategies that leverage foreign capabilities, not just its own, that use resources efficiently at a low opportunity cost, and that impose costs on others rather than on itself. In other words, the US needs to identify instruments that maximise its leverage and then use those instruments effectively. One of those instruments must be its alliance relationships with other states. In brief, Washington will be looking to its allies to do more.

The US is strategically committed in Europe, the Middle East, Afghanistan–Pakistan, and East Asia. And were Mexico to collapse, it would face a geopolitical challenge on its own doorstep. Those commitments require a spread of US effort that rising regional powers may increasingly be able to match within their own regions. There's a danger that the US faces a future in which it is globally predominant but regionally frustrated. Such an effect is probably least likely in Europe, where the US has many developed, democratic partners. It's more likely in the other three regions of current US engagement.

US defence spending (measured in constant 2010 dollars) is higher than it's been at any point since 1947 (see Figure 2). It's unlikely to remain at that level. Although the US can probably afford to continue spending roughly 5% of GDP on defence, we lack convincing evidence that its defence spending has escaped the cyclical pattern it followed between 1947 and 2001. Then, in the words of one analyst, it 'had an inertial quality, consistently returning to its post-1950 mean after major buildups or cutbacks' (Fordham 2007:373). Indeed, Secretary Gates has already flagged future defence budget reductions, perhaps hoping to preempt more swinging cuts. But European states are also bracing for deep cuts in military spending, reducing NATO's aggregate capabilities while increasing the already wide gap in military power between the US and the rest of NATO, so many allies might not be in a position to take on increased burdens during a period of comparative US weakness.

**Figure 2: US national defence outlays, 1947 to 2010 (US\$ billion, constant 2010 dollars)**



# The Asian security environment

## Assessments

- Asia has entered an era of geopolitical transformation. It's moving towards a multipolar, balance-of-power strategic environment, and away from US regional primacy. The trend signals a new era of security relationships that will probably be more fluid than the one we've come to know.
- We can already foresee the crude contours of that future environment. It's unlikely to be as strongly centred on the US–China bilateral relationship as some have argued. And it's unlikely to produce distinct 'spheres of influence' in the same way that the Cold War did. The final shape of Asian multipolarity matters—not just which states rise, but how many do. The more discrete powers there are in Asia, the more the relative weight of any single power will be diluted.
- The US will be one of Asia's great powers. Some are inclined to caricature the US role in Asia as one of either pre-eminence or disengagement. That's wrong. Long after the era of US pre-eminence has faded—and it *is* fading—the US is going to remain a powerful player in the Asian security environment.
- China can't quickly replace the US as Asia's pre-eminent regional power. It's struggling to grow its regional role while prioritising its own development; although it's come a long way, it still has a long way to go. Moreover, its activities in recent months have looked opportunistic rather than visionary: Beijing's finding it difficult to retail a narrative of a China-led Asia.
- Both India and Japan are likely to emerge as major regional players over the next twenty years, making for at least four regional great powers in Asia. India's rise will bring a greater strategic focus upon a long-neglected body of water—the Indian Ocean. Russia will also have strong interests in the region, but will continue to be seen by others as a Eurasian power rather than an Asian one.

- A range of second-tier powers—South Korea, Indonesia and Australia—will also be looking to shape Asia's future, working by themselves on some occasions, in company with each other on other issues, and in tandem with one or more of the great powers on the 'top-table' strategic issues.

## Analysis

Within Asia, the longevity of US primacy will depend on Washington's ability to foster domestic revival, bolster regional alliances, build new partnerships and downplay expectations of its decline. Even if the US can achieve all of those goals, it will have to confront a simple truth: Asian great powers represent growing 'bubbles' of power in the regional security environment that will overlap increasingly with existing US strategic commitments. Moreover, the intersection of those new bubbles with each other will generate a new set of great power relations in Asia, within which the US won't always play a primary role.

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China, Japan and India now rank as the world's second, third and fourth largest national economies in purchasing power parity terms.

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Asia is rapidly regaining the global economic status it enjoyed before the Industrial Revolution, cementing its position in the manufacturing, high-technology and service sectors of the global economy. China, Japan and India now rank as the world's second, third and fourth largest national economies in purchasing power parity terms. As *The Economist's* Banyan blog recently noted, the one thing that unites most of Asia is 'the pursuit of materialism based on rapid economic development' (Banyan 2010). But beyond that joint adventure, Asian countries aren't bound together by shared commitment to common regime types, or to the relevance of institutions in the regional framework (Goldsmith 2007).

Even in its Cold War heyday, US primacy was uneven throughout Asia's subregions. It was strongest in Northeast Asia, where the US and USSR butted up against one another, but was more diluted in Southeast Asia and was rarely if ever felt to be a defining feature of the South Asian strategic environment. It's unclear what shape the future US engagement in Asia will have. Northeast Asia is the subregion where the interests of the great powers collided directly during the Cold War. Looking to the future, Southeast Asia might be the region where Asia's great powers decide they can make the highest marginal return on their strategic investments, precisely because security arrangements there are still relatively fluid.

The key bilateral relationships between the emerging Asian great powers are likely to be uneasy ones. Only one of them—Japan—is formally allied to the US, and it's strategically the most hesitant of the three big regional players. The 'normalisation' of Japanese strategic policy might lead it to play a more independent and assertive role. India, which leans towards the US on some key strategic issues, continues to grow, and its strategic policy reflects strongly a theme of independence and self-reliance. In comparison to China and Japan, it suffers from a simple geographical disadvantage: it's an important player in the Indian Ocean and South Asia, but—withstanding the importance of energy sea-lanes—not

at the strategic centre of gravity of the new Asia, which, at least for the first half of the 21st century, will probably lie further east.

In the China–Japan relationship, an assertive China will meet a hesitant, anxious Japan. September’s clash between the two powers over Japan’s detention of a Chinese fishing captain is illustrative: China kept escalating the contest to the point where Japanese policymakers concluded that the costs outranked the benefits. In the China–India relationship, the stronger developing country is likely to overshadow the weaker one, and China will have its East Asian geographic advantage. Even in the Japan–India bilateral relationship, a hesitant Japan will meet a distant, independent India. The two powers will find common ground for cooperation, but less than many suppose.

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The one near certainty of China’s rise is that it will complicate Washington’s ability to dominate the terms of interaction and cooperation within the Asia–Pacific region.

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China doesn’t yet—and might never—seek to displace the US as the primary global power. It confronts, at least over the next decade or two, domestic challenges that are too great to allow it to assume the risks and responsibilities associated with that role. Nevertheless, Beijing is less willing to accommodate US preferences and increasingly able to resist US pressure. The one near certainty of China’s rise is that it will complicate Washington’s ability to dominate the terms of interaction and cooperation within the Asia–Pacific region.

Still, Asia is probably not moving towards ‘spheres of influence’—at least, not as we understood them in the Cold War, in which proximate great powers were tacitly permitted to organise and dominate their own neighbourhoods. During the Cold War, such spheres emerged because the security arrangements of that age—including NATO, the Warsaw Pact and ANZUS—were put in place *after* great-power dominance was already entrenched. But a set of security arrangements is already in place in Asia, and likely to remain so despite the expanding ‘bubbles’ of power. Taiwan is a case on point. It seems unlikely that the Americans will undo their security assurances to Asian partners, or decline to fulfil them simply because of changing power relativities. US strategy is often aimed at ‘taking the cheap shots off the table’ for an adversary, and it would want to use its existing commitments to signal to the rising Asian powers that there aren’t cheap gains in Asia.

The risks associated with those assurances are increasing for Washington, so Asia as a whole needs a better set of risk-management strategies. The need for a US–China incident-at-sea agreement is increasing as China develops more sophisticated maritime capabilities and the possibility of Sino-American strategic rivalry intensifies. And there’s a need for the US and China to develop both a comprehensive maritime *modus vivendi* and a broader suite of strategic understandings. The comparative tranquillity of contemporary Sino-American relations lacks a robust basis and shouldn’t be taken as a reliable indicator of the future.

India’s growing strategic weight will have ramifications beyond its immediate South Asian neighbourhood. They’ll include adding a greater complexity to great-power relationships across broader Asia, but also an enhanced strategic significance for the Indian Ocean—a body of water that’s long been strategically neglected because of the absence of great

powers along its littoral. Australia will need to be increasingly conscious of its own interests there, concentrated primarily in the eastern part of the ocean.

None of the three regional great powers is, by nature, a partnership builder. All three countries have something of a history of strategic introversion. It's possible that we might be looking at a future Asia characterised by slightly weaker US alliances and also by the presence of three, relatively lonely, regional great powers. True, Asia's great powers are increasingly willing to participate in the provision of global and regional public goods abroad. China has demonstrated an ability to sustain naval vessels far from home through its contribution to anti-piracy operations in the Gulf of Aden, an important first step in developing a bluewater navy. Japan and the Republic of Korea are also pursuing global partnerships to enhance their regional status and limit the risk of being marginalised by an ever-growing China. But we've yet to see a solid attempt by any of the regional powers to construct a new regional security structure—one that would enhance regional stability and underwrite it with military power.

# Northeast Asia

## Assessments

- China's growth trajectory seems sound: its economy might stumble—most do at one time or another—but has considerable growth potential. China's real challenge will lie in turning its growing power into strategic outcomes.
- Japan is an increasingly insecure great power, although any major shift in its strategic posture will be difficult as long as its economy is stagnant and its political system transitional. In recent months, Tokyo has been keen to reinvigorate its strategic connection to Washington, but over the medium term it will probably pursue a greater ability to secure its own strategic interests independently of the US. As a different Asian strategic system emerges, Japan will start to look more like an Asian actor and less like a Western ally.
- In the Democratic People's Republic of Korea (DPRK), a dynastic regime is increasingly dysfunctional, erratic and aggressive. A young, inexperienced leader, inheriting a history of economic failure, will be highly reluctant to trade away the nuclear weapons option. The country's future is probably more uncertain now than it's been at any time in its history. Although the prospect of systemic collapse is low, it can't be ruled out.
- The Republic of Korea (ROK) has transformed itself from a developing economy into a prominent member of the G20 and the Organisation for Economic Co-operation and Development, standing out as one of the world's most dynamic middle powers.
- Taiwan's economy was hit hard by the GFC but rebounded strongly throughout late 2008 and 2009. Taipei has maintained its political independence from Beijing despite its increasing dependence on the mainland economy.

