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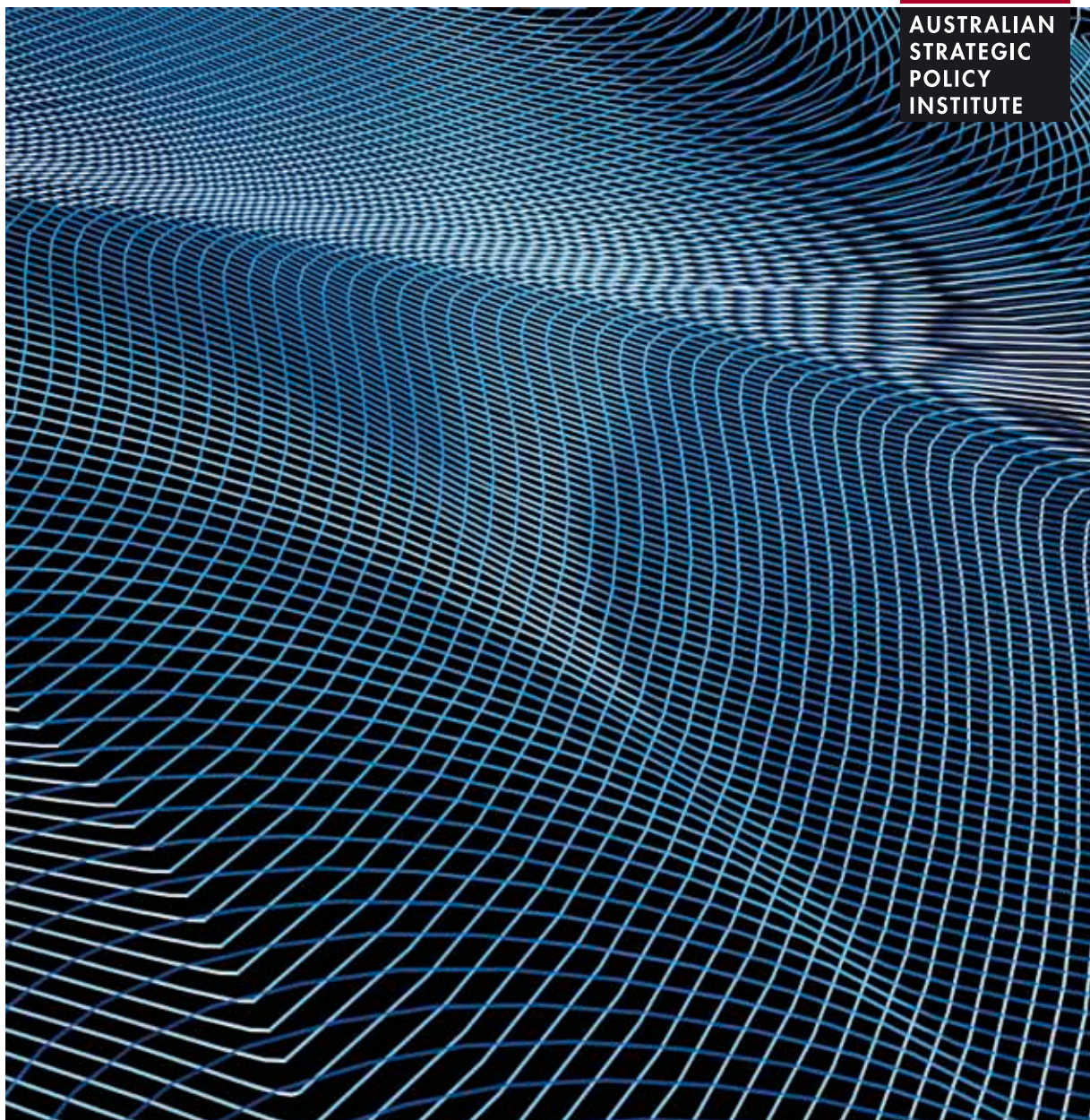
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## Strategic contours

The rise of Asia and Australian strategic policy

A S P I

AUSTRALIAN  
STRATEGIC  
POLICY  
INSTITUTE



July 2012



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First published July 2012

Published in Australia by the Australian Strategic Policy Institute

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Lyon, Rod, 1951-

Strategic contours : the rise of Asia and Australian strategic policy / Rod Lyon.

ISBN: 9781921302787 (pbk.)

Series: Strategy (Australian Strategic Policy Institute)

Notes: Includes bibliographical references.

Strategic planning—Political aspects—Australia.

Australia—Strategic aspects.

Australia—Foreign relations—Asia.

Asia—Foreign relations—Australia.

Other Authors/Contributors:

Australian Strategic Policy Institute.

327.9405

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## Executive summary

The Gillard government has commissioned a new Defence White Paper to be published in the first half of 2013. White Papers are the apex of Australian declaratory strategic policy. Obviously, the government hopes to use this one to present a credible tale of Australian strategy in a strategic environment more challenging than the one outlined in the last White Paper in 2009 and in economic circumstances that are more pressing, both for us and for many of our allies and partners. Managing Australian strategic policy during a period of increasing strategic complexity and decreasing resources will require discipline—not least a discipline of thought about our priorities and their realisation.

Earlier ASPI reports have spoken of an Asian strategic environment experiencing transformational change. That change is characterised by two interlinked phenomena: the relative decline of US power in Asia, and the ‘return’ of Asian great powers to the international system. Already, Australian strategic analysts are attempting to assess what those changes mean for Australia. The Australian National University’s Professor Hugh White says that Australia will find itself increasingly stretched between Washington and Beijing (White 2010). Director of the National Security College, Michael L’Estrange, says Asian transformation probably won’t be that disordering (L’Estrange 2010). The Lowy Institute’s Michael Wesley says Australia needs to overcome its traditional difficulties in neighbourhood engagement (Wesley 2011). Kokoda Foundation founder Ross Babbage believes Australia needs to forge much closer links with the US as China’s military forces expand (Babbage 2011). Canberra University’s Peter Leahy cautions against becoming too closely entangled with the US in a new bout of alliance fervour (Leahy 2012). Alan Dupont, of the University of New South Wales, argues that Australia needs to gird its loins for an ‘inflection point’ in strategic policy, which will see fewer interstate wars and more irregular conflict (Dupont 2012).

The debate waxes and wanes, quickening each time a new initiative surfaces—whether it’s the deployment of US marines on training



exercises in Darwin, a fresh bout of worries about the South China Sea, one more double-digit increase in China's defence budget, an announcement by the US Secretary of Defense at the Shangri-La Dialogue about the future US military presence in the Asia-Pacific, or renewed pressure on Australia's own defence budget. It quickens too in response to signals of new high-potential partnerships—such as the recent meeting between Prime Minister Gillard and Indonesia's President Yudhoyono.

What Australian strategy needs most of all is not hardware—despite the fascination of Australian media with heavy metal. It needs a better matrix to guide policy, in particular policy towards a transformational Asia. That policy must rest upon three factors: a sound understanding of the region and its likely future(s), an appreciation of our own possible role as a regional actor, and a willingness to accept—or surmount—the constraints that currently limit our role.

Let's start with the first. Asia's current strategic environment might best be described as 'co-opetitive'; that is, it is neither cooperative nor competitive but a mixture of both. (The term 'co-opetition' was coined in business circles to describe how firms cooperate with each other even while competing. See Brandenburger and Nalebuff 1997.) The current environment makes the future uncertain—because Asia might just as readily become more competitive as more cooperative. Still, the news isn't all bad: if 'co-opetition' makes the near-term embrace of the concepts of 'Asian community' or 'Asian concert' unlikely, so too is 'war-prone Asia' relatively unlikely.

What should our role be in this transformational Asia? We have a clear strategic interest in reinforcing a secure, liberal and prosperous Asian regional security order, because that's the sort of order within which Australians can live comfortably. Our grand strategy should say so, and we should have at hand a set of coordinated national policies aimed at that end. That would include an 'upstream' policy of order-building as well as a 'downstream' policy of hedging. Order-building strengthens the prospects for a more cooperative Asia; hedging positions us for the worrying possibility of a more competitive Asia.

What are the constraints that limit our role? Essentially, they're the constraints that limit any second-tier power: we can do only so much. We can be a force for good in the world, but not much good—most of the world's big strategic problems lie outside our immediate neighbourhood and our role is seldom decisive. Because of our power limitations, we need to prioritise our policy settings carefully over the coming 20 years—focusing our efforts on achieving our grand strategy in the most likely Asian futures rather than the less likely ones. The likely futures are the ones most proximate to the current Asia—a fractious, somewhat competitive system of mainly introverted strategic cultures, some still harbouring a sense of historical resentment about being denied for too long their rightful place in the sun, tied together in a complex weave of both cooperation and competition. It's those futures, ones where the region is neither perfectly cooperative nor perfectly competitive, that are most likely to develop.

This paper develops an argument for thinking about Australian strategic policy on the basis of statistics and game theory. It argues that the regional systems of reassurance and deterrence are under increasing strain from the transformational changes unfolding in Asia, and accepts that Asia's strategic future is uncertain. What Australia needs is a formula for living with uncertainty. We can best do that by thinking about 'the Asian futures of one



standard deviation’—that is, the 68% of futures most likely to unfold.<sup>1</sup> Starting from the position that Asian security is currently co-opetitive, half of those Asias would look more cooperative and half more competitive.<sup>2</sup> When we think of our ‘upstream’ policy we should aim at reinforcing the best possible Asian future within that one standard deviation from the mean—specifically, by attempting to reinforce the integrated system of strategic reassurance that should accompany good economic and people-to-people relationships in a more benign Asia.

We have to be realistic: that benign Asia is still not going to be one that thinks of itself much as either a ‘community’ or a ‘concert’—although that terminology will probably find increasingly greater usage among scholars and diplomats. It would still be an Asia considerably improved on the one we know today. In particular, it would be an Asia where cooperation is the dominant strategic motif, despite residual elements of competition, and where regional powers are increasingly the providers of regional reassurance. The metrics of reassurance are relatively straight-forward: we want an Asia where rising powers accept their status as consequential powers; accept their role as regional reassurers and order builders; and work with other Asian first and second-tier powers, as well as with the US, to ensure a secure, liberal, prosperous regional order.