- Russia will remain an isolated and frustrated power, largely ineffectual in the North Asian region but anxious about protecting its own interests in a region where other powers are growing vigorously.

## Analysis

Northeast Asia sits at the crossroads of four great powers—China, Russia, the US and Japan—all of which possess nuclear forces save Japan, a state with a high degree of latent nuclear capability. Traditionally, the subregion has served as a barometer of the health of US primacy in Asia because US security guarantees have been most important and US forward deployments most visible there. But, as relationships between the four powers shift, so too does the local security balance. Increasingly, Northeast Asia is becoming a focal point for Chinese–American–Japanese competition. Its future will probably be defined by tenuous strategic relationships, stronger economies and growing military capabilities.

China's long-term program of economic growth and modernisation is paying off. It's already developed sophisticated military equipment and is at the cutting edge of 'green' technology. It became the world's largest energy consumer in 2010, and its banks emerged from the GFC as globally competitive institutions. Its level of global engagement has increased dramatically, but China is still feeling its way at the global level. It's an introverted power that lacks a design for a new world order. As David Shambaugh has observed, 'China itself is deeply conflicted about its international identity and the roles it should play in the world' (Shambaugh 2010). Although Beijing has proved it can hinder arrangements that aren't to its taste, as it showed at the Copenhagen Climate Change Summit of 2009, it has yet to prove it can lead.

Economically, China's come a long way but still has a long way to go. Ross Garnaut (2010) has assessed that China is about to enter a 'turning period' characterised by growth in real wages, the wage share of national income, and the marginal propensity to consume. That will catalyse a shift towards capital- and technology-intensive production. As that analysis suggests, China's comparative advantage is beginning to shift from a fairly narrow range of labour-intensive products to a wider range of capital-intensive goods. Military modernisation helps to drive and benefits from that process. Although China's changing economic profile will improve its relationship with developing economies, it will increase the risk of economic competition between China and the West. That increases the risk of significant geo-economic competition between the world's established and rising great powers. Nevertheless, China has a deep labour market, indicating that this 'turning period' will be long, and it continues to lag behind the US in most cutting-edge technologies and industrial sectors.

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Beijing seeks to create an Asia in which states are drawn to China, more reliant upon it, and therefore more deferential to Chinese interests.

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China's ruling elite perceives the next twenty years to be a strategic 'window of opportunity', in which international and regional conditions will be conducive to China's rise. China's rise in Asia necessarily prefigures China's rise in the world, and it's sought regional leverage by attracting and binding the fate of Asia to its own success rather than directly challenging



US or regional interests. Beijing seeks to create an Asia in which states are drawn to China, more reliant upon it, and therefore more deferential to Chinese interests.

China's ability to provide regional leadership is complicated by its legacy as both an imperial and a revolutionary power. Despite a strategy of 'reassurance', it's struggled to improve that image. China is also struggling to tread a fine line between establishing its regional presence and avoiding a direct challenge to the US's national interest. Beijing is probing the US presence in Asia, searching for ways to demonstrate influence without eliciting countervailing measures from the US. It's likely the Sino-American relationship will be defined by periodic spikes in tension followed by limited rapprochements. There are few rational reasons for China to pursue war with either the US or another Asian state.

Tokyo has failed to sustain its peer status vis-a-vis Beijing. Even in exchange-rate comparisons of GDP—a form of economic comparison more favourable to Japan than purchasing power parity—China passed Japan in the second quarter of 2010 to become the world's second-largest economy, underscoring China's clout. Over the medium term, Japan is set to be a comparatively weak great power—perhaps the weakest of four great powers in Asia. Japan also faces bleak demographic prospects. Whereas India and the US are set to benefit from demographic booms, Japan's collapsing birth rate and cultural resistance to immigration will probably cause its population to continue to age and shrink. China's population is also ageing, but it's both much larger and less productive than Japan's, indicating room for economic growth. Japan hopes to exploit technology to manage demographic risk, but innovation transfers rapidly to other nations in a globalised world economy. Technology might therefore help boost Japanese productivity but do little to reverse the country's relative decline.

The Democratic Party of Japan entered office attempting to steer strategic policy on a middle course between a rising China and Tokyo's longstanding security guarantor, the US. Tokyo has profited—warily—from China's rise, while expressing concerns about Chinese military modernisation and an Asian future in which states are increasingly pulled into China's orbit. Efforts to strengthen US–Japanese security cooperation have been fitful, in part because of the Japanese public's weariness of the social costs of US bases. Those bases are essential to the US's ability to defend Japan and to project force in the Western Pacific, and their relocation, degradation or loss would be a significant strategic blow.

Although relations between Tokyo and Washington have improved considerably under the Kan government, Japanese strategists remain anxious about their country's possible marginalisation in the new Asia. They're acutely aware that the US is China's key economic partner and that, as a result, Japanese and US interests might not align as easily in the 21st century as they did throughout the Cold War. Some worry about an Asia in which China is 'underbalanced'. And within Tokyo a broader perception is emerging that Japan's Cold War role of being the civil power for Western influence in Asia no longer provides the security it once did. Moreover, Tokyo fears that regional perceptions of Japanese weakness might encourage adventurism. Russian President Medvedev's visit to the Kurile Islands in early November underlined those fears. Still, Japan's strategic posture will typically be reactive and cautious, rather than proactive and bold. Japan will probably acquire greater 'anti-access/sea-denial' capabilities in the years ahead as a hedge against a limited retrenchment of US forces from the Western Pacific. The latest National Defense Program Guidelines, issued in December 2010, suggest a more 'dynamic' and robust defence force, including an increase in Japan's submarine fleet from 16 to 22.

The DPRK remains one of the most troublesome parts of the post-Cold War world. On 30 November 2009, the regime reformed the North Korean currency—essentially wiping out the savings of its citizens in order to prop up the foundering state-run economy. For many North Koreans, that policy constituted the worst disaster in over a decade. The North Korean system doesn't provide a political outlet for widespread popular anger, but anecdotal reports suggest that the decision led to riots in some cities. If that's true, the move can only have increased the brittleness of the regime, particularly at a difficult time of leadership transition. An impoverished regime is inherently unstable, if only because it lacks the resilience necessary to absorb unexpected shocks. Paradoxically, the North Korean regime is so paranoid about its own survival that it's incapable of undertaking the economic reforms required to shore up its resilience.

The most direct challenge posed by the DPRK is its erratic, assertive and aggressive strategic policy. The recent spike in violence, including North Korea's attack on the *Cheonan* (an ROK corvette), the subsequent strafing of ROK fishing boats in disputed waters and the shelling of Yeonbyeong Island may be part of an initiation ritual for Kim Jong-il's third son, Kim Jong-un, who's now in line to succeed his father. Previous North Korean successions have taken up to a decade or more, but the timeline in this case seems to be driven by Kim Jong-il's increasingly poor health. The rapid promotion of his third son to the level of a four-star general (even though he has no military experience) and to key positions within the Korean Workers' Party indicates a clear attempt to entrench the Kim dynasty in Pyongyang.

The North's adventurism has obvious limits: few regional experts believe the DPRK would contemplate an invasion or major assault on the ROK, for example. The recent military adventures have been primarily intended to underscore Pyongyang's continuing rejection of the Northern Limit Line, the maritime boundary drawn by the UN in the sea west of the peninsula in 1953. Moreover, the DPRK hasn't entirely walked away from the political arm of its own strategy: it's keeping alive the prospect of both renewed North–South cooperation and revived Six-Party Talks. Indeed, both its military activities on the Northern Limit Line and its display of an advanced uranium enrichment facility to a visiting US expert in November 2010 might well be signs that it has new cards to play at any future negotiating table. Statements by both South Korea and North Korea in early January suggest both sides would be willing to return to dialogue.

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Sudden regime collapse in North Korea is unlikely but would pose serious strategic challenges to regional security were it to occur.

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Sudden regime collapse in North Korea is unlikely but would pose serious strategic challenges to regional security were it to occur. It would be imperative for a responsible party to secure the North's current plutonium (and potential uranium) stocks in the event of state collapse. Other challenges would probably include the management of refugee flows, renegade factions of the DPRK's armed forces, and the reconstitution of a stable political order. Most assessments of reunification follow a similar theme: that the North would be 'absorbed' by the South. The assessments differ on the levels of violence and political and social turbulence that might be entailed in such absorption. In practice, however, absorption might be more challenging than some scenarios imagine: indeed, politics in South Korea itself wouldn't be immune from a range of follow-on effects.

China's reluctance to criticise the DPRK for sinking the *Cheonan* or shelling Yeonbyeong Island has seen the ROK tightening its partnership with the US and building stronger partnerships with US allies, such as Australia and Japan. It's also staking out a more independent space on the world stage, exerting leverage within multilateral forums such as the G20 as a confident and assertive middle power. The ROK boasts a dynamic and highly competitive economy, a modern and professional military, and a blueprint for development that it wants to export to other parts of the world. But South Korean leaders know they live in a tough neighbourhood—one of shifting power relativities and, potentially, sudden instability.

Taiwan's economic integration with China continues to strengthen links between Beijing and Taipei, spurring and reinforcing the Taiwanese Government's decision to take a less vocal stance on independence than it has in the past. Nevertheless, Beijing still believes Taiwan to be a symbol of the era of 'humiliation' and a testament to a regional power distribution that Beijing is resolved to change. Taiwan's the issue most likely to transform existing suspicions in Washington and Beijing into a focused, militarised stand-off, potentially transforming their broader relationship. The Pentagon's 2010 annual report to Congress on military and security developments involving China assessed that the 'balance of cross-Strait military forces continues to shift in the mainland's favor' (USDoD 2010:1). Beijing now has more than 1,000 ballistic missiles aimed at Taiwan.

The US security commitment to Taiwan (the Taiwan Relations Act) isn't a formal alliance arrangement, and any US response to cross-strait tensions will depend on specific circumstances. China's military modernisation has been intended both to coerce Taiwan and to make the prospect of US assistance to Taiwan less likely. China knows that if US forces can arrive in the Western Pacific *en masse* and on time, they will probably prevail in a conflict. As a result, China is developing asymmetric capabilities that can keep US forces at arm's length, targeting key vulnerabilities in US sea, air, space and cyber systems. This 'anti-access/sea-denial' strategy is especially significant in Northeast Asia, where US security guarantees would be weakened by a loss of sea control. The US is aware of this challenge—Gates observed in January that new Chinese weapon systems seemed designed with the US in mind—and knows that the risks associated with the defence of Taiwan are increasing, but it seems unlikely to walk away from its commitment.

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## Russia will remain an isolated and frustrated power, largely ineffectual in the North Asian region.

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Russia will remain an isolated and frustrated power, largely ineffectual in the North Asian region. Although it has some cards to play on the global stage, especially with regard to energy, it has little influence in Asia. Russian land forces will most likely be deployed on limited operations close to home. The Russian navy is focused on the Arctic, Mediterranean and Atlantic oceans. President Obama recently oversaw a 'reset' in the Russian–American bilateral relationship, reversing a 'dangerous drift' in the relationship through a policy of engagement. That led to tangible benefits, including the new START treaty, greater cooperation on Iran and North Korea, and an agreement to transit stores through Russia to Afghanistan for the International Security Assistance Force and US forces. But Russia's own future is unclear—it faces a range of domestic challenges, and the country is already struggling to 'cope with a rate of population decline that literally has no historical precedent in the absence of a pandemic' (Jackson and Howe 2008:10).

## Southeast Asia

### Assessments

- Southeast Asia has begun to feel the effects of Asia's rising great powers. It's no longer a distinct and insulated subregion and is increasingly important in the broader Asian balance of power.
- Complex webs of regional security arrangements are emerging as a result, and Southeast Asian states are beginning to position themselves in relation to one another and external powers. Great power intrusions into the region are forcing Southeast Asian states to decide their own future strategic roles.
- Nearly all Southeast Asian states want the US to remain engaged in the region, but not all want the US to play the same role. Some want the US to balance Chinese influence directly, while others want the US to hedge against it more subtly. The US commitment to Southeast Asia may already be entering a more proactive phase, transforming the region into one with more pronounced bilateral security guarantees.
- Although the strategic weight of some Southeast Asian states—such as Indonesia and Vietnam—is growing, it's growing much less rapidly than that of Asia's great powers (Thayer 2010). Cooperation between Southeast Asian states will be essential if they're to advance their collective interests and resist domination by outside powers. But ASEAN's heading into unexplored terrain—the terrain of power-balancing. It was never built to play such a role.

### Analysis

Southeast Asia is a diverse region. Table 2 shows how different the ten ASEAN states are in GDP and population size. (For comparison, Australia's GDP in 2010 was US\$889.6 billion, which would have placed us second in this table, behind Indonesia. We would have ranked only seventh on population size.) The ASEAN states also vary widely in their political systems and strategic circumstances, but the region overall has benefited strongly from its developmental opportunities

and thirty years of comparative peace. If the ASEAN 10 economies were rolled together, the region would boast a GDP of US\$3076 billion and outrank Germany in economic size. Their combined population is over 600 million (larger than seven Germanys).

**Table 2: Comparison of the 2010 GDPs (measured in purchasing power parity) and populations of Southeast Asian states**

Country	2010 GDP (US\$ billions)	Population (millions)
Indonesia	1,033	243
Thailand	580.3	67.0
Malaysia	416.4	28.3
The Philippines	351.2	99.9
Singapore	292.2	4.7
Vietnam	278.1	89.6
Burma	60	53.4
Cambodia	29.5	14.5
Brunei	19.9	0.4
Laos	15.4	6.4

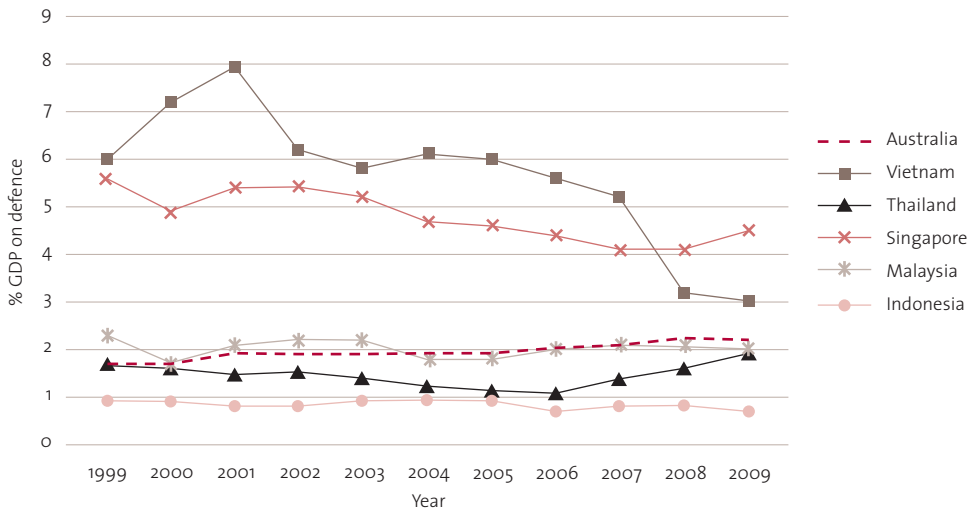
Source: CIA world factbook (as at 3 February 2011).

Southeast Asia has begun to feel the effects of Asia's rising great powers. It's no longer a distinct and insulated subregion and is increasingly important in the broader Asian balance of power. Great-power intrusions mean that old strategic arrangements are being overlaid with new ones. External powers are searching for new regional roles and, in consequence, more complex security arrangements are emerging. Shifting power relativities are pushing Southeast Asian states to determine the extent to which they aspire to be players with significant strategic weight.

Southeast Asia is approaching a strategic moment that might well define its place for the next few decades. The US, China, India and Japan are all—to various extents—moving into the region, partly to offset each other's influence but mainly to strengthen their own claims for a greater role in the region's future. The reported claim of a Chinese official in March 2010 that the South China Sea was a 'core' strategic interest of China—a claim the Chinese political leadership later softened—is a prime example of the new tensions. So, too, was the US response to the claim. Japan has tried to grow its own Southeast Asian profile through the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP), and India has announced a 'Look East' policy in order to bolster its standing in Southeast Asia and counter China's growing regional clout. In general, though, Japanese and Indian influence in Southeast Asia lags considerably behind that of the US and China.

An escalating great-power strategic competition in Asia might drive a wedge between Southeast Asian states. A set of more assertive players, such as Indonesia and Vietnam, might emerge alongside a set of 'onlookers', such as Thailand and the Philippines. In many instances, Southeast Asian states are busy with ongoing attempts at defence modernisation, although recent efforts don't yet show up much on graphs of regional spending (see Figure 3). The Southeast Asian states are making qualitative improvements to their forces, but the quantities of items procured remain small (Bitzinger 2010), suggesting that most ASEAN countries don't yet feel much sense of strategic urgency. Depending on broader regional events, that could easily change in the next decade.

Figure 3: Defence spending by selected states, 1999 to 2009 (% of GDP)



Source: Defence Intelligence Organisation, *Defence economic trends in the Asia Pacific*, 2009.

Southeast Asian states seek to maintain a ‘dynamic equilibrium’ that allows them to exploit and manage rival great powers. It’s unlikely that Southeast Asia will develop a simple set of security arrangements. Thayer (2010) identified four major patterns of security cooperation that combine and compete to shape the Southeast Asian region: multilateral defence cooperation between external powers and individual Southeast Asian states; US-led theatre security cooperation; Chinese-led exclusivist East Asian regional security cooperation; and ASEAN-centred multilateral efforts. Neither China nor the US is likely to secure all its objectives in Southeast Asia. ASEAN member states will resist proposals that threaten to reduce their influence or limit their freedom of action.

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China’s approach to Southeast Asia has been to reassure regional states by promising a ‘peaceful rise’ and a ‘harmonious world’, but Chinese stocks of ‘soft power’ have achieved little.

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China’s approach to Southeast Asia has been to reassure regional states by promising a ‘peaceful rise’ and a ‘harmonious world’, but Chinese stocks of ‘soft power’ have achieved little. Military modernisation and pressure over the South China Sea, for example, including coercion of oil companies not to explore in territories claimed by Vietnam, have raised concerns about the consequences of China’s economic growth. China also faces scrutiny, which threatens to tarnish its preferred image as a good neighbour, over dam building along the Mekong River. It’s an ambivalent power, in the eyes of some of its nearest and relatively small neighbours. They worry about creeping Chinese hegemony, suspicious that Beijing intends to assert a ‘Monroe Doctrine’ in the Western Pacific to exclude non-regional powers. They’re aware that Yulin Naval Base near Sanya on Hainan Island provides a forward staging post for China’s own air and maritime operations in the region.

While resisting US dominance, almost all Southeast Asian states want the US to remain engaged in Southeast Asia, but not all want the US to play the same role (Wain 2010). Some, such as Vietnam, hope the US will play a direct role by balancing against China while others, such as the Philippines, would like the US to play an indirect role, hedging against a change in China's strategic posture more subtly. ASEAN countries are being drawn into the complexities of power balancing, and their discomfiture is increasing.

Great-power balancing is a relatively new phenomenon in Southeast Asia, and certainly not the sole determinant of strategic and defence issues there. Defence policies of Southeast Asian states have been driven by a range of factors, and in many cases those have had more to do with internal security, prestige and patronage than with threats posed by other states. Many Southeast Asian states continue to experience internal security challenges. In Thailand, the Philippines and Indonesia, for example, terrorists, insurgencies and ethnic conflicts continue to pose important—if not existential—challenges to the state. Piracy is a region-wide concern but scarcely a strategic one. In 2005, the chance of a pirate attack in the heavily used straits of Malacca and Singapore was a relatively low 0.019%, or nineteen per one hundred thousand transits (Rosenberg 2009:47). Many of those attacks amounted to little more than petty theft at sea.