When we think of our ‘downstream’ policy we should aim at hedging principally against the worst possible Asia within that one-standard deviation from the mean—specifically by reinforcing the integrated system of strategic deterrence that inhibits early resort to force by any regional player. At the national level, we would want to strengthen both our alliance relationship with the US and the ADF. Again, we have to be realistic: that Asia is still not a ‘war-prone Asia’, merely a more nationalistic and competitive one. In short, we don’t need to start preparing now to fight the Asian wars that we could expect to arise under absolute worst-case planning—though we do need to be conscious that an Asia that’s one standard deviation more competitive would be more troubling and worrisome than the one we live with now. It would probably be an Asia where reassurance patterns remain determinedly national rather than regional, where economic integration recedes rather than grows and where bargaining patterns are distributive (‘win-lose’) rather than integrative (‘win-win’).

It’s important to stress that both our upstream and our downstream policies constitute one coordinated whole. Australia doesn’t have to choose between the two—it has to do both. It has to strive for the better Asia and prepare for the worse. But we mustn’t mislead ourselves or others that ‘preparing for a worse Asia’ is actually our grand strategy—it isn’t. Our grand strategy is to build a more cooperative Asia. Some will argue that we shouldn’t constrain our efforts to the one-standard-deviation rule, because standard deviations are about mathematics and not strategy. That’s perfectly true, but the rule’s a disciplinary device to bring focus to our policy. Already, too much of our strategic policy debate turns more on the unlikely Asias (the Asias of communities or wars) than on the likely ones.

It’s also true that Asia—especially transformational Asia—is a dynamic condition and not a static one. So we need good indicators to tell us in which direction Asia is moving and at

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- 1 In statistics, ‘standard deviation’ is a measure of the spread of a set of results around the mean. In broad terms, 68% of results occur within one standard deviation of the mean, and 95% of results fall within two standard deviations of the mean.
  - 2 A graph of future scenarios appears on page 29, which readers might wish to turn to if they find the following brief explanation confusing.

what speed. There's a range of indicators that we should be watching—force development, bargaining behaviour, the willingness to contribute to regional public goods, the evolution of better trust-based strategic relationships among Asian countries. None of them is perfect and all involve more than a little subjectivity, but the task is merely difficult, not impossible. Of course, as Asia does move, the one-standard-deviation line moves with it, implicitly requiring us to continually adjust our policies.

Much of our upstream strategy must be based on building a more reassuring regional order—one that isn't based solely on US primacy. That doesn't mean we want to erode the US regional position: there's no compelling reason to drive the order artificially to more closely resemble changing power ratios. We don't need to deliberately undercut US positional advantages in Asia to foster strategic stability in the region. US primacy in Asia isn't systemically destabilising, and—notwithstanding the claims of Professor White—Australian policies intended to sustain US engagement don't make the region more conflict-prone.

Still, as multipolarity grows in Asia, regional perceptions of US primacy are becoming more blurred. That blurring weakens the interlinked systems of reassurance and deterrence that underpin the current order. As Asian coercive power grows—and coercive power is the power to intimidate as well as the power to do actual physical harm—the region as a whole is entering a new era of reassurance worries. Many regional players have already begun to look for new means of reassurance, including by drawing the US back to a larger role in regional security. Some of that's already visible in Australia's own strategic thinking. It's not entirely surprising that Australia feels a degree of trepidation about the Asian century. Since white settlement we've lived in a Western-shaped Asia. Other Asian states have some historical memory of what it means to live alongside bigger, stronger, region-shaping Asian powers, but we have none. That doesn't mean we should fear the future—but we will, of necessity, be sensitive to key issues of regional order and to the capabilities and intentions of the region's rising players.

It's neither unwise to engage the US in the enterprise of designing new mechanisms for regional reassurance, nor foolish to encourage Washington to invest in new forms of strategic engagement across the region. A US recommitment to Asia, much of the sort that's currently unfolding, gives the region breathing space to find new arrangements. And it attests to an important fact: Asia isn't about to slip back to being a 'closed system' as it was before 1850. But, as US primacy wanes, Australia has a compelling strategic interest in encouraging the rising regional powers to become more sophisticated suppliers of reassurance in their own right. In the long run, Australians will feel a measure of security in the transformational Asia only if it's based on a stable, prosperous, liberal order that has 'buy-in' from first- and second-tier regional players and doesn't turn solely on US primacy.

Our downstream policy must allow for the fact that Asia's current co-opetitive condition might in later years become more competitive. Everyone in Asia is already hedging, and we should expect a continuing wave of military modernisation across the region. Still, only if Asia became much more competitive would we be at risk of sliding into a more combative milieu. Our current hedging policy should be aimed at providing us with the defence and alliance options appropriate to a more competitive Asia, as well as a strengthened set of 'niche' security relationships with Asian partners interested in open and direct defence cooperation. In terms of ADF force development, it should aim at an 'expandable' force that would better prepare us to respond to a possible slide towards a more combative Asia, but not that

expanded force itself. Using the one-standard-deviation guide as a limit on our hedging policy, we don't need to commit now to building an ADF that would allow us to go to war with an Asian great power.

This model assumes—though not unfairly—some inertia in the evolution of the Asian strategic environment, even during an era of strategic transformation. It assumes that there's unlikely to be a rapid shift across two standard deviations that would deny us warning and preparation time for a vividly different regional security environment. Such a rapid shift might occur if some 'black swan' event precipitates a sudden absence of US power—for example, if the US were struck by a severe bioterrorist attack at home that crushed US power (and willpower) at its core for a generation. Something of that kind—highly unlikely but strategically significant—would disrupt the structure of the current order, at both the global and regional levels, and entice potentially revisionist players towards an attempted reconstruction of the order along their own preferred paths.

We have to use a disciplinary ruler of likelihood to constrain the realm of possible futures that we ought to plan for. The model sketched here focuses on more plausible one-standard-deviation shifts. Even those could see large-scale changes over the next couple of decades. It's possible—over time—that the current co-opetitive Asia will give way to a more cooperative one. If the Asian security environment were to stabilise at about the one-standard-deviation line towards a more cooperative Asia, our own policy settings would obviously shift. Concert Asia or Community Asia might then be a plausible shaping target for an upstream Australian strategic policy. And our downstream hedging policy might focus merely on preventing a return to a co-opetitive Asia—a more modest objective that would permit a smaller ADF. It's also possible—over time—that the current co-opetitive Asia will give way to a more competitive one. If the Asian security environment were to stabilise at about the one-standard-deviation line towards a more competitive Asia, our policy settings would also shift. Upstream, we'd be trying to encourage a return to co-opetitive Asia; downstream, we'd be worried about the possibility of war-prone Asia and our own hedging policy would become far more burdensome. In those circumstances, we'd be hedging against the prospect of actual conflict.

Of course, a third outcome is also conceivable: it's possible that the current co-opetitive Asia will merely become more intensely co-opetitive, in which case our policy settings wouldn't change much but our own relationship with Asia might similarly intensify. In brief, at all three points—cooperation, competition, and co-opetition—our shaping and hedging policies would have to be regionally 'appropriate'. But at all three points, we should keep in mind a clear understanding of our principal strategic objective—which is to build a better Asia. Like all regional countries, we'll also hedge against the possibility that our strategy will fail, but we shouldn't confuse our hedging position with our main strategy.

# Chapter 1

## COOPERATION AND COMPETITION IN THE ASIAN STRATEGIC SYSTEM

As Australian ministers and officials set about preparing the forthcoming White Paper, one key strategic challenge must be at the forefront of their thinking—how to position Australia in relation to the changing Asian security environment. The rapidly changing power relativities in Asia have added weight to an enduring strategic problem: how does Australia secure its core strategic interests during the 21st century?

The Asian environment is a strange mixture of cooperation and competition. The competition basically derives from the fact that most Asian states have come late not just to industrialisation but to nationalism. Cultural differences add sharpness to relationships. So too does history. At least in the academic literature those factors are typically magnified by another: an intellectual prism within international relations theory that suggests great powers are doomed to struggle against each other. In academia, the hegemonic transition theorists have built an entire body of thought upon that maxim, arguing that periods of hegemonic domination tend to be periods of peace, while periods of hegemonic transition tend to be periods of war.

Asia is also primarily a group of developing states. Those states have a picture of security that's closely entwined with their own development trajectories: each sees its future as shaped mainly by economic growth. Since development requires stability, the fastest rising powers are typically acutely aware of their own national interest in ensuring a stable regional environment. Strategic partners that can offer both enhanced regional stability and economic-growth solutions are speaking a language that Asians readily understand.

In Asia the economic imperative is a powerful driver of regional cooperation—so much so that some analysts talk of economics and security as running on different railway tracks. For example, the fact



that China isn't widely trusted as a strategic actor hasn't stopped the steady growth of economic links between China and other regional states. So far, we don't have an Asia of competing economic blocs and none of the major powers has grown strong independently of the current enmeshed economic order. Still, we mustn't overstate the separation of the tracks. Some say that we're witnessing the rise of an Asia much more comfortable with 'multidimensional competition'. Christopher Twomey uses that concept to unpack the way high-intensity war in Asia might well involve a broad conflict in which conventional and nuclear forces interact closely (Twomey 2011). But the concept is capable of stretching well beyond the battlefield.

Interconnectedness is a double-edged sword and Asia is both more interconnected with the outside world and more internally interconnected than it's been at any previous point in history. 'Globalised Asia' is even more constrained than 'Developing Asia'. As one regional analyst has pointed out, 'The paradox of globalisation is, as shown in the post-Mao Chinese case, that a country's integration into the global economy at once strengthens and constrains state power' (Kim 2008).

David Gompert and Phillip Saunders (2011:2) spell this out as part of their argument that coercion in the 21st century can have devastating consequences, while remaining largely 'nonviolent' in terms of lives lost:

The increased vulnerability of sovereign states that began in the mid-20th century with strategic bombing and nuclear weapons has been compounded by two factors that mark passage to the 21st century: integration and information networking. The former has increased the exposure of states to each other's products, services, data, money, ideas, surveillance, migrants, and travellers, including terrorists. Integration has also opened new domains in which nations interact: no longer just at sea, on land and in the air, but now also in space and cyberspace. While economic integration has brought growth to those nations that participate, it has also reduced their ability to escape risk.

Information networking has accelerated economic integration not only internationally but internally as well, as China's transformation from a fragmented to a national economy shows. It is also demolishing the ability of sovereigns to control what their populations know ... Information networking increases vulnerability in another way: improved military targeting. It has yielded dramatic enhancements in sensors, data processing and sharing, geolocation precision and coverage, navigation and guidance—thus, in the ability to deliver weapons at any distance with great speed and accuracy, and to defeat defences.

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The Asian century seems likely to be characterised by patterns of coercion that don't necessarily include early resort to overt military options.