Indonesia's strategic future will play a large role in shaping the subregion's strategic future. It's the largest economy in the ASEAN 10 and Australia's most important neighbour, not only in the context of Asia's unfolding geopolitical transformation but also in terms of the ongoing threat of violent Islamic radicalism. The Indonesian National Defence Force is increasingly officered—especially at the more junior levels—by people with little if any experience of Suharto's 'New Order', and who are more professional, internationally oriented and technologically driven than their predecessors. Indonesia is increasingly important in the Southeast and broader Asian balance of power, and is beginning to act with greater confidence on both the regional and the global stages. A stable, secure, democratic and prosperous Indonesia should be a first-order priority for Australian strategic planners; but, just as importantly, Australia wants Indonesia to take on a larger role as a security contributor in Asia.

Southeast Asia's choice about its place in the new Asian environment is directly relevant to Australian strategic policy, and we might need to be more proactive in supporting key regional actors shaping a changing security environment. It might be that the region—or some prominent states within it—will move towards building its own 'bubble' of power, sitting at the intersection between Australia's immediate neighbourhood and the broader Asia-Pacific region. Australia has already begun to test the waters for closer strategic cooperation with Southeast Asian countries in coming years, starting with Indonesia, and might follow the US lead in building stronger relations with Vietnam. Bilateral relations will probably remain the bedrock of Southeast Asian security, and Australia should focus first on strengthening them. ASEAN, Southeast Asia's primary security framework, was never built to play a direct power-balancing role. If Southeast Asian states want to reinforce the 'indigenous' pattern of security cooperation, they must increasingly look to 'harder' forms of defence cooperation.

## The South Pacific

### Assessments

- Although the South Pacific microstates are only small pieces on the grand strategic chessboard, they present strategic risks and opportunities that Australia has a close interest in managing.
- Australia remains the region's preeminent aid donor and its largest strategic actor. But its influence in the South Pacific is in relative decline. Three factors are contributing to that: an increase in the number of external players in the region; the rise of South Pacific leaders with fewer attachments to Australia; and the growth of regional structures—like the Melanesian Spearhead Group—in which Australia lacks membership. All three factors suggest new patterns of influence are emerging in the region, overlaying older ones.
- Other countries (including Asia's great powers) are increasingly reaching directly into our near abroad. The growing engagement of external powers does not automatically threaten Australia's strategic interests—indeed, it might even help secure them. But some instances of external engagement have previously impacted on good governance in island countries, and may do so again. And Australia's principal strategic concern is that, in extremis, the region might become a hub for a more militarised strategic competition, though regional states themselves would shrink from that prospect.
- The economic future of the South Pacific islands looks increasingly mixed. Papua New Guinea has benefited from recent economic growth, and may be headed towards a future where it plays a bigger role in the region's affairs. For most of the other island states, the economic future is not so rosy.
- Fiji's history of difficult civil-military relations continues to pose special challenges for our engagement with that country. This is not a problem that began with Commodore Bainimarama, and it probably won't end with him. Both Australia and the broader international community have struggled to identify levers that offer



purchase against Bainimarama's government. Bainimarama's defiance of those efforts both weakens regional norms in the South Pacific and advertises the limits of Australia's regional leadership, casting a shadow over the success of the RAMSI mission in the Solomon Islands.

- Australia needs a more nuanced approach in the South Pacific to enhance both our bilateral and multilateral links (Dobell 2011; Herr 2010; Bergin 2009; May 2008; ASPI Independent Task Force 2008). Despite our commitment to rebuilding the broad 'Pacific way', there's something to be said for a 'horses-for-courses' approach in our bilateral relationships. That would mean accepting that the military will continue to exercise political influence in Fiji while attempting, over time, to strengthen civilian capacity there. And it would mean substantially increasing our commitment to the education sector in PNG, so the region's dominant island economy had better resources of human capital to tap for its own development. But even a more vigorous engagement will not reverse the increasing slippage in our regional influence. We're in for a more bumpy ride in the South Pacific.

## Analysis

The South Pacific faces an uncertain future. In 2006, the Pacific 2020 report sketched out three possible scenarios for the region (Ausaid 2006):

- a 'doomsday' scenario, where overpopulation, malnutrition, unemployment, crime, disease, and degradation of resources were the defining characteristics;
- a 'muddling-on' scenario, where aid and migration opportunities allow the Pacific island countries not to thrive, but to avoid collapse;
- a 'growth' scenario, where reform accelerates economic growth and allows the island countries as a whole to achieve higher levels of GDP and per capita income.

Four years later, the outlook is mixed. Mostly, the region muddles on. But some indicators tell a more depressing story. No South Pacific state ranks in the top half of the 169 countries in the UN's 2010 Human Development Index, though Tonga and Fiji—at 85th and 86th respectively—are certainly on the cusp. Solomon Islands ranks 123rd, and PNG 137th. Regional economies were hit hard by the GFC because of their dependence on tourism, commodity exports and remittance payments. Large budget deficits now exist in several South Pacific states, increasing pressure on government finances.

Papua New Guinea (PNG) has recorded some good years of economic growth recently, riding the resources boom. The growth of its LNG industry will enhance that trajectory. As the dominant economy within the island countries, PNG will likely become a magnet for workers from across the South Pacific. And PNG itself may begin to fulfill hopes that it can take on a larger role of regional leadership. But it faces formidable developmental challenges. UN statistics show the average PNG adult has only 4.3 years of schooling, for example. If it is to fulfill its role as the dominant island economy, PNG must invest in education.

On the index of democratic government, Fiji has slid seriously backwards. Public Emergency Regulations that limit freedom of speech, expand police powers and curb media freedom have been introduced. Critics of the regime have been threatened, harassed and detained. The legacy of coup-installed governments in Fiji now dates back over twenty years. Civil-military relations in Fiji are—frankly—broken. And with no easy recipe for repairing them, Australia and the international community might well expect the current problems with the Bainimarama government to be merely one part of a larger, longer problem:

weaning the Fijian military out of politics and civilians back in. (Oddly, the Indonesians may have some influence on that problem, having tackled it themselves.) In the meantime, Australia's inability to shift outcomes in Suva attests to the constraints on its influence.

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## The 2009 Defence White Paper identified 'a secure immediate neighbourhood' as a high-priority strategic interest of Australia...

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At the strategic level, some might wonder whether the region even matters. In an age of geopolitical transformation and shifting great-power relativities, do small islands matter? The answer is, 'sometimes'. Small islands can occasionally play a strategic role—Cuba did so in the early 1960s, to take an extreme example. Still, that example is instructive about the basis of Australian strategic planners' concerns in relation to the South Pacific. The 2009 Defence White Paper identified 'a secure immediate neighbourhood' as a high-priority strategic interest of Australia's, second only to 'the defence of Australia against direct armed attack'. But which adversaries can seriously disrupt the security of the South Pacific? The Pacific island countries don't have that sort of capability. It would take some form of great-power involvement to have regional-level effects. And that's Australia's concern: that the neighbourhood might become attractive to an outside power in search of opportunistic partnerships.

None of that is intended to deny the human security needs of the South Pacific islands. But the principal strategic concern over whether the region moves more towards the doomsday, muddle-on, or growth scenario is heavily shaped by judgments over the relative vulnerability of the region to external powers under each scenario. That's—strategically—why Australia wants the South Pacific to succeed. Of course, it also wants it to succeed for a host of other reasons: humanitarian, political, and economic ones.

Although Australia is still the region's preeminent power, the region is increasingly interconnected and linked to the broader world, and the growing influence of Asia's great powers is reaching directly into Australia's near abroad. Aid flows tell their own story: Australia's share of regional aid is still strong, but inflows are increasing from beyond the South Pacific region. In addition to Australia and New Zealand, China, Taiwan, Japan and the European Union are the largest regional donors. India is stepping up its regional presence and a visit to the South Pacific by the United Arab Emirates (UAE) Foreign Affairs Minister in February 2010 also led the UAE to become a significant regional donor, announcing a US\$50m program of development assistance in education, health care, infrastructure and energy.

At the moment China's primary motivation for engaging in the South Pacific is its interest in the region's resources, as well as its desire to gain the upper hand in its diplomatic dispute with Taiwan. As China evolves its motives might change. So far Beijing has practiced a form of 'chequebook' diplomacy; the provision of infrastructure and gifts on a significant scale. Among numerous development projects, Chinese companies are building a dam, a bridge and low cost housing in Fiji, reconstructing the central business district of Nuku'alofa, building a six-storey building for government offices in Samoa, and upgrading the airport at Niue. The Chinese Metallurgical Construction Company is a major investor in PNG's US\$800m Ramu nickel/cobalt mine.

Over the mid-term Chinese influence will probably be more pervasive. High levels of in-bound ethnic Chinese migration, the development of Chinese tourism and the extension of Chinese–South Pacific commodity trade provide Beijing with economic leverage that might one day be used to strategic effect. China already has more diplomats in the region than any other state, although Australia has more diplomatic posts (Dobell 2007). Beijing funds the salary of the Melanesian Spearhead Group’s (MSG) Director-General, Rimo Ravusio, and built its headquarters in Vila. Australia isn’t a member of the MSG, and this group threatens to erode the influence of the Pacific Island Forum (PIF) that Australia has traditionally used to provide regional leadership. In short, the China factor is growing.

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Over recent years, Australia has had only a mixed record in its relations with the three biggest countries.

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Over recent years, Australia has had only a mixed record in its relations with the three biggest countries. Our intervention in the Solomon Islands has been the basis for the country’s long-term recovery, rebuilding government finances and decreasing communal violence. But Fiji has drifted into a more independent orbit, posing a long-term challenge for the region. PNG is looking better than it has for some years. But it would, of course, be a much larger problem than either of the other two, were it to slide into crisis.

## The 'Long War'

### Assessments

- Salafist *jihadi* movements continue to threaten regime stability in key Muslim countries, regional security in South Asia and the Middle East, and Western interests at home and abroad. They'll pose a risk to Australians, Australia and Australia's allies for many years to come.
- Such movements are proving difficult to counter. In Iraq, the recent resurgence of al-Qaeda in Mesopotamia shows the regenerative capacities of small, radicalised groups and the limits of our understanding about such groups (Williams 2010).
- Some analysts argue that the appeal of terrorism should diminish in those parts of the Muslim world where employment opportunities are increasing and democratic reforms are taking place, but even in those places progress looks likely to be fitful. Bulging youth populations and the identity challenges that modernisation generates will continue to provide fertile soil for radical movements.
- Terrorist incidents will occur most frequently in South Asia and the Middle East, but occasional attacks will also occur in Europe, the US and Australia, sustaining the post-9/11 Western fixation on terrorism as a strategic concern. Within Western societies, self-radicalisation by a small handful of disaffected individuals seems to be a growing threat.
- The US will continue to lead the 'Long War' and it will want allies to help, but without another 9/11 it isn't likely to launch new armed nation-building operations in the near future. However, it's oddly uncertain about how to respond to the ongoing challenge—and that uncertainty shows up in the debate within the Obama administration over the possible US role in Yemen.

## Analysis

America has now been at 'war' with terrorism for a little under a decade, and despite the recent 'surge' in Afghanistan the 'Long War' has no end in sight. Indeed, the principal weapons of terrorism seem to be spreading. By late 2009, media reports observed that there were already approximately 300 IEDs being deployed every month *outside* Iraq and Afghanistan. Those devices, not all of which resulted in explosions, were typically found in Pakistan, India, Thailand, Sri Lanka, the Philippines, Colombia, Somalia and parts of North Africa (Shanker 2009). In Mexico in mid-July 2010, a car bomb in Ciudad Juarez signalled the arrival of the IED in the 'wars' between drug cartels and law enforcement agencies (Booth 2010). The continuing diffusion of compact explosives technologies and global mapping technologies (like Google Earth) can only further empower militarised non-state actors, allowing them to use force to greater strategic effect.

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The Obama administration has shunned the terminology of the 'War on Terror', but the thrust of its military campaign against al-Qaeda and al-Qaeda affiliates remains essentially the same as it was under President Bush. Within the broader category of terrorism, catastrophic terrorism of global reach remains a serious strategic concern. Its ultimate form of expression, the use of weapons of mass destruction by terrorists in a major Western city, seems now to be an entrenched fear for US policymakers.

The US has killed and captured many thousands of suspected terrorists since the attacks of 11 September 2001. It's estimated that there are now around 800 al-Qaeda operatives within Pakistan and fewer than 100 in Afghanistan. Al-Qaeda has been forced to evolve into a diffuse global network and philosophical movement comprising dispersed nodes with varying degrees of interdependence. Michael E Leiter, Director of the US National Counterterrorism Center, assessed that the trajectory of al-Qaeda is 'less centralized command and control, no clear centre of gravity, and likely rising and falling centers of gravity, depending on where the US and the international focus is for that period' (Leiter 2009).

Notwithstanding that diffusion, al-Qaeda's core leadership is still located in the mountainous tribal belt of northwest Pakistan. Regardless of how the 'war' in Afghanistan ends, that region will remain important to the US. The Pakistani Taliban played a prominent role in the May 2010 attempt to bomb New York's Times Square, indicating the ease with which a localised rebellion or insurgency can become a global threat.

There'll probably be an exodus of foreign *jihadists* from Afghanistan and Pakistan when International Security Assistance Force (ISAF) operations draw down, mirroring the situation after the Soviet Union's 1989 withdrawal, albeit perhaps on a lesser scale. At least several hundred veterans of the wars in Iraq and Afghanistan have already relocated to the Middle East and North Africa to escape counter-terrorism operations. They're joining and forming new organisations, three of which are especially important: Al-Qaeda in the Arabian Peninsula (which has absorbed elements of al-Qaeda in Iraq), Al-Qaeda in the Islamic

Maghreb, and the al-Qaeda affiliate, al-Shabaab. Experts debate the degree of association and coordination between those groups. Although that debate is important, it shouldn't overshadow the critical point: each of the groups is now self-sustaining and capable of threatening stability in its region and around the world.

Al-Qaeda in the Arabian Peninsula was initially focused on goals within the Middle East, but it signalled its global ambition and reach when it attempted to blow up Northwest/Delta Flight 253 on Christmas Day 2009. Its 'printer cartridge' bombs subsequently created a major security scare in late October 2010. The Somali movement, al-Shabaab, has several thousand combatants and a strong hard-core of about 800 men. The movement controls territory within Somalia, has attacked African Union forces in that country, and has launched attacks within Uganda, a country contributing to the African Union force. It already poses a direct threat to the West: four men involved in the August 2009 plot to attack Sydney's Holsworthy Barracks were connected to the movement, and several Somali Americans have been arrested after returning from fighting alongside al-Shabaab forces in Somalia.

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The most successful front in the 'Long War' has been Southeast Asia, where counter-terrorism operations have succeeded in seriously eroding the presence and operational capability of al-Qaeda and regional affiliates.

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The most successful front in the 'Long War' has been Southeast Asia, where counter-terrorism operations have succeeded in seriously eroding the presence and operational capability of al-Qaeda and regional affiliates, such as the Indonesian-based Jemaah Islamiyah. Those operations have been launched by regional states with the assistance of Australia and the US. Still, the head of Indonesia's anti-terror Detachment 88 has also warned that— notwithstanding counter-terrorism successes—new terrorist cells and splinter groups from Jemaah Islamiyah will continue to be a source of strife in regions where there's a history of intercommunal violence between Christians and Muslims. He's also concerned about the limited success of deradicalisation programs for terrorists currently in prison (Osman 2009). In summary, we've been successful in diminishing rather than eliminating regional terrorism focused on Western targets, which threatens to be a resurgent threat.

Although the West is weary of armed nation-building and counter-insurgency, similar direct interventions may be necessary in the future if al-Qaeda allies itself to or creates an ascendant insurgency in another strategically significant state. Al-Qaeda now confronts a legitimacy crisis in many parts of the Muslim world, largely because of its targeting of (Muslim) civilians but also because of its recent inability to launch catastrophic attacks against the West. The strategic implications of this legitimacy crisis are far from clear; al-Qaeda continues to attract potential recruits and is still able to support other groups with similar goals (Rollins 2010:2).

Terrorism remains centred on the South Asian and Middle Eastern regions. The US National Counterterrorism Center provides a statistical assessment of global terrorism as an annex to the US State Department's annual *Country Reports on Terrorism*. That assessment shows that in 2009, 11,000 terrorist attacks occurred in eighty-three countries, resulting in almost 15,000 deaths. Attacks decreased by about 6% in 2009, and deaths declined by about 5%. Most reported terrorist attacks in 2009 occurred in South Asia, which also had, for the second consecutive year, the greatest number of deaths. Together, South Asia and the Near East were the locations for almost two-thirds of the 234 high-casualty attacks (those that killed ten or more people) in 2009 (US Department of State, 2010: 293).

Home-grown terrorism and self-radicalisation are growing threats that reach into the heart of the West. The United Kingdom and Europe remain the most likely targets for attacks, but we're witnessing the rise of the American *jihadi*, too. As Hoffman (2010) argues, at least ten *jihadi* terrorist plots or related events came to light within America over the course of 2009—nearly one per month. Terrorist organisations now try to use citizens of Western states willing to carry out attacks within those states. Those citizens are not always of Arab or South Asian descent; they've also included individuals who converted to Islam on their own, either in prison or elsewhere.

Those concerns about continuing radicalisation are diluted by what we know about the relative success of counter-radicalisation programs in various countries—including Saudi Arabia, Singapore and Indonesia, for example. It is, of course, still too early to judge the long-term success of such programs—most have only been running for a few years. The programs show some degree of promise, but seem to be most effective in prisons which do not suffer from over-crowding or understaffing, and in utilising approaches that attempt to modify an individual's behaviour rather than challenge directly his religious beliefs.

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## So the 'Long War' will require Western countries (including Australia) to adopt a two-front strategy...

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So the 'Long War' will require Western countries (including Australia) to adopt a two-front strategy: diminishing the strength of terrorist structures abroad, and enhancing their own capacity to cope with terrorist incidents at home. Neither is easily done. America's inability to stabilise Afghanistan reduces the chance that it will rush into more exercises in armed nation-building. It will have to find new, more cost-effective means of countering terrorism instead, and it's not readily apparent what those might be.

Moreover, the US would have to pursue those means in unfriendly terrain: the Middle East and South Asia. The Obama administration's struggle to find a coherent policy approach towards Yemen illustrates the challenges. Each time there's a successful or attempted attack against US interests linked to al-Qaeda in the Arabian Peninsula or to Yemen, US policymakers turn to the Yemeni Government for assistance, providing it with funds and advisers to help it address the threat, but there are few signs that the US will send major troop deployments to Yemen. More likely is a sustained campaign of low-key aid and targeted assassination. Only time will tell whether that approach is successful.

## Afghanistan and Pakistan

### Assessments

- The war in Afghanistan is a difficult and protracted exercise that can achieve only modest outcomes: it can't impose good governance, eradicate the Taliban, redesign Afghan society or protect the Afghan population. Meanwhile, support for the war both within the US and within its coalition partners is weakening.
- Its remaining objective is already clear: to hand Afghanistan's traditional problems back to a functioning Afghan Government while diluting the power of the Taliban and al-Qaeda for some limited time to come. The key metric for an exit strategy seems to be an Afghanistan that is 'good enough'.
- But an exit strategy from Afghanistan should be shaped with three other strategic parameters in mind: that Afghanistan was once a key hub for global terrorism and might become so again; that the scope and magnitude of international intervention there are primarily determined by judgments about relative marginal gains in the war against al-Qaeda and its affiliates that might be achieved inside Afghanistan, as opposed to elsewhere; and that the success of the coalition's mission there is to be weighed primarily in terms of such marginal gains.
- In the longer term, Pakistan is a bigger worry than Afghanistan. The US is already fighting a covert war there, and encouraging the Pakistani authorities to do more to counter radical extremists in their country. While Taliban and al-Qaeda sanctuaries exist in Pakistan, the durability of even modest gains in Afghanistan is uncertain.
- Pakistan is also a problem in its own right: its economy is weak, its civilian government fragile, its society defined by tribal and familial loyalties, its army torn between trying to counter India and trying to weaken the strength of radical extremist groups. The recent floods have only underlined the challenges that the country faces (Perlez 2010). The consequences of failure are high. *In extremis*, it's conceivable that Pakistan might collapse—and that could provoke a competitive land grab by a number of powers.