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In short, globalisation has opened a range of new shared vulnerabilities. The Asian century seems likely to be characterised by patterns of coercion that don't necessarily include early resort to overt military options. That doesn't mean the Asian century will be 'peaceful'—just that competition would probably take different forms from those we usually imagine.

Indeed, we may be witnessing the growth of ‘mixed-motive games’ in Asian security. For game theorist Thomas Schelling, mixed-motive games are characterised by ‘precarious partnerships’ and ‘incomplete antagonisms’ (Schelling 1980).

The precarious partnerships can be seen in a number of incidents in Asia in recent years. The clash of a Chinese fishing trawler and the Japanese coastguard in the disputed waters of the Senkaku/Diaoyu islands in September 2010 is one example, and the struggle over reef markers in relation to disputed territorial claims in the South China Sea is another. In the first case, the Chinese retaliated against the detention of their trawler captain by a short-term ban on exports of rare earths to Japan. That doesn’t sound like a model for the separation of economics and security, but more like one in which pressure might be exerted through a range of mechanisms, including the vulnerabilities of interdependence. Similarly, the struggle over reef markers—and, perhaps more importantly, resource exploitation—in the South China Sea is another sign that low-level contests can easily have a strategic significance greater than their material scale might suggest. The sharpness of the South China Sea disputes in recent years attests to the fact that distributive (‘win–lose’) bargaining has increasingly replaced integrative (‘win–win’) bargaining on the key territorial claims.

Still, if Schelling is right, we shouldn’t forget the ‘incomplete antagonisms’ side of the equation. Many of the contests in contemporary Asia are self-limiting in their scope and possess only a limited capacity to drive the parties towards steep threat escalation. That isn’t true of contests that touch on vital national interests—the future of Taiwan, for example. But beyond that ‘vital interests’ category—a category that demands resolute conflict management efforts—many of Asia’s strategic differences tend not to be make-or-break issues. Even the South China Sea disputes can probably still best be seen as an incomplete antagonism—no claimant believes the small islands and reefs of the region would be worth a serious, high-level war.

## Coercion

Western publics typically think of coercion in its military form, and of great-power war in terms of the Napoleonic model of warfare that prevailed in Europe during the 19th century and the first half of the 20th century. That model stresses ‘mass’ as the key ingredient of war because that was essentially Napoleon’s invention: he used the French Revolution as an enabler to bring the citizen into military service. In Western military strategy, Clausewitz is the principal theorist of this sort of war—because once mass had been brought to the battlefield, it made sense to seek decisive engagements. But in Asia, the Napoleonic revolution in warfare was typically softened by older cultural traditions. For example, Sun Tzu, the great Chinese military strategist, did not favour decisive battles; he favoured winning without fighting. Sun Tzu was in many ways the opposite of Clausewitz, not his Asian counterpart.

And, if we look at history, the recent period of Asian economic growth hasn’t been a generator of much direct military conflict. The guns have been largely silent in Asia since the 1970s. Military force still has a role to play in setting the context within which Asian countries find their security, and Asian countries have been modernising their military forces, but direct military clashes are relatively rare.

In Asia, patterns of coercion often involve pressure in one area in order to gain concessions in another. One study, for example, shows that China’s persistent raising of its territorial claims over the Diaoyu Islands in the East China Sea (islands that Japan claims as the Senkaku

Islands) resulted in Japanese concessions on other issues in most of the 26 threats made between 1978 and 2008. The author of that study concluded that Beijing was deliberately drawn to the restatement of its territorial claims as a means for pursuing other goals, such as a reconsideration of economic sanctions imposed over Chinese nuclear testing or to halt visits by the Japanese prime minister to the Yasukuni shrine (Weigand 2009).

While territorial claims have a permanency and a ‘hardness’ about them, most forms of coercion can be offset by subsequent action. The temporary ban on the export of Chinese rare earth minerals to Japan in 2010, for example, spurred Japan and others to find alternative sources of supply precisely in order to reduce their long-term dependency on China for the supply of the resource. So economic pressure typically generates short-term pain, a medium-term adjustment strategy by the targeted state, and—perhaps—long-term resentment.

In practice, economic coercion is relatively difficult to translate into meaningful strategic gain. That’s true even of the ability to interdict particular sea routes. A closure of the Malacca Strait wouldn’t put an end to maritime traffic between the Indian and Pacific oceans—its short-term effect would be disruptive, but its principal medium-term effect would be to divert traffic to other channels. The closure of the Suez Canal between 1967 and 1975 produced precisely that diversion effect: trade fell off noticeably only where the diversion costs were significant (Feyrer 2009).

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In some ways multifaceted relationships provide more rather than fewer opportunities for coercion, since there are more ‘contact points’ at which to reward or punish another player.

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In some ways multifaceted relationships provide more rather than fewer opportunities for coercion, since there are more ‘contact points’ at which to reward or punish another player. For example, China has typically responded to US arms sales to Taiwan with a cessation of military-to-military contacts between the US and China for a period. That pressure is intended to deter future US arms sales to Taiwan as well as to signal Beijing’s displeasure with Washington’s policy decisions. Of course, a variety of pressure points is not by itself inherently bad: it can provide a means of dodging zero-sum games, and opportunities to adjust the level of the response in relation to more immediate needs.

Are we likely to see the emergence of new forms of coercive pressure that exploit interconnectivity for ‘compellence’ purposes rather than mere deterrence? When Australians mull over the problem of having as their strongest strategic partner the dominant Western maritime power of the day and as their strongest trading partner the rising non-democratic power in Asia, some worry about whether either of those powers can leverage Australian behaviour to the detriment of Australia’s own interests. Can the US drag us into a war over Taiwan, for example? Can China economically ‘coerce’ us into more pliant strategic behaviour on key issues? At base, those concerns are about linkage.

Several factors would make such compellence difficult. Asian multipolarity would be one and Asian enmeshment with external powers would be another. The Asia of the 21st century is unlikely to be the historical Asia of pre-1850: we aren’t headed back to a ‘closed’ regional

system. Both factors—power diffusion and an open system—make compellence harder. Interconnectedness is also a ‘softener’ even though it allows linkage politics to dominate.

Besides, what would be the nature of the compelling threat? Essentially, it would have to threaten that unless one regional state—let’s say Australia—behaves in new and different ways in its strategic policy choices, then it would suffer costs that the other power—let’s say China, just because it’s our largest trade partner—could impose. What might those costs be? That our trade relationship would be curtailed? Australia would just go back to selling its resources to other clients. In a world where half the world’s population is coming late to industrialisation, Australia seems unlikely to run out of trade partners quickly. If the threat was a military one—to attack Australia or its interests in some way—that would be far more alarming. However, such a threat would have an inherent credibility problem: for example, Australian policymakers would not judge it likely that China would attack Australia merely because of our ANZUS ties.

On the other side of the coin, some worry that the US might ‘compel’ Australia into military adventures not in our broader interest. Hugh White, for example, already sees the US as ‘dragging Australia into America’s escalating rivalry with our biggest trade partner’ (White 2012). Over recent years the Taiwan case has often been cited as an example in which our treaty relationship might drag us into a conflict against our choosing, because we’d be ‘compelled’ to go to the assistance of our treaty partner in any stoush over the island. ANZUS isn’t typically seen in Australia as our attempt to have a Taiwan Relations Act. And that’s not just a recent perception arrived at after a clinical dissection of the shifting force balance across the Taiwan Strait over the past decade: JC Starke’s definitive analysis of the ANZUS Treaty, published back in 1965, noted that it was far from clear whether Formosa (as Taiwan was then called) was ‘in the Pacific Area’ for ANZUS Treaty purposes (Starke 1965) or simply an island off the coast of China, like Quemoy and Matsu. Australia’s formal acceptance of a one-China policy in 1972 can only have hardened the view that Taiwan is just such an offshore island. We might go to the US’s assistance in a struggle over Taiwan—our policy would be scenario-dependent—but we can scarcely be ‘compelled’ to go. The ANZUS Treaty is a defensive alliance, and it’s flexible enough to make it exceedingly difficult for one party to compel another towards foreign adventurism.

In any event, compellence is the wrong term to use to describe the normal relationship between alliance partners. As a general point, allies don’t ‘compel’ each other. Allies might haggle about appropriate levels of burden-sharing but they don’t force each other to do things. At the core of a healthy alliance lies a voluntary assumption of risk. And Australia certainly hasn’t been dragged towards expanding its alliance relationship with the US since 9/11—it’s actively sought such an expansion.

Still, it probably wouldn’t do much harm for the Australian and US governments to discuss their respective understandings of what they believe their ANZUS obligations to be in particular scenarios. It’s entirely possible that Australia might well choose to fight alongside its ally even where an exegetical analysis of legal commitments isn’t decisive, but shaping expectations of what partnership fulfilment might look like in a transformational Asia would be a help rather than a hindrance. Academic studies of alliance reliability show that reliability increases dramatically if the parties pay attention to the fine print—alliances work much better when expectations of behaviour are specific and detailed rather than general and open-ended (Leeds et al 2000).



## Cooperation and competition

In regions like Asia where mixed-motive games apply, most regional states are likely to have relationships with others that are ‘co-opetitive’ (that is, simultaneously cooperative and competitive). When Australia looks at China it sees a country that is—at varying times—both a partner and a competitor. China looks at us the same way. A co-opetitive strategic environment makes for challenging rather than dangerous relationships. Patterns of coercion in an interconnected Asia are more likely to be nuanced and short-term than blunt and long-term. They’re more likely to resemble the sorts of coercive pressures we already see in Asia now than the sorts of existential threats that European states posed to each other in an earlier era.

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At various times Asia will look cooperative, at other times competitive.

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But it might be wrong to assume that pressures for cooperation and impulses towards competition will always neatly balance out in Asia. At various times Asia will look cooperative, at other times competitive. Moreover, one of the characteristics might harden into the more dominant condition: we might find ourselves living in a more cooperative Asia (despite residual competitive instincts) or a more competitive one (despite residual levels of economic interconnectedness and the slow growth of regional institutions). We should have a strategic policy that allows us to live in whichever Asia emerges.

In the chapters that follow, this paper outlines the key strategic consequences of the rapidly changing power relativities in Asia. Chapter 2 examines the consequences of Asia’s changing power contour<sup>3</sup> for the current system of reassurance constructed by the US during the Cold War. It argues that a key test for the emerging Asian security environment will be the extent to which rising Asian powers help to build a new regional reassurance system. The current environment is dominated by large, introverted states—many still in various stages of development—and sharp cultural boundaries. Patterns of strategic enmeshment among the players seem likely to increase but will be typically cautious and hesitant. If we want a model for those future relationships we could imagine what Australia’s own efforts might look like were it to pursue a much closer strategic relationship with Indonesia (something that ASPI has suggested in the past; see Lyon 2011).