## Analysis

In March 2009, the Obama administration declared that the ‘core goal’ of the US (and by implication its allies) should be to ‘disrupt, dismantle, and defeat al-Qaeda and its safe havens in Pakistan, and to prevent their return to Pakistan or Afghanistan’. The President went on to assert that al-Qaeda represented the most serious threat to US security.

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### The Afghanistan–Pakistan problem constitutes an important strategic worry for the US, NATO and Australia.

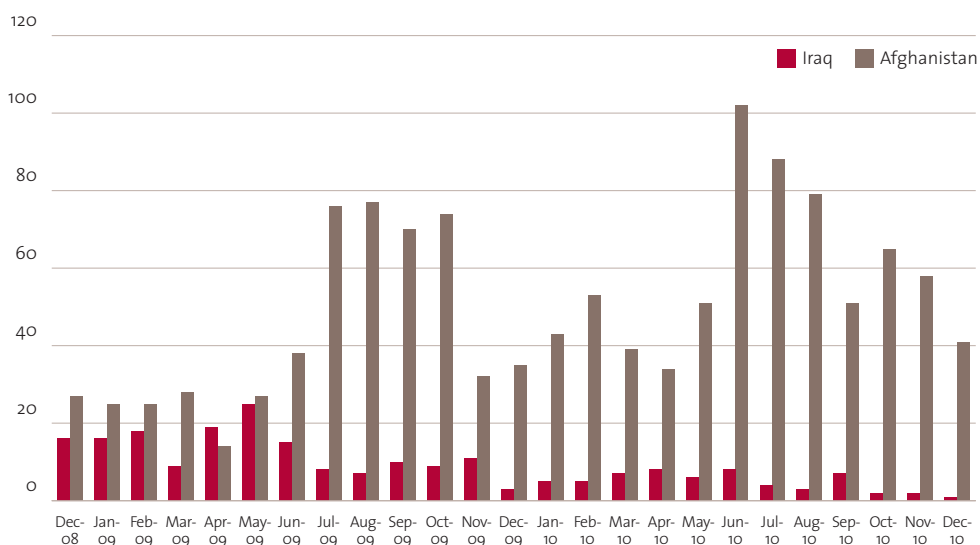
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The Afghanistan–Pakistan problem constitutes an important strategic worry for the US, NATO and Australia. Although the counter-insurgency strategy announced by Obama in December 2009 is still a work in progress, the general impression is that it’s struggling for effectiveness. That reflects the relative strength of various insurgent networks challenging the Afghan state, the challenge of finding reliable allies in either Afghanistan or Pakistan, and a lack of political will at both a mass and an elite level in ISAF force-contributing nations. The US is attempting to strengthen the Karzai government’s rule over the population while placing a greater emphasis on counter-terrorism through the targeted killing of insurgents and terrorists. The Obama administration hopes to make the Afghan Government look sufficiently stable and the insurgent threat sufficiently diluted that some withdrawal of forces can begin on time in July 2011 (Mazzetti and Schmitt 2010).

The principal goal of the current ISAF strategy is to enable transition of responsibility for Afghan security from international forces to the Afghan state. That makes the political environment in Afghanistan a key variable in the overall equation. The commencement of negotiations between the Karzai government and the Taliban over Afghanistan’s future hints at one such exit point—a political reconciliation that would allow substantial ISAF disengagement. It isn’t clear that the negotiations can deliver such an outcome. And even if the Taliban’s leadership is ‘reconciled’ with the Karzai administration, it’s unlikely they’ll be followed by all or even most of the fractured insurgency they currently lead. All politics are local in Afghanistan, and local causes of conflict remain widespread. Moreover, the pressure ISAF imposes on the Taliban will be marginal unless Pakistan helps to push key elements of the Taliban—elements funded and supported from within Pakistan—to the negotiating table.

Although more than forty countries continue to contribute forces to ISAF, the war in Afghanistan is becoming increasingly US-led rather than NATO-led. When Dutch troops departed from Uruzgan in August 2010 they were replaced by US forces, and it’s likely that the same will occur when Canadian troops withdraw from Kandahar in July 2011. Although NATO rejects the suggestion that ISAF is showing weakness, the replacement of 2,000 Dutch and 2,800 Canadian soldiers with 45 Tongans and 40 Malaysians is far from a one-for-one replacement. Although most ISAF force-contributing nations are still signalling a willingness to stay in Afghanistan for some years to come, in reality those commitments will turn upon tangible signs of success and acceptable fatality rates among their forces (see Figure 4). Key factors will be the transition of select provinces to genuine Afghan control and evidence that Afghan security forces are as good as they are numerous.

**Figure 4: Monthly coalition fatalities in Iraq and Afghanistan, June 2009 to December 2010**



Source: Data was taken from [www.icasualties.org](http://www.icasualties.org) on 27 January 2011

Afghanistan was the main base for the al-Qaeda leadership at the time of the 11 September 2001 attacks on the US, but nine years of US-led efforts to stabilise Afghanistan have changed that situation. Some (Rollins 2010:6) assess that today al-Qaeda is more a facilitator of the insurgency in Afghanistan than an active participant. In October 2009, US National Security Advisor Jim Jones assessed that the ‘maximum estimate’ of al-Qaeda fighters in Afghanistan was fewer than 100, and that al-Qaeda no longer had any bases within the country. Australia, like other members of the coalition, has to be realistic about what it can achieve there, and calculating in its assessments of where other marginal gains might be achieved more easily and directly elsewhere in the Long War. Putting it simply, the international community can’t afford to get bogged down in Afghanistan against an opponent that is agile and transnational, and already has cells in many countries. Going into Afghanistan was a good idea; getting stuck there is not.

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An exit strategy from Afghanistan makes sense—but there’s no simple exit strategy from the broader war against al-Qaeda and its supporters.

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An exit strategy from Afghanistan makes sense—but there’s no simple exit strategy from the broader war against al-Qaeda and its supporters. Getting out of Afghanistan won’t free us from that broader war; nor will it mean we never have to go back to Afghanistan. We have to measure ‘success’ in Afghanistan with those constraints in mind, pocketing the marginal strategic gains of the broader war and not becoming fixated on a transformation of Afghan society.

# The Middle East and North Africa

## Assessments

- Intra-regional relationships remain tense in the Middle East. And several governments there now face a season of popular dissent in the wake of the events in Tunisia in December 2010 and January 2011.
- Iraq has a fragile path to stability in front of it. Whether it can negotiate that path will depend heavily on the capacities of the fractured Iraqi elite. Sectarian tensions could re-ignite. If they do, they have considerable potential to make Iraq once more the fulcrum of a larger regional contest.
- Although Israeli–Palestinian peace talks are now underway, prospects for success are only marginal. The legacy of violence and mistrust between the parties is such that ‘peace’ can only be built over a significant time frame.
- Iran continues its rise as a regional power. It’s feeling the pain of sanctions and its political core is fractured, but Ahmadinejad remains a regional *provocateur* with a range of instruments at hand that might allow him to play a more disruptive role across several of Iran’s borders.

## Analysis

The Middle East remains the location of a regional power contest. At least for now, though, that contest is less focused on Iraq than it was a few years ago. US forces repositioned outside Iraq’s cities in June 2009, handing Iraqi security forces the lead in defending Iraq from external threats. Civilian deaths have dropped to the lowest level recorded since 2003, and the Iraqi security forces have achieved some minor victories against terrorist networks, killing the top two leaders of al-Qaeda in Iraq and arresting the leader of Ansar al-Sunna. The drawdown of combat forces doesn’t mean US disengagement from Iraq—instead, the focus of the relationship is shifting towards civilian cooperation and capacity building. A key Middle Eastern security issue to watch in the future will be the US–Iraqi strategic relationship.

The Iraq 'war' has morphed into a localised political contest, which is a large improvement from where it was in 2006 and 2007. At that time, it was the centre of both an escalating sectarian conflict and a competitive regional environment. Much of the heat—although certainly not all of it—has been taken out of the sectarian divisions. Violence is down, and coalition fatalities have been in single-digit figures for every month in 2010 (see Figure 4). Just as importantly, regional countries haven't slid into competitive interventions supporting their own preferred factions within Iraq, as they easily could have done. True, progress is fragile, but at least for the moment the future of Iraq depends most heavily upon the competence of the Iraqi political elite (Arango 2010). Incompetence on the part of that elite could reopen old wounds, and that in turn would sour the regional 'hands off' policy. A willingness to play by new rules seems to have gained broad support within the country—even among Moqtada al-Sadr and his supporters, if the results of the recent election and al-Sadr's engagement in negotiations with al-Maliki are anything to go by.

Since the removal of the Saddam regime in 2003, Iran, Syria and their non-state allies (in particular, Hezbollah) have emerged as a more destabilising force in the Middle East. Although the Iranian regime's desire for nuclear weapons and other weapons of mass destruction is in part motivated by a belief that it will deter US influence and intervention, it may also embolden Tehran to increase its regional role through proxies, using insurgency, terrorism and other forms of irregular war to undermine neighbouring governments. That's a threat not only to Israel and Iraq but also to oil-rich Arab governments.

Iran seems unlikely to initiate a direct conflict with regional opponents, at least in the near term. It will attempt to use its growing power to greater gravitational effect, seeking both greater strategic space for its own interests and a neighbourhood more accommodating of those interests. And, in the next year or two, the risk of an Israeli or US pre-emptive attack on Iran's nuclear program has probably receded a little, because the program is making progress less quickly than some had expected. But that does not change the longer-term strategic equation: the growing power of Iran suggests a more dominant Persian influence across the region, and that will be unsettling for others.

A growing Iranian threat to the region would spur counterbalancing by other states, especially by the Mediterranean-based states, which have seen their own strategic influence decline in recent decades as wealth and power have shifted more towards the Persian Gulf. It would encourage those states to modernise their conventional forces and possibly seek nuclear weapons. Indeed, recent media reports suggesting that Saudi Arabia has concluded a major arms deal with the US worth US\$60 billion show that a major arms competition may already be underway across the region.

Demand for hydrocarbon resources will continue to grow, especially in a developing world conscious of its own vulnerability to energy shortages. Turmoil in the Middle East will probably have ever-larger global consequences as a result. Asian vulnerability to such turmoil is increasing, and that might lead to increased intervention in the region by external parties, raising both the potential for and probably the scope of regional instability and conflict. Middle East security worries are bad enough when regional actors are fighting each other; they could only be aggravated if anxious, energy-hungry great powers also start playing a more direct role in Middle Eastern strategic equations as a result of the increasing competition for access to Middle Eastern oil.

# Weapons of mass destruction

## Assessments

- Global nuclear weapons stocks are declining as the large arsenals of the Cold War move into history, but nuclear weapons are not becoming irrelevant. There's little to suggest that any country now holding them is preparing seriously for imminent nuclear disarmament, and the number of nuclear weapon states still looks more likely to grow than to shrink.
- The successful conclusion of the Nuclear Non-proliferation Treaty (NPT) Review Conference in May 2010 shouldn't be taken as a harbinger of near-term nuclear disarmament. Indeed, with each year that passes, it gets harder to return to the two 'legitimate' worlds of the NPT: the geopolitical order of 1968, or nuclear disarmament. The need for new structures to manage the nuclear challenges of the 21st century is becoming more apparent.
- Some are suggesting that new strategies are required for both the North Korean and the Iranian proliferation cases—strategies that turn upon the idea of a 'nuclear pause' rather than short-term denuclearisation. The problem with such proposals is that they tolerate both North Korea and Iran as legitimate nuclear 'halfway houses', and that can only add to neighbours' concerns.
- Terrorist organisations will continue to benefit from the diffusion of technologies and scientific knowledge, but their best chance of acquiring weapons of mass destruction (WMD) lies in a WMD-competent state supplying them with either the weapons or the key enablers for their manufacture.

## Analysis

The successful conclusion of the NPT Review Conference in May 2010 hasn't significantly tamed the pressures driving nuclear proliferation in the emerging strategic environment.

Despite the efforts that President Obama has put behind the grand objective of nuclear disarmament since his inauguration, there's almost no prospect of such disarmament within the next few decades.

But it's not the continued retention of nuclear weapons by some states that makes them strategically attractive to others. Rather, it's the sense that strategic circumstances are shifting in deep and profound ways in the world that makes an increasing number of states more interested in having access to nuclear weapons. While nuclear weapons seem to have strategic utility, some states will want them.

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## US alliance arrangements have traditionally offset some of that pressure by the provision of 'extended nuclear deterrence' arrangements to its allies...

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US alliance arrangements have traditionally offset some of that pressure by the provision of 'extended nuclear deterrence' arrangements to its allies—arrangements under which the US agrees to run nuclear risks on behalf of its allies. With US relative power in the world declining, its allies' belief in the credibility of those arrangements is also likely to decline. Slippage in the credibility of such security assurances would be the single greatest factor driving any possible nuclear 'tipping point', because many US allies have the technological ability to proliferate quickly if they were to choose to do so.

In the meantime, Iran and North Korea constitute ongoing nuclear proliferation risks. North Korean proliferation is underpinned by ongoing nuclear testing (a second test was conducted in May 2009) and the development of the uranium-enrichment option as a second path to fissile materials (alongside the earlier plutonium option). So far, little information is available on the North's enrichment activities, but Pyongyang might see them as the easiest means to a more reliable warhead. The two 'tests' of a plutonium device seem to have been only partially successful, but highly enriched uranium should simplify the challenges of warhead design.

Meanwhile, the nuclear program is complicated by uncertainties over the future of the Six-Party Talks and a quickening leadership succession in Pyongyang. It's difficult to tell how those factors will tie together. Some indications suggest that the regime is increasingly pushing a hardline 'Military First' policy precisely in order to allow the third son (Kim Jong-un) to establish his leadership credentials with the army—an institution that seemed more important to his father's rule than the Korean Workers' Party. At some point, the Six-Party Talks may appear to have utility for the regime again, but not because a denuclearised North Korea would be acceptable to it. Victor Cha's assessment—that the regime wants a nuclear arsenal, an equivalent of the US–India deal offered to it, and US support for the regime's future—sounds a better judgment of the regime's thinking (Cha 2009:122–127).

International Atomic Energy Agency (IAEA) reports suggest that the Iranian nuclear enrichment program continues to expand, despite the imposition of a new round of sanctions against Tehran in June 2010. The agency's report in early September (IAEA 2010) noted that Iran had by early August 2010 produced 2,803 kilograms of low-enriched uranium (less than 5% U-235) at its Natanz facility—an increase of 15% over the previous three months (Sanger and Broad 2010). Iran has produced about 22 kilograms of uranium enriched to the 20% level. (It has no uranium enriched to the level necessary to make a nuclear weapon—about 90%.) The Iranians have continued to ignore IAEA requests for further information about a variety of issues, including the possible involvement of military-related organisations

in the nuclear program, the design and purpose of the enrichment facility at Qum, and its capacities to manufacture centrifuges or conduct laser enrichment.

Reports that the Iranian nuclear facilities have been the subject of cyberattack using the Stuxnet virus are interesting, but the effects of any such development are uncertain. Recent IAEA monitoring tends to suggest that the effects of the virus were only temporary. However, the Iranian program might be under something more than a mere cyberattack. Several personal attacks have been made on Iranian nuclear scientists in recent months, killing some and wounding others. While overt military action against the program would be unappealing because of Iranian responses, covert action seems well underway—by someone.

Both North Korea and Iran continue to push forward on their ballistic missile programs. The Koreans are making slow progress with the Taepo-dong, but their latest test was more successful than the earlier one. Given enough practice, they'll be able to produce a better missile. The Iranian capacities derive from the Scud missiles that Iran bought in the 1980s and the No-dong missiles it bought from the North Koreans. The regime is trying to indigenise its missile production and grow its base of expertise, but that will take time and require missile tests that will be readily observable. Recent estimates suggest that Iran is unlikely to have a missile capable of targeting Western Europe before 2014 or 2015 (IISS 2010:143).

Still, in both countries, the trend in nuclear capabilities remains upward rather than downward. Some analysts are proposing a 'paradigm shift away from denuclearisation' and towards 'a negotiated nuclear pause' as the best approach to both problems (Saeed 2010). Under those proposals, denuclearisation would remain a final objective, but one to be achieved only over a long time horizon. True, such an approach might build transparency about the two countries' programs, but it sounds vaguely reminiscent of the 'nuclear freeze' arrangement with North Korea in the 1990s and it risks legitimising both countries' programs for an indefinite period. That would be worrying for their neighbours.

The prospect of WMD falling into terrorists' hands is an unattractive one. The US, in particular, worries that it might be the target for any terrorist use of WMD. The broad historical trends are worrying: further nuclear proliferation is likely and the influence of non-state actors is growing. However, WMD technologies remain comparatively exotic. Without state assistance, it will be hard for terrorist groups to develop WMD or use them effectively. Aum Shinrikyo's experience with sarin gas in the Tokyo subway in 1995 revealed some of the problems in deploying such weapons effectively. On the other hand, terrorists don't need to build weapons to state-based design levels to have strategic consequences. Even a nuclear 'fizzer'—a nuclear device that explodes at only a small fraction of its potential yield—in a major city would be a serious concern, and deeply troubling to Western publics.

## National security

### Assessments

- Strategic challenges are playing out against a shifting backdrop of broader security concerns. The 'securitisation' of a wide range of issues typically not part of the traditional defence and strategic agenda—climate, health, criminal networks—acts as a filter on policymakers' focus on the traditional framework.
- National security issues are typically of increasing importance, but it's wrong to believe that finding solutions to those issues will automatically dilute the strategic challenges that policymakers must address. The reverse is probably also true: solving our strategic issues won't automatically dilute our national security challenges. But at least some of those challenges require comparatively high levels of international cooperation, and that cooperation could be a casualty of a more competitive strategic environment.

### Analysis

National security issues have begun to contest the traditional strategic space, in Australia as elsewhere. The Rudd government took ownership of the national security space by a variety of actions, including its provision of a National Security Statement, its appointment of a National Security Adviser, and its support for a National Security College. As a direct result of Richard Smith's review of homeland security, it pressed the idea of a national security policy 'community', coordinated to maximise capacities without creating a burdensome new infrastructure.

With Australians remaining vulnerable to a much wider range of threats than direct military ones, this side of the security agenda can be expected to grow. Bushfires, floods, climate change, energy security, water conservation, transnational crime, illegal immigration and pandemics are among the spread of issues that require increased government focus, and governments are trying to build systems for coping with those sorts of challenges. Hardest to do, for all governments, is to decide questions of priority and funding—that is,



to set meaningful priorities across an increasingly amorphous agenda, and to allocate resources in a manner that retains flexibility of funding and commitment in case of sudden changes of need. More broadly, governments in Australia and beyond are attempting to devise strategies that mitigate risk and enhance response capacities.

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The national security agenda is so large, and its requirements so open-ended, that policymakers would be advised to err in a narrower rather than a broader definition of security threats that might automatically entail government response.