Chapter 3 examines the growth of hedging and deterrence policies in rising Asia. While the US system of hub-and-spokes alliances endures—and it seems to be in no prospect of near-term collapse—the regional deterrence system has a robust core. If anything, the core is spreading rather than contracting as more regional states look to strengthen their strategic relationships with Washington. The US footprint in the region is moving south and west from its traditional Cold War focus on Northeast Asia, just as strategic weight in Asia moves south and west. The US deterrence system is complemented by a growing array of national defence capabilities which underpin separate national ‘hedging’ policies by almost all the

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3 The term ‘contour’ is used here in its design sense rather than its topographical one. The *Oxford English Dictionary* lists two meanings for the word. The first meaning is of a line separating the differently coloured parts of a design; the second of a line representing the horizontal flow of the earth’s surface at a given elevation.

key regional players. Everyone in Asia is hedging against the prospect of a more competitive regional strategic environment. It makes sense for all of those players, including Australia, to hedge judiciously and not to let fear be the sole driver of strategic policies.

Chapter 4 examines Australia's future in the Asian strategic century. That future doesn't turn on simple choices—for example, whether we should support the US or China in future crises. We want a long-term solution to the problem of regional security. Much of the initiative for securing that future lies in our own hands. Australia will probably choose to be an active player in that environment, not least because of its tradition of seeking security 'upstream' (by order-building) rather than 'downstream' (by hedging). Never has the need been greater for Australia to embrace an upstream role.

We face two critical constraints in adapting to the new Asia: a limitation on the resources available to us to shape the environment, and a lingering uncertainty about our own place in the region. The resource constraint is an enduring one. And, in the long run, the cultural uncertainty constraint can be overcome only if we more fully embrace our country's place as a regional strategic actor. It would be pointless, though, for Australians to indulge in a new round of navel-gazing about their own identity and it's not clear that we have time for another round of that debate. We need to focus on what we want and how to get it. That means we need to put aside some of the familiar hand-wringing angst about national identity and shifting power relativities in Asia and focus on functional order-related issues.

A former foreign minister once said that we need a *Pax Pacifica* to succeed the *Pax Americana* in Asia. That's true, but we need to be clear about what that is and how we get it. We can get a regional security order appropriate to the Asian century only if Asia's rising powers are prepared to do more in the way of order-building themselves. If they're unwilling to become regional reassurers, we're all in for a more difficult ride.

## Chapter 2

# NURTURING REASSURANCE IN THE ASIAN STRATEGIC SYSTEM

The rise of Asia is becoming an old story. The new Asian narrative is what happens after Asia rises. (Lee 2011)

Asia is changing and the transformation is historic in scope. Already, Australians feel its effects in their daily lives. Half the world's population has come late to the Industrial Revolution. When the process has run its course Asia will look dramatically different from the one that existed for much of the 20th century, and so will the rest of the world.

Because truly historic transformations happen relatively infrequently we lack good models for thinking about them. Some believe Asia's destiny has already been written. One school has argued that Asia's future is Europe's past: that the challenging multipolar power balances of Europe in the 19th and early 20th centuries are the model for what awaits the emerging multipolar Asia.<sup>4</sup> A second school has argued that Asia's future is Asia's past: that the Sinocentric character of Asian history before Western intervention in Asia will again become the norm. That Asia was dominated by bandwagoning, not balancing—by Asian states following the regional leader and accepting notions of hierarchy.<sup>5</sup>

Without attempting to resolve that argument here, it's worth noting, as Yale academic Samuel Kim has pointed out, that Asia's current transformation isn't its first. Indeed, Asia has seen three key transformations since 1850: the breaking of the traditional power of the Chinese empire; the rise of Japan—driven by its rapid adoption of Western models—and its abrupt fall; and the divisions of the Cold War (Kim 2008). The current transformation doesn't provide a simple path back to the pre-1850 world: 'contrary to the Eurocentric and Sinocentric

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4 The classic formulation of this argument is in Freidberg (1993).

5 See, for example, Kang (2007). Kang himself acknowledged (p. xi) that his book was a response to Friedberg's article.

“back to the future” models, there is no past that can serve as a desirable and feasible guide for the future of Asian international relations’ (Kim 2008). In short, Asia has been wracked by Western-driven transformation for over 150 years, and the old model is broken.

There’s a second reason why Asia won’t fall back into its old ways of doing business, and that has to do with Asia’s shifting geographic contour. What’s ‘Asia’? Australians have traditionally looked at Asia as that region to their north—the region that Asians would today label ‘East Asia’. But more recent definitions of Asia seem to suggest a region that stretches from Pacific Russia to the Gulf, and has both an expanded continental and a broader maritime dimension—one that includes both the western Pacific and Indian Oceans. Lowy Institute analysts Anthony Bubalo and Malcolm Cook concluded in 2010 that Asia had a horizontal axis as well as a vertical one (Bubalo and Cook 2010). And when policymakers as well as analysts talk of the region these days, they define it in expansive terms. Hillary Clinton, in her *Foreign Policy* article, spoke of a region stretching from India to the western shores of continental USA. Analysts aren’t even sure what to call the region any longer: is it the Asia–Pacific, the Indo-Pacific, or just plain Asia that we’re talking about?

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Shifting relativities mean that strategic significance is being thrust upon Southeast Asia whether it likes it or not.

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The geographical redefinition is generating its own, separate, strategic effects. One of those effects is to make Southeast Asia seem much more ‘central’ in the new Asia than it was in the old. Southeast Asian countries find themselves sitting at the juncture of two oceans, both of increasing strategic importance. Of course it’s not just geographical understandings that are changing—it’s also strategic weight. Shifting relativities mean that strategic significance is being thrust upon Southeast Asia whether it likes it or not. Another effect is to make the maritime dimension of Asia much more important than it was in the past.

### **A multipolar Asia?**

So, what sort of Asia do we face? Although Asian great powers are returning to the international system, they’re not all returning at the same rate. China’s growing fastest and it faces none of the taboos on international strategic engagement that Japan does. Japan already has an advanced industrialised economy but remains an introverted—and stalled—power. India’s growing too, but less quickly than China, and China’s already larger than India—which means the gap between China and India is increasing, not decreasing. For India to cut into China’s lead it has to grow faster than China, something it mightn’t do until demographic factors turn in its favour.

Below the top tier of great powers—in which we might reasonably include the US, China, Japan and India—a second tier of powers is also taking shape. This tier is composed of a group of powers able and willing to play at the regional level. South Korea, Australia and Indonesia are part of the group, and some include Vietnam, Thailand and the Philippines as well. Some include Russia as a second-tier actor, while others say it’s a first-tier power but Eurasian rather than Asian in its orientation. So the multipolar order that analysts canvass is likely to be a complex one, which makes predicting its future a fraught exercise.



The complexity is underlined by a single factor that holds true at both the top tier and the second tier: an underdeveloped pattern of security cooperation. The three large regional powers—China, India and Japan—have little history of security cooperation. Indeed, apart from the India–Japan relationship, their historical memories are marked by conflict and competition rather than by cooperation. Even the second-tier Asian countries have little in the way of shared strategic history, notwithstanding joint membership of ASEAN by Indonesia, Vietnam, Thailand and the Philippines.

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Within the multipolar setting, certain bilateral relationships will be more important than others in setting the tone of regional security.

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Within the multipolar setting, certain bilateral relationships will be more important than others in setting the tone of regional security. The China–US bilateral will obviously be more critical than the Japan–India one, for example. Some argue that China and the US will begin to hit points of mutual vulnerability in relation to nuclear weapons, cybersecurity, and space (Gompert and Saunders 2011) and that mutual vulnerability will be the basis for strategic restraint. However, it would be wrong to portray the US–China relationship as a re-run of the US–Soviet one. American policymakers themselves acknowledge that the relationships are very different.

### Contours in the global commons

Over recent years one of the most interesting areas of analysis has concerned the changing contours of the global commons. While the Asian maritime balance is certainly shifting, the contours are changing more rapidly in space and fastest of all in cyberspace. In large part that's because entry costs to the global commons are going down, and most rapidly of all in the cyberspace arena. The behaviour of Asian rising powers in relation to cyberspace is an important early test case for how they might behave later in relation to other commons-related issues, and that makes China's current record worrying. If China intends to behave in space and on the sea in much the same way that it already behaves in cyberspace, the Asian security order can scarcely derive much reassurance from its actions.

Across the global commons however, growing capabilities often go hand in hand with growing vulnerabilities. Assessments of that paradox stress the fact that each domain—space and cyberspace as well as nuclear—is 'offence-dominant', and that among the great powers, at least, mutual vulnerability should be the basis for mutual restraint (Gompert and Saunders 2011). Such restraint must emerge from a much closer set of dialogues between the principal players. It won't happen automatically.

### The land and sea contour

Some years ago Robert Ross wrote of the 'geography of the peace' in East Asia (Ross 1999). At the heart of his argument was a thesis that said the Asia–Pacific was essentially divided into a continental and a maritime world: China ruled on the continent; the US ruled at sea. The divide promoted peace in the region because the two great powers' 'worlds' were geographically separate. The thesis contained a weakness at its heart: the implication that if either of the two great powers began to 'invade' the other's geographical space, the structural basis of Asia's peace would collapse.

China's emergence as a more 'rounded' power was always bound to see it put to sea, not least because the surging development along China's coastline makes it more aware of its need for a better layer of maritime defence. The issue is not *whether* but *how* it engages in the maritime domain. Some worry about China's maritime ambitions precisely because the global Western powers in recent centuries have been maritime powers. Others worry because they believe China is an unproven commodity in precisely those areas of the global commons where entry costs are lowest: cyberspace and space.

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In the maritime dimension China essentially wants what others want: defence of its maritime perimeter and secure sea lanes to sustain its booming trade flows.

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In the maritime dimension China essentially wants what others want: defence of its maritime perimeter and secure sea lanes to sustain its booming trade flows. Putting aside for the moment the issue of whether Chinese interest in creating a 'Great Wall' at sea is a stabilising or destabilising activity, its interest in sea lanes should be a point of congruence with other maritime powers. The question is whether Beijing sees protection of those sea lanes as a competitive or cooperative endeavour. Is it interested in protecting its own sea lanes *from* others, or in protecting open sea lanes *with* others?

Where maritime power operates in conjunction with land-based air power and within the protective envelope of ballistic missiles, it's entirely possible to see the growth of maritime capacity as increasing the capability of an Asian country to deny access to other maritime forces. Where naval forces operate beyond those limits they're much more vulnerable to other forces. The Soviet Union learned that lesson back in the days of the Cold War, when it built and defended 'bastions' for its ballistic-missile launching strategic submarines. Within the bastions, the submarines, some of the prize jewels of the Soviet nuclear triad, could be protected and defended against an adversary who was much stronger in maritime capabilities. China is already doing the same with its own naval forces—maximising their capacities within an area of land-based protection.

Despite what some analysts suggest, China didn't invent the anti-access/area denial concept and isn't the only nation to practise such a strategy. Australia has an anti-access/area denial strategy and so do a range of other countries. But China's anti-access strategy is strategically important because it suggests that it's developing the capacities to prevent US reinforcement of American allies along the Eurasian rimlands and in close proximity to China.

### Re-engaging the US?

Within Asia there's substantial interest in the future shape of the US regional presence as the power contour lines shift across many existing security agreements between Washington and regional capitals. Regional countries are acutely sensitive to the future form of US engagement and particularly cautious lest the US begin moving towards an 'offshore balancing' profile. The classic period of offshore balancing in US strategic policy was between, say, 1900 and 1945. That was a time when the US stood back from regional conflicts, entering only at times of its own choosing. It took world wars to get the US involved and even then it wasn't an 'early engager'.

So what's the future of the US presence in Asia? Despite President Obama's strategic 'rebalancing' towards Asia, that's still a work in progress. The US is clearly trying to pivot back to Asia during an age of strategic austerity as its own defence budget faces steep reductions. Obviously, Washington's articulation of the 'AirSea Battle' concept is meant to reassure partners who sense the increasing vulnerability of large, static US military facilities to rapid attack. But the US needs to retain a land-based presence in Asia if it's not to send entirely the opposite message to the one it intends—already some Asian countries see the AirSea Battle concept as signalling greater US reliance on its allies' ground forces. That's why the Darwin engagement is useful: it sends a direct message of commitment to a land-based facility, albeit one beyond Eurasia's second island chain.

### The order contour in Asia

Asian development has so far followed a trajectory of engagement and enmeshment with the existing regional and global order. The rising Asian powers have all risen the same way: by exploiting the open markets, secure sea-lanes, and the regional stability offered by the existing, Western-shaped, security regime. Japan rose that way. So, too did the 'four tigers'—South Korea, Taiwan, Hong Kong and Singapore. And, importantly, so have China and India. No country has risen rapidly outside the system; none among the fast-rising countries has practised 'socialism in one country'.

Because they've risen through enmeshment, Asian countries haven't broadly spelled out an agenda of strategic change. There might be a covert side to existing national strategic agendas in Asia, but in public at least, the Asian great powers openly acknowledge the advantages of the stable, liberal, prosperous order. Still, as Asian powers rise strategic gravity in the region is shifting. It's that shift which underpins the need for a new wave of order-building. For a new regional order to unpack in good time Asian countries have to embrace new strategic roles: they have to accept their status as consequential powers and not merely as developing ones; they have to accept their role as 'order-shapers' and reassurers, and not merely as rising powers; and they have to work with other leading regional players to design an order where all feel secure.

### The conversion challenge

The US enters the coming decade as the established security leader in the region. It has a large, technologically advanced, forward-deployed military, good access and alliance arrangements with regional partners and the willpower to 'convert' power into a leadership role. Moreover, its role is broadly accepted across the region. Not all regional states might think of the US as an 'indispensable power' but they certainly think of it as a broadly impartial leader, able to assist during both humanitarian and strategic crises.

By contrast, Asian great powers are relatively unpractised at converting power to influence. In Japan's case the reasons are obvious—the legacy of World War II left it poorly placed to articulate a leadership role at the regional level. In India's case the reasons were both geographic and economic: South Asia as a subregion was just too disconnected from East Asia and the Indian economy too small to provide an engine for Asian economic growth.

China's position was more variable. The years between the late 1940s and the late 1970s saw it broadly estranged from the Asian region, but the subsequent 30 years saw it much more enmeshed in both regional economic dynamism and, increasingly, in regional multilateralism.

Down the track the order will in all likelihood contain larger roles for Asian powers.<sup>6</sup> It makes sense now to begin to prepare for that eventuality. The problem is that the region is uncertain how to shape larger roles for the emerging Asian powers. Those powers aren't just China and India. Even in its current straitened circumstances, Japan has the capacity to be a more prominent player in Asia, which contains few powers of its size. Australian governments have argued for the better part of 20 years that a Japan more enmeshed in the regional security system would be a positive outcome for the region, not a negative one. A wave of second-tier powers, including South Korea, Indonesia, Australia and Vietnam, also have claims to larger roles as their own weight increases. Across the spectrum of countries representing the stronger Asia, several are unknown variables. Some countries suffer from a deficit of strategic trust. Others simply don't have known strategic positions—their future roles in the broader Asian security order and the limits of their strategic ambition aren't known, even to them.

There would be a problem were some powerful countries to conclude that the order constrains rather than advances their national interests. For that reason it's critical that the regional strategic order remain an open, inclusive one. For most Asian players—including the US, China and Australia itself—that order will be something that rewards on some occasions and constrains on others. For example, it will continue to give China a lot of what it values: a peaceful region that permits Chinese authorities to concentrate on domestic development, and access to markets and resources. But on other issues it could deny China—it might not accord Beijing a free hand even on issues close to China's heart, such as the future of Taiwan or its sovereignty claims in the South China Sea.

Because the existing order has both pluses and minuses for key regional actors, the attitude of the fastest rising powers towards it can be—and typically is—ambivalent. China and India, for example, both know that the current order was constructed at a time when they weren't major regional players. China in particular believes that in the long run the order must evolve to reflect the growing importance of regional powers—that Asian security cannot be run out of Washington indefinitely. That's not an unreasonable view, but several regional states, Australia included, currently take a good deal of reassurance from US engagement in Asia. The important task is to find a smooth transition for the region—and not just for the fastest rising powers—between the existing order and the one that might well characterise Asia in coming decades. That's why analysts such as Chung Min Lee insist that Asia cannot be monotone—that the order that evolves must reflect a plurality of Asian voices that represent the true diversity of the region and its interests.

Some believe that we risk a competition between China and the US for primacy in Asia. In Australia, Professor Hugh White of the Australian National University is the leader of this school. He argues that US primacy has become systemically destabilising and hence that actions that the Australian Government might take to help prolong that condition are similarly destabilising. In a piece for the *New York Times* after President Obama's visit to Australia in November 2011, White noted that 'historians may look back at this as the moment that US–China rivalry became overt and unstoppable' (White 2011). There's little evidence that US–China rivalry was overt and unstoppable either before or after the announcement about rotations of marines into Darwin. Indeed, it's arguable that the region was made more secure and peaceful rather than less by an ongoing American commitment to Asian engagement.

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6 An earlier ASPI Strategy paper explored Australia's options in relation to that emerging Asia. See Lyon (2011).

White's solution to the ordering dilemma is to advocate a concert of powers in Asia. Would an Asian concert provide a workable solution to Asia's challenges? Not automatically. And not all multipolar orders lead to concerts, which are the exception rather than the rule in international relations. So far our knowledge of them is principally as a set of tactically expedient diplomatic arrangements, not as a long-term strategic recipe for achieving common goals. For example, the 19th century Concert of Europe was very much a product of its time, when all the European great powers were wearied by the Napoleonic Wars and desired a period of respite from fresh bouts of war. The Asian multipolar order that looms isn't like that. True, the Asian great powers aren't lusting for war but neither are they wearied and ready to accept a concert solution in exchange for a forfeiture of their own ambitions. Rather, the opposite is true: Asian countries are starting to feel their own influence and entitlements in a world that's ignored them for too long.

One way of unpicking the issues of regional order is to begin with the system that's in place now. In its broad outline the San Francisco system should be seen for what it is: an interlinked system of reassurance and deterrence. The system of deterrence hasn't been doing a lot of work in Asia since the end of the Cold War, although it's certainly had residual applicability on the Korean peninsula. By contrast the 'reassurance imperative' haunts much of the current discussion about the coming Asian century.

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... US alliances in Asia are likely to face increasing challenges in the coming decades.

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Current US alliances tie a distant North American superpower to exposed allies pressed up against the Eurasian continent. It doesn't take much expansion of Asian power to enable an authoritarian great power on the Eurasian continent to coerce nearby countries. In short, US alliances in Asia are likely to face increasing challenges in the coming decades. Those challenges will drive the allies to pursue policies of seeking greater reassurance from Washington and are also likely to drive policies of self-help among the most able of them.

It's because US alliances tie the US to Eurasian rimland countries that any shift in the land-sea contour has direct impacts upon the current geopolitical order. China's going to sea has, in part, 'undone' the geopolitical border that was created by the San Francisco system. And the steady growth of the Chinese power bubble places more and more US allies within the circle of prospective Chinese coercive threat.

What can regional countries do to strengthen their security in the transformational Asia? At its core, the question is ultimately an ordering one. The Gillard government's new forms of closer military engagement with the US mean Australia can still be reassured by a deeper level of US engagement in Asian strategic affairs. That answer continues to play well in Australia as it does more broadly across the region, and not least because it reinforces Australians' classic attachment to the Anglo-Saxon world order that's prevailed in recent centuries. It reassures some Australians that they don't need to find a new saddle-point in a shifting regional security environment—that they don't need to become more 'Asian' in their preferences and culture. The truth though, is that they do.

Indisputably, projections about the durability of US strategic engagement underline much of the region's thinking about its future shape. Making such projections is an imperfect science. Who would have guessed that 42 years after President Nixon enunciated the Guam Doctrine, insisting that regional allies take more responsibility for their own defence, President Obama would deliver a speech in Canberra announcing a US strategic 'pivot' towards Asia? Most regional assessments point to a future Asian security system in which Asian countries play more important roles. It would be wrong to assume they play the *only* roles, even though the emerging order must be based on greater Asian engagement. But it would be just as wrong to conclude that they'll remain the regional 'bit players' of yesteryear.

### The reassurance contour

As power capacities grow in Asia great powers will be under pressure to fulfil the standard forms of reassurance:

- a commitment to a stable, peaceful, prosperous—and perhaps liberal—order
- a commitment to managing tensions and rivalries in a way that makes resort to force a last alternative within that order
- a commitment to working alongside other Asian first- and second-tier powers on a permanent and full-time basis to ensure the longevity of that order
- a commitment to ensure that national hedging policies backstop, rather than undercut, that order.

For the regional great powers this will be unfamiliar terrain. Since World War II Japan's principal way of offering reassurance to Asia has been through a policy of self-restraint, abjuring the high politics of international security in favour of the low politics of trade and diplomacy. In short, it has 'reassured' the rest of the region by denying itself any role that might remind others of Japanese power projection during World War II.

In the 20th century China and India weren't really called upon to devise and articulate 'reassurance strategies' for the broader region either, but both feel such pressure now. India has been doing more, in particular on the nuclear side, hoping to reassure others that it's a responsible nuclear great power. And it's been arguing its democratic credentials more frequently, presenting itself as a natural member of a coalition of democracies motivated by peaceful and stabilising objectives in their strategic policies.

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China has been aware for some time that the region's looking for signs of its commitment to the core principles of the current strategic order.

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China has been aware for some time that the region's looking for signs of its commitment to the core principles of the current strategic order. That's why it's been reassuring its neighbours that it's committed to a 'peaceful rise'—a simple declaratory assertion that doesn't lead it into being periodically judged by Washington on whether or not it's fulfilling the mandate of a 'responsible stakeholder'. Lately, it's even softened the 'peaceful rise' language to say that China's interested in 'peaceful development'. Moreover, it's become more of a joiner—in its membership of the World Trade Organization, its support for UN peacekeeping missions, and its willingness to support international efforts in non-traditional areas, such as counterpiracy operations.



Interestingly, the other great power feeling the reassurance challenge is actually the US—the traditional ‘reassurer’ in Asia. The emergence of a more contested form of primacy, through US deficits, global distractions, and the ‘rise of the rest’, has placed US reassurance policies in greater doubt. That’s certainly one reason the Americans were keen to signal new forms of US regional commitment in Obama’s Canberra speech, and in Defense Secretary Panetta’s address to the Shangri-La Dialogue this year, where he announced a new 60:40 split in US naval assets in favour of the Pacific over the Atlantic. Still, that challenge won’t dissipate anytime soon: Washington will continue to feel growing reassurance requirements from its forward-based allies as well as from other regional countries nervously looking for new friends in uncertain times.

### A return to an older design?

Some Asian scholars argue that we’re looking at the entire problem through a Western prism. David Kang, for example, would claim that Asian international relations are characterised by formal hierarchy and informal equality, whereas Western international relations are characterised by formal equality and informal hierarchy. Western relationships are therefore typically formal ones and turn upon alliances, memorandums of understanding, and basing rights, but Asian strategic relationships are typically informal ones that turn upon complex accommodations and tacit agreements.

The ‘reassurance’ that characterised the old Sinocentric Asia, says Kang, was the reassurance that if peripheral countries deferred to the centre on the large question of hierarchy they could be reassured of a broad history of non-intervention in their affairs. That’s a different sort of reassurance from the one Asia’s grown up with since World War II. It’s hard to see how states that have been centrally engaged in the US system of reassurance—like Australia, Japan, and South Korea—let alone most other regional states, can accept a form of reassurance that’s based on a notion of civilisational hierarchy and prioritises China’s cultural position over their own.

Missing from that older form of regional security design is any appreciation of a range of issues that would be important to Australia. Those are the issues that Chung Min Lee has called the ‘VIP’ contours—the array of ‘values, interests and purposes’ that the fast-rising Asian countries bring to the regional and international system. Raw power is relatively easy to see: burgeoning GDP figures and larger defence budgets are two evident indicators of Asian power shifts. But the key questions of the 21st century haven’t been answered yet. What do Asian countries intend to do with their power? What values and norms will they promote? Asian countries need to be reassured that the fast-growing great powers who live in their midst will primarily use their power to secure public rather than private goods, that their strategic demeanour will be consultative rather than unilateral, that their decision-making processes will be rational rather than arbitrary. In short, Asia needs to be reassured about more than the centrality of one civilisation.

## Chapter 3

# THE DETERRENCE CONTOUR IN ASIA

If reassurance is one side of the coin in the current Asian strategic order, deterrence is the other. Across most of the region deterrence has something of an abstract quality to it. Most Asian countries don't see the use of force as an enticing option in dealing with others. Deterrence policies aren't essentially aimed at removing that option from the table for the simple reason that the option isn't on the table now. Much of the region still sees itself as focused on development, and that's simultaneously Asia's greatest long-term strength and its deepest strategic challenge.

Deterrence can hope to weaken impulses for the use of force in cases where force is in direct prospect. That's certainly the case in some specific situations—on the Korean peninsula, for example, or perhaps in some Taiwan-related scenarios—but the great bulk of Asian transformation isn't being wrought by force and can't be deterred by force. That doesn't mean it won't have strategic consequences—of course it will.

In the past the region's security turned not just upon a system of reassurance but also upon a structured set of hedging arrangements designed to counter aggression. The future Asia also needs its own version of that system. The San Francisco system will probably endure—neither the US nor its allies seem to be in any haste to walk away from current alliances—but as Asian states come into their own as strategic actors, it's entirely likely that they'll grow new strategic relationships with each other. In some ways it's already happening, but all too often the relationships are hesitant and undernourished. With the exception of the US alliances, hedging remains primarily a national activity rather than an international one. Australia's own efforts to develop closer strategic relationships with Asian countries are an excellent example of the challenges that such new partnerships encounter. Although in theory a range of regional countries are

exploring closer security cooperation with their neighbours, in practice such partnerships have been slow to grow and are still little more than formative. In the main, they're discussions about the 'upstream' order rather than practical arrangements for 'downstream' military cooperation. That's because points of congruence that might support the joint use of military force are few and far between in Asia.

In post-Cold War Asia specific deterrence policies have been the exception rather than the rule. Few regional countries actually aim to 'deter' others in the classical sense of the term, for example by threatening to impose costs for bad behaviour that might outweigh the gains from such behaviour. Australia's own strategic policy is a case in point. We don't specifically aim to deter an aggressor for the simple reason that we don't see an aggressor to deter.

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Even in areas that have traditionally been viewed as regional flashpoints—Taiwan, for example—the deterrence card has been played cautiously and intermittently.

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Even in areas that have traditionally been viewed as regional flashpoints—Taiwan, for example—the deterrence card has been played cautiously and intermittently. China hopes to deter Taiwan from making a sudden break for international independence, and to deter the US from coming to Taiwan's aid if that happens; Taiwan hopes to deter China from any sudden effort to change the status quo by force; and the US hopes to deter both China and Taiwan from precipitating any sudden change of the status quo, although its relationship with Taiwan is more typically and positively cast as diplomatic persuasion and reassurance. This three-way balancing act is a carefully orchestrated one in which all of the players are keen to avoid a crisis. China believes that Taiwan will eventually return to the fold without the use of force and that growing economic linkages between the island and the mainland will eventually prove telling in Taiwan's political future. But the People's Liberation Army plans for the high-risk outcome, not for the low-risk one. It would be obliged to contest by force any bid for independence by Taiwan, and the conflict would not be easy.

So is the broad regional deterrence contour likely to change much in coming decades? Those who think we're heading into a containment of China strategy would argue that it is. In reality though, the deterrence contour is unlikely to change as much as the reassurance contour is. Reassurance is the primary ordering contour and deterrence the primary hedging contour. Indeed, some argue that the deterrence contour should begin to shift towards becoming a 'restraint' contour. For example, David Gompert and Phillip Saunders insist that 'deterrence' is the wrong word when applied even to the US–China relationship for the simple reason that the term derived from a relationship between the US and the Soviet Union—two mutual adversaries. At the moment, most regional states are uncertain about the future security order but are playing the game with a long bias towards engagement.

Deterrence—insofar as it exists at all—remains mainly a nationally based phenomenon in Asia. It's most visible as hedging, in the burgeoning conventional weapons programs across the region. The quickening pace of regional transformation has made a number of states nervous: each is watching what unfolds, wary lest others are able to shape outcomes in ways that are inimical to their longer term interests. There's an element of competition in the

transformational Asia, manifest even in the struggle to shape multilateral institutions and free-trade agreements as well as in the pace and direction of arms modernisation programs and force deployments.

That nervousness is underlined by a sense that, although the region is currently peaceful, old strategic animosities and tensions remain unresolved. The region as a whole must become more adroit at managing strategic tensions. High levels of economic cooperation have occurred despite them, but haven't much softened them. As global strategic weight shifts to the Indo-Pacific the region's principal actors will become the key architects of global security relationships. Relationships between them will define whether we have a stable or threatening world. But the region remains a 'lite' contributor to international order. China pleads that it should be seen as a developing power, not yet able to accept greater international burdens; Japan has spent some decades making its own strategic policy hostage to self-imposed restrictions and is now focused on its domestic needs in the wake of the 2011 earthquake; India has broadened its reach into the Indian Ocean but finds it more difficult to play a role across the wider Asia-Pacific.

### Conventional force modernisation

The conventional military power contour is shifting profoundly in Asia as Asian economies grow and rising states become more interested in modern military kit that can fulfil a range of strategic missions beyond the traditional focus on counterinsurgency. Military modernisation programs are transforming regional militaries and making them more advanced, more capable, and more able to operate at greater ranges, particularly in the maritime domain. Defence budgets are growing—rapidly, in China's case—and seem likely to continue to do so. China's already the largest regional defence spender after the US and its escalating budgets will undoubtedly fuel the growth of a more modern and capable military in coming years.

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... it's still not clear that Asia is engaged in 'arms racing'.

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Despite all that, it's still not clear that Asia is engaged in 'arms racing'. Defence budgets as a percentage of GDP tend to be low (Davies 2008) although, because of the speed of GDP growth across Asia, a bald percentage figure tends to disguise relatively substantial lifts in spending by many regional players. Some analysts point to an action–reaction dynamic—typical of some form of arms competition—within specific subregions and weapon systems (see, for example, Ball 2011). Still, not all competitions are 'races' and action–reaction dynamics are just as much a part of multiplayer power balancing as they are of racing. Even the Chinese know that the real basis for their growing regional and global position is their economic strength, not their military.

The new Asian environment is likely to be felt in the rise of new friction points across the region. The increasing salience of maritime rivalries is an obvious case in point. Christian Le Miere has pointed to the return of 'gunboat diplomacy', arguing that the world is witnessing an increasing willingness to use naval power for coercion and deterrence (Le Miere 2011). That's certainly true in Asia—just in recent years, the sinking of the South Korean corvette, *Cheonan*, the maritime disputes in the South China Sea and the clash of

the Chinese and Japanese fishing trawlers all suggest new friction points in the maritime domain. And those friction points have, in recent years, looked more like ‘win–lose’ contests than ‘win–win’ ones.

As capabilities increase regional countries are unfolding new military doctrines. In the maritime realm in particular the region is already witnessing the growth of anti-access/area-denial strategies, one effect of which will be to make it harder for the US to support allies that are near to other great powers. In essence this is the problem that the RAND Corporation identified in 2009 in relation to the US commitment to Taiwan, in which the steady growth of Chinese capabilities seemed likely to complicate any American plans for the reinforcement and defence of Taiwan in an armed conflict (Shlapak et al 2009). Ultimately it’s not the growth of distant, power-projection forces among Asian militaries that’s turning the tide in Asia: it’s the steady expansion of the Asian ‘power bubbles’—particularly the Chinese power bubble—out from the coastline that’s the key driver of strategic uncertainty in the region.

The impact of that won’t be felt quite as quickly or strongly by Australia in relation to our own continent. We live at some range from the fastest-rising Asian powers, although Indonesia’s growth down the track would certainly be a factor in our own thinking if we were unable to develop a good relationship with Jakarta. But the more general strategic effect—the perception of a slippage in the strength and reliability of hubs-and-spokes arrangements—will certainly be felt in Canberra, as it will elsewhere in the region. Some would say it’s already being felt—hence our interest in finding new levels of defence cooperation to buttress existing agreements.

### Constraining conflict

Australia and other regional states have an interest in underlining key principles that ought to govern regional strategic relations, which would include, for example, a commitment to the principles of limited war. Over the decades most Asian military forces have been comparatively weak, but that’s changing. And true ‘limited war’ theory isn’t about conflicts in which the parties have only limited forces—it’s about conflicts in which they could bring much more to the battle but consciously choose not to do so. It’s about ensuring that the objectives in dispute are sufficiently limited that the driver for escalation isn’t a compelling one.

A great power commitment to such codes of behaviour doesn’t solve every problem because reassurance strategies can’t meet that test. They would leave the North Korean problem singularly untouched, for example. But even that problem is more easily managed by an agreement among others about their own relationships with each other—that they wouldn’t easily be drawn into a re-run of the Korean War. Reassurance strategies are meant to stabilise at the regional level as well as to cap other more drastic options that would otherwise be on the agenda. If Asia can’t find a new security order built on reassurance it will become a region of self-help strategies—and those might prove especially alarming.

### Asian systems

Can a new order of interlinked reassurance and deterrence be built in Asia? The short but unsatisfying answer is, ‘We don’t know’. The Cold War left Asians particularly unprepared for the notion that Asian regional powers might play larger supportive roles in regional order. In the 1980s the strong regional powers (apart from the US) were the Soviet Union and Japan. Neither brought an active reassurance strategy to the region.

Looking at Asia today we have to conclude that the Asian pattern of reassurance and deterrence is primarily a nationalistic one. ASEAN articulates a different pattern built on a higher role for regional consensus and norms, but even within ASEAN core defence strategies are constructed at the national, state-based level. Some Asian states engage in ‘partnerships’ with other Asian states, but that term covers a range of behaviours with varying levels of security cooperation. Few of the partnerships entail much practical security reliance upon an Asian neighbour.

The current order depends on a high level of US engagement and a regional security architecture that Victor Cha labels a ‘patchwork’ (Cha 2011). It’s hard to see that multilayered, overlapping architecture of regional institutions becoming the main bulwark of regional order. Nor would we necessarily want to simplify and formalise it. Cha himself suggests that the path forward in Asian regional architecture is to deliberately shun the idea of having one overarching system. Under Cha’s proposal, there’s merit in having a ‘complex patchwork’ of arrangements precisely so that the US and China don’t always find themselves locked in a zero-sum game. The trick is to avoid a structure under which every new US alliance-related initiative looks like it’s aimed at China and every new Chinese initiative looks like a challenge to the US order. Having more moving parts to the order means the US and the rising Asian powers don’t necessarily bump up against each other at every turn.

But that doesn’t solve all the problems. What we might call the ‘Asian side’ of reassurance and deterrence is underdeveloped. In future decades we’ll have to find ways to fit together a stronger set of understandings about Asian roles in the regional security order. The problem isn’t just one for others but for us too. We have to grow a strategic policy that makes sense as both a contribution to regional reassurance and a contribution to regional hedging.



## Chapter 4

# AUSTRALIA IN THE ASIAN STRATEGIC CENTURY

I summarise our new strategic environment as simply as this.  
Australia hasn't been here before.

— Prime Minister Julia Gillard,  
speech to the AsiaLink and Asia Society lunch,  
Melbourne, 28 September 2011

Is Australia included in the expanded understanding of Asia? We may still have only a weak claim by geography (most understandings of Southeast Asia, for example, don't include us) and our claim by culture might be even weaker. But Australian membership of key institutions suggests that we're an accepted player across the region. And our economic enmeshment with Asian economies is high—a non-trivial point for Asian countries when they look for regional partners. To be accepted in Asia, Australia needs a strong economy, a willingness to participate, and a seat at the table. We already have all three.

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... there's no compelling reason why Australia can't keep its Western culture *and* be recognised as part of Asia.

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Besides, Asia has many cultures not just one. *Prima facie*, there's no compelling reason why Australia can't keep its Western culture *and* be recognised as part of Asia. That tells us that we ought to be reluctant to do one more round of our traditional debate about national identity. In one sense we can't escape it, of course—Michael Wesley's right that we're something of 'insular internationalists' in regard to our own region—but we should look beyond ourselves to the bigger issues.

What sort of Asia do we want to live in, what position do we want to have in that Asia, and how can we best achieve those objectives?

Some Australians might think that we're rapidly becoming a 'front-line Western state' in a complex regional strategic environment, but 'front-line' isn't a good adjective here—for one thing, it implies that we're at the forward edge of a joined battle. Our environment is marked by uncertainty, not war. The uncertainty is less about the growing power trajectory of several regional countries—which is more of a certainty than an uncertainty—and more about the future shape of the regional strategic order.

Geographically, Australia isn't at the 'front line' in the same way that, say, Taiwan, Japan, and South Korea are. The most immediate effects of the transformational Asia will be along the Eurasian littoral—the contour where the ordering arrangements of the San Francisco system meet the fast-rising capabilities of the continental great powers. Each year, the expanding bubble of Chinese power overlays more of those old arrangements. The Chinese power bubble doesn't automatically undo the old arrangements any more than the growth of Soviet power in the Cold War undid NATO, but it shapes the calculations of risk and advantage that security partners perceive in existing partnerships, both now and in the future.

Australia will always be the Western country that lives closest to Asia, so we'll feel coercive pressures more readily than our traditional European or North American partners. As a consequence, our reassurance needs will grow in coming years, perhaps becoming higher than can be sustained by current policy settings. What might Australia do to address those needs? We're already attempting to boost reassurance settings and lower coercive pressures through a range of policies including building good relationships with the neighbours, encouraging multilateral rules-based orders in Asia, strengthening our alliance relationship with the US, enhancing our strategic partnerships with the great Asian powers, and modernising the ADF.

Those policies all aim at similar objectives. They attempt to reassure Australians that the new Asian century will be a stable, rules-based one. They attempt to maintain Australia's own strategic weight in Asia. They sustain Australia's strategic commitment to a secure, prosperous, liberal Australia in a secure, prosperous, liberal Asia. And they simultaneously reassure the region that the growth of Australia's own strategic clout poses no threat to other regional players—that we see our own role as a broader order-building and order-sustaining one rather than as merely narrow, nationalistic and competitive.

That doesn't mean we're agnostic about the sort of order that evolves. True, Australia has never been as committed to a values-shaped foreign policy as the US has been. Following British traditions, we're more attracted to an empiricist approach to foreign and strategic policy—more inclined, for example, to accept 'good governance' as a synonym for 'liberal governance'—than Washington typically is. Still, Australia sees its own strategic fortunes as broadly tied to the values inherent in a Western lifestyle including liberty, democracy and individualism. Those values are seen in Australia as being more Pacific in character than Asian—one of the reasons Australians have embraced the notion of the Asia-Pacific as one strategic entity—but Asia's far from a cultural monolith.

Australia has traditionally seen Asia through the secure prism of its alliance relationship with the US. Much of the current angst that underpins the contemporary strategic debate in Australia arises from a perception that the US position in Asia is in relative decline. (Since the fall of Singapore in 1942, Australians have been somewhat obsessive about the possibility of great-power abandonment in times of crisis.) Although Australia shouldn't rush towards

pre-emptive capitulation in relation to the order that exists now, we must acknowledge that there's a large design task in front of us. That task is primarily one of bringing rising Asian powers into Australia's preferred order rather than pre-emptively scrapping the order to reshape the region to others' preferences.

Australia has a deep interest in the emergence of an Asia in which it can continue to live comfortably. That interest should lie at the core of our strategic policy towards the region. Naturally, like all other regional states, we'll indulge in a measure of hedging against the possibility of unattractive outcomes, and that means we'll need to think about options for increasing Australia's strategic weight. Hedging doesn't mean merely improving our capacities to defend the Australian continent, independently, against a major power attempting to project power against us from the sea. That much more specific (and much simpler) task is invariably answered by a demand for more and better submarines and combat aircraft.

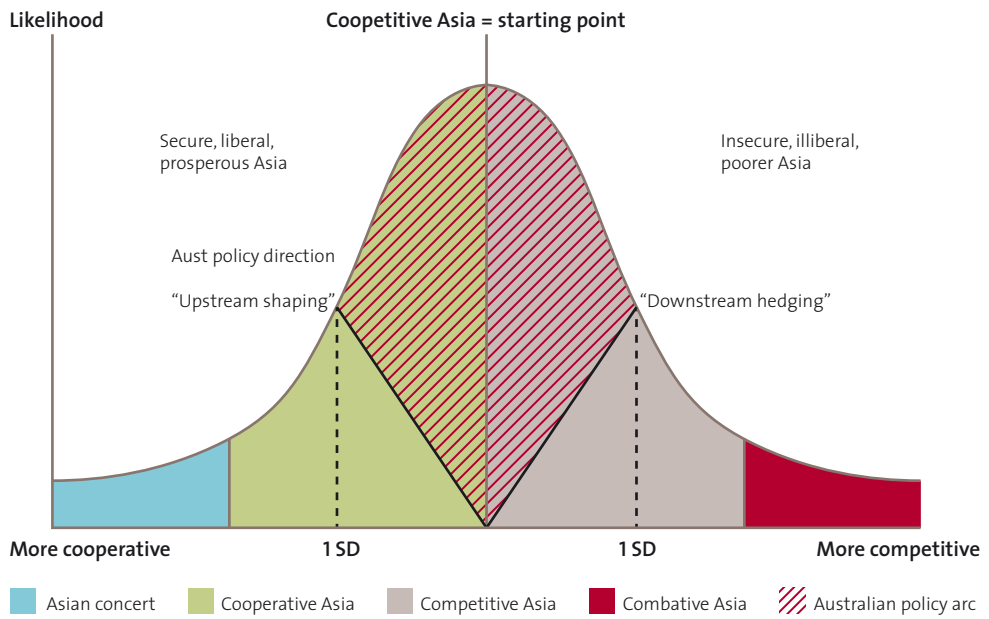
But that's a narrow view of Australia's strategic problem. We also have a strong interest in 'shaping' our regional environment—something we're less likely to do if we believe that our most important strategic interest lies only in preventing armed attack against the Australian continent. Our defence policy should support our broader national strategic settings. Upstream, our real strategic problem is 'How do we get the Asian strategic order that we want, one where major Asian powers are security contributors to a broader Asian peace?' Downstream, our strategic problem is 'How do we maximise Australian interests and freedom of manoeuvre in a more coercive and competitive Asian strategic environment?'

## Options

For Australia, the upstream strategy is essentially order-building; the downstream strategy is the set of national policies of self-help that we put in place as the Asian strategic environment changes. The two strategies are interrelated; they're two sides of the same coin as it were. Our downstream efforts should mesh with the degree of success upstream.

Figure 1 sketches the 'mathematics' of Australia's strategic policy settings. It shows a set of judgments about the current state of regional security, possible Asian futures, and recommendations about what Australian strategic policy should be trying to achieve in the years ahead.

**Figure 1: Asian alternative futures**



The graph measures likelihood (on the vertical axis) against a range of possible futures that might be more or less cooperative or competitive (on the horizontal axis). It takes as its high point the current ‘Co-opetitive Asia’—the Asia that’s simultaneously cooperative and competitive. To the left of that high point, a range of Asian futures become steadily more cooperative; to the right, they become steadily more competitive. Towards the extreme of the cooperative Asian futures, the regional security environment becomes one permitting ‘concerts’ or ‘communities’. Towards the extreme of the competitive futures, the regional security environment becomes combative and war-prone. Although the graph shows both the Asia of concerts and the Asia of war as ‘definite line’ events, they would really be more ‘emergent conditions’. However, both are still best seen as relatively low-likelihood scenarios—closer to two standard deviations from the current environment than one.

How should Australia, as a second-tier regional power, arrange its strategic policy settings in the transformational Asia that now lies before us? Given our power limitations we can’t have a range of policy settings that require us to cover 100% of the probability spectrum, but we might be able to think of our policy options as covering the key ‘arc’ of likely alternatives. The way to do that is to consider the one-standard-deviation lines beside the central line of the graph. Mathematically, one standard deviation embraces 68% of the graph, so the ‘1 SD’ lines on the graph can be thought of as providing the ‘limiting cases’ for Australian policy settings for the immediate future.

Our ‘upstream’ policy should be limited by the one standard deviation towards the positive, cooperative Asia. This is still not an Asia that embraces concerts or communities but it is one where cooperation is considerably better than it is in the current co-opetitive Asia. Our ‘downstream’ policy should be limited to hedging against the possibility of a more competitive Asia but still one that’s only one-standard deviation from the current situation. That means we don’t have to start preparing now for a combative Asia but we do need to start preparing now to hedge against an Asia that’s considerably more nationalistic and competitive than now.

The arc of Australian policy setting is therefore represented by the shaded area of the graph, between the upstream shaping point and the downstream hedging point. Some might argue that, in broad terms, we already have a plan for downstream hedging: the Defence White Paper of 2009. And it's possible that the Henry Review might well give us an upstream shaping plan—something that wasn't done at the time of the 2009 White Paper. It's important for both the government and the Australian public to understand that we're not choosing between shaping and hedging—Australian strategic policy needs both. We need both a shaping policy to build Asian strategic order and a hedging policy to respond to the possibility of a more competitive Asia. The one-standard-deviation rule is meant purely as a framing device to constrain the problem to one that Australia can more easily digest without choking on the immediate requirements. True, we need to think about what we might do in relation to more extreme events, but that shouldn't be the principal focus of current policy.

The graph's major weakness is that it's static: it represents only the situation that lies before us now. The timing of possible change in the regional security environment over the next 20 years or so isn't captured here. It might be that 10 years from now we'd draw the graph differently and doing so would generate a different set of one-standard-deviation recommendations. In short, we'll need to redraw the graph relatively frequently to give better steerage to our policy settings over time.

However, to redraw the graph—indeed, even to be able to monitor the direction of Asian change in coming decades—we need warning indicators that we could use to detect movement. How will we measure such change, which isn't just about the intensity of cooperation or competition (a co-opetitive Asia could still be a more intense one without any appreciable deviation from the starting point in our graph)? The key variable has to be the relative weighting of cooperation and competition. We'd be particularly interested in increases in competition that weren't offset in other fields by better cooperation and vice versa.

What metrics give us some ability to measure shifts in the levels of cooperation of competition? Here are some:

- *The extent to which regional bargaining behaviour is integrative rather than distributive.* Integrative bargaining is cooperative and looks for win–win solutions; distributive bargaining is competitive and looks for win–lose solutions.
- *The extent to which regional powers become suppliers of public goods (secure sea lanes, humanitarian assistance and disaster relief, counterterrorism).* High supply counts as cooperation; low supply counts as competition.
- *The extent to which the region is characterised by trust-based strategic partnerships between key regional actors.* This metric would essentially measure non-US-centred security engagement—that is, the extent to which Asian countries nurture better strategic relationships with each other. More frequent and higher levels of security interaction signal cooperation; less frequent and lower levels signal competition.
- *The extent to which the force development policies of fast-rising Asian powers suggest a coercive intent rather than merely a hedging one at the core of their grand strategies.*

### The one-standard-deviation limit

Some might argue that we should be pushing for a more 'positive' Asia—that it makes no sense to constrain our upstream ambitions to an Asia that's less cooperative than some even

more cooperative one. But the more cooperative Asian futures are simply too unlikely at the moment as a realistic Asian future. The more we aim at remote targets, like Asia–Pacific Communities or Concerts of Asia, the harder we’ll find it to argue that Australia understands Asia as it really is. There’s a credibility asset in aiming only one standard deviation upstream. It’s the reason why it made sense for the government to ‘declare victory’ in relation to the earlier proposal for an Asia–Pacific Community.

Similarly, some might argue that we should be hedging more downstream, preparing for those darker Asian futures, which though less likely could have greater consequences for Australian security than the merely ‘more competitive’ Asia this paper posits. Exactly the same argument applies. The more we ‘weight up’ for the unlikely futures, the more we undercut our own order-building approach, and drive other regional players towards other worst-case scenarios, which would be unhelpful for the future of the region. Hedging has to have a degree of regional appropriateness about it, even for us. Hedges—like fences—can make for good neighbours, but much depends on the height of the hedge.

### **Upstream order-building**

Our upstream policy should aim to reinforce the Asia where strategic relationships have more of a cooperative edge despite residual elements of competition. At its core should be an effort to strengthen reassurance patterns across the region. We should encourage the US to enhance regional reassurance during the Asian transformation, judging that US reassurance is currently the only game in town. We should see our alliance relationship in that broader regional context and encourage the US to make more of its ‘pivot’ to the region. But we should also make efforts to enhance ‘reassurance’ by Asian players, and deliberately build closer strategic links with Asian ‘reassurers’ in direct correlation with their embrace of such regional reassurance strategies. Our closest strategic partners in Asia should be those countries that see the challenge in the same way that we do and want to solve the problem the same way we do.

What does that mean in practice? It means we want China, for example, to be more of a regional reassurer in Asia. That means it needs good strategic relationships with countries other than North Korea and Pakistan. It needs reassuring strategic relationships with two categories of players in particular—those first- and second-tier Asian powers that will be the main players in the regional security environment, and those countries it sees as occasional strategic competitors—reassuring them that the strategic differences between them are manageable and ultimately solvable without resort to force.

Because of the growing significance of maritime issues we should work especially to enhance regional reassurance strategies in the maritime area. Two obvious areas suggest themselves: strengthening assurances about the unimpeded flow of resource traffic and reducing the current ‘win–lose’ tensions of maritime territorial disputes. The first is of direct importance to us because of the profile of resource exports in our trade statistics, but reassurance about unimpeded resource traffic is also important to the developing Asian powers. A good part of Chinese concern about the Indian Ocean, for example, is about precisely that. Meanwhile, we should be trying to take some of the sting out of territorial disputes. Solving the disputes would be hard and is, in any event, beyond us, but showing an interest in having them solved peacefully is not hard. Nor is encouraging ‘win–win’ commercial strategies for resource exploitation.



As a part of our upstream policies we should be looking for ways to boost our defence cooperation with others. It would make sense for us to boost our level of defence diplomatic representation in Asian first-tier and second-tier powers, both to explore opportunities for closer cooperation and to improve regional understanding of Australian force developments and policy positions. It might also make sense to improve our broader diplomatic links with that same range of countries—specifically, China, Japan, India, South Korea, Indonesia and Vietnam.

### Downstream hedging

We should have a medium-level hedging strategy for the ADF. It should look regionally appropriate but it shouldn't appear trivial in a region where both quantitative and qualitative enhancements to force structure are the norm and not the exception. In the latest federal budget Australia implicitly identifies itself with the struggling, austere Western economies rather than with the fast-growing Asian ones, but we can't turn up to the transformational Asia as an underperformer in the defence arena. In this Asia we could probably get by with a high-quality (rather than high-quantity) force structure and a defence budget that—in big, round numbers—was about 2% of our GDP. If the current co-opetition in Asia were to intensify rather than become more competitive or more cooperative, we might need to think about another 0.5 % of GDP on top of that.

Our force structure has to balance the demands of shaping and hedging, and our hedging policy has to be based on the prospect of an Asia that's one standard deviation more competitive than the current co-opetitive one. We can broadly imagine what that Asia might be like. It would be one where strategic relationships have a more competitive edge despite residual elements of cooperation, even though the security environment might still lack a revisionist, coercive Asian major power. In that Asia the search for reassurance strategies would have only mixed success. Even Washington's attempts to realign its regional posture would be absorbed by problems elsewhere (including at home) and the 'pivot' would turn out to be more rhetorical and less substantive. Major Asian players wouldn't step forward to fill the gap and Asian