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Down the national security path lie substantial potential commitments—the Queensland flood disaster a powerful reminder of just how substantial such costs can be. Indeed, the national security agenda is so large, and its requirements so open-ended, that policymakers would be advised to err in a narrower rather than a broader definition of security threats that might automatically entail government response. So far, the Australian Government seems to have separated its formal defence funding (or at least the vast bulk of it) from its national security budget, which is set at \$4.3 billion. However, both policymakers and the public will probably be drawn to thinking of the two concepts—strategy and security—as synonymous, making it progressively harder to retain a clear dividing line between the two. There’s a good case for trying to retain such a dividing line. In a world where all threats to security weigh equally, it will be much harder to build good strategic policy. In a world cluttered with ‘security threats’, the urgent is more likely to drive the important off the agenda.

## Australia's strategic outlook

### Assessments

- Australia's strategic environment is becoming more complex, and the simple recipe for success that we've adopted in the past—partner with the dominant Western maritime power of the day—is no longer an automatic guarantee of success.
- Our environment could yet unfold in a variety of ways, and its final unfolding won't be under our control, but we should be thinking today about the sort of Asian security environment we want to see emerge. Obviously, we'd want most an Asia where great power cooperation minimises threats and maximises stability. If we can't get that, we probably want one where power is diffused rather than concentrated, where there are more individual power centres, rather than fewer.
- We must make choices as a nation about our strategic role and identity in a different Asian security order.

### Analysis

Australia is a 'lucky country' in a strategic sense as well as in others. We live in a comparatively quiet neighbourhood. Great powers and their rivalries are distant. Direct adversaries are non-existent. And on the traditional Failed States Index, listed annually by *Foreign Policy* magazine, the genuinely 'critical' challenges tend to be grouped in Africa, the Middle East and South Asia, rather than closer to Australia's shores (Failed States Index 2010).

But the reason our neighbourhood has generally been quiet has less to do with geography than with a stable, benign strategic order in the Asia-Pacific region, underpinned for several decades by US power. That order is shifting. Despite the recent vigour of US re-engagement with its Asian partners, the capacity of the US to design and implement a new order is declining. The US will be an important regional player for years to come, but with the end of the era of weak Asian powers we've entered a period when Australia's neighbourhood will increasingly be shaped by regional actors.

The strategic environment of coming years will be defined by a set of megatrends that can already be seen:

- a US more distracted by domestic 'rebuilding'
- shifting great-power relativities in Asia
- demassification of the war-making unit
- rising nuclear latency.

All are deep-layer trends that Australia can do little to halt or reverse; as always, we'll be trying to optimise our strategic interests in a strategic environment primarily not of our own making. Australian strategic policy is an algorithm that involves the international security environment, our choices about our own role in that environment, and the constraints that bound those choices.

In coming years, we'll be living in an international security environment that's entered a period of compressed change. The effects of that change will be felt most strongly in Asia, because the shift in power relativities will be deepest there. Indeed, Western influence might be more anaemic over the next decade or so as the US (the 'frugal superpower'), Western Europe and Japan focus on domestic challenges. China and India will both be looking for larger regional roles in Asia, and so, eventually, will Japan, despite its domestic troubles. Southeast Asia, the nexus between Australia and the broader region, will face a defining moment as Asian powers begin to intrude upon its typically sheltered space. And, despite the intense efforts since 9/11 to combat al-Qaeda, the strategic significance of non-state actors will probably continue to grow. Indeed, the years since 9/11 only show how difficult it is to counter non-state actors well placed to exploit globalisation's increasing interconnectedness and diffusing technologies.

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Choices about our own strategic role must be made in the light of that period of compressed change in our security environment—an environment in which Asian powers and terrorists will probably both be stronger simultaneously, and Western partners probably weaker.

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Choices about our own strategic role must be made in the light of that period of compressed change in our security environment—an environment in which Asian powers and terrorists will probably both be stronger simultaneously, and Western partners probably weaker. We can do little to reverse, or even halt, the dominant trends in that environment.

The choices that loom before us could be summarised as:

- playing to our traditional policy of allying with the dominant Western power of the day, and staying closely aligned with the US while building supplemental partnerships in Asia
- building much more resilient partnerships in Asia while retaining our US alliance as a supplemental link
- becoming a more independent strategic actor, increasing our own strategic weight, and using external partnerships—with both Western and Asian partners—as mere supplemental links.

In effect, those choices are between relying on the US, relying on Asia and relying on ourselves.

The recent AUSMIN meeting shows that Australia's in no hurry to walk away from the strategic benefits it derives from its current US alliance. Those benefits include advanced military technologies, training and intelligence. Our existing patterns of cooperation are so close that even a frugal, distracted superpower makes a good partner for us, so we're looking for ways to build upon that linkage, but Asia's geopolitical transformation will probably prove a potent driver of change in the existing regional security order. And the ability of the West to define, build and enforce a new order in Asia is declining. Even if Australia does retain a strategy of relying on the US, we'll need to cultivate our strategic links with Asian partners in coming years, building upon positive but underdeveloped frameworks with Indonesia, the ROK and Japan.

An Australia that turned more deliberately towards Asia for its major strategic linkages, downgrading and marginalising its Western linkages, would be an Australia radically different from the one that history has given us. It mightn't be a strategic choice that our culture would permit. It would face two immediate hurdles: first, it isn't clear that Asian powers are looking to enlist Australia as a major strategic partner, and willing to take on the burdens of a close relationship typical of our earlier relationships with Britain and the US; and second, in choosing to align itself with a new set of Asian partners, Australia would be making an overt declaration of its own 'position' and preferences in a set of great-power relationships and balances that are still unfolding in the region. It's wrong to think of Asia as one strategic entity. When we ask ourselves whether we're willing to partner more with Asia, we'll inevitably have to consider which parts of Asia have special strategic attraction for us. None of the Asian great powers could immediately replace the US as a supplier of high-technology weapons, training or intelligence, although that could change over time.

The choice for Australia to rely primarily upon itself is a recipe for a more constrained vision of Australian strategic influence. As an important second-tier power, Australia has weight in the region, and with a concerted effort we could grow that weight off the back of a strong economy and capable defence forces. Indeed, Australia would be hoping to do so regardless of which strategic 'choice' we made, but our influence as an independent actor would be more limited both in 'shaping' the changing security environment and in 'hedging' against it than it would be as a partner to others. Partnerships in security affairs are key mechanisms for enhancing capacities for assurance, deterrence and defence: walking away from them, or even minimising them as a strand of security policy, would be a costly choice. An Australia using only its own resources and capacities would be a more constricted strategic actor that stays closer to home.

In reality, of course, we'll be trying to avoid the choice outlined above by adopting parts of each option. We'll be trying to nurture our alliance, and hoping that the US can use its reserves of strength to ride through its difficulties and regain its global strategic primacy. That would be a good outcome for us, but it might take a while. Simultaneously, we'll be trying to build links to those Asian powers with which we share the greatest overlap of strategic interests (and, yes, we share some interests with just about every nation in Asia, including China). Finally, we'll be building our own strategic weight, conscious that both Western countries and Asian countries will be watching Australia's independent efforts to shape regional outcomes. A mix-and-match approach retains our flexibility for the transitional environment.

But it will have to be a mix-and-match strategy in which we use the confidence that our US alliance gives us to make conscious and deliberate efforts to do more under strategic options 2 and 3 (the Asia-centric and Australia-centric options). In effect, we'll be shifting the strategic tripod to take more weight on those two legs and—over the longer term—place less weight on the US leg.

At the same time as we're doing that mixing and matching, we'll also be trying to play into a second space: the space of the more influential non-state actor. Terrorist threats aren't going away. Indeed, the diffusion of terrorist capabilities—as measured by the adoption rates of IEDS—seems to be quickening. Responding to this phenomenon will oblige Australia to draw upon a wider set of national security departments and agencies, and to become better at building integrated approaches across those institutions. Defence will, however, be part of that mix, and in the event of a high-casualty terrorist attack on Australian soil it's entirely likely that the Australian Government would want to consider military options as part of its response. It's also likely that in the event of another 9/11-style attack on the US—an attack leaving some thousands of Americans dead—Australia could be caught up in a militarised US response. We need some capacities for that sort of situation. In brief, we need to think about national capacities, including balancing our military forces for a diverse range of needs.



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## Abbreviations and acronyms

DPRK	Democratic People's Republic of Korea
GFC	global financial crisis
IAEA	International Atomic Energy Agency
IED	improvised explosive device
ISAF	International Security Assistance Force (Afghanistan)
NPT	Nuclear Non-proliferation Treaty
ROK	Republic of Korea
WMD	weapons of mass destruction

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## Changing pace ASPI's strategic assessment 2011

This latest *Strategy* report takes a fresh look at the global and regional security environment, and provides an in-depth strategic assessment of a world where the pace of change appears to be accelerating. The relative slippage in US power, and the broader decline of Western influence, portend an era of fraying global leadership. The assessment suggests that Australia will have to worry about two strategic problems over the next ten to twenty years: the shifting great-power relationships in Asia, and the growing capacity of non-state actors to pose strategic-level threats to states. Moreover, those concerns will likely unfold against a backdrop of wider national security worries—over everything from bushfires to pandemics, transnational crime to energy security, and water resources to possible climate change.

In Asia the pace of change has been particularly rapid over the last two years—to the point where we can now sense the shape of a new Asian security environment. It will be one where the US remains engaged as a leading player, but where its role slides from one of primary player to one of power-balancer. Asian power balances are in flux, and we are seeing the rise of a multipolar Asia—an Asia with perhaps four great powers and a range of second-tier powers as well. That does not doom us to an Asia of conflict. But it is likely that some measure of growing strategic competition will permeate the region. And that competition could well be felt in Southeast Asia, the subregion which has traditionally sheltered Australia from tensions further north.

With both US power and Western influence in relative decline, Australia will likely be looking for new strategic options to buttress its current policies in this emerging era. The US alliance will remain important to us: even a declining, distracted superpower can be a powerful ally for Australia. But it is likely that we will also want to nurture new relationships with regional countries as the 'Asian century' unfolds. And it is likely too that we will want to enhance Australia's own national power base and strengthen our capacities for independent action in a more multipolar Asia. The authors of the report are Rod Lyon, ASPI's Strategy and International Program Director, and Will Clegg, an ASPI research analyst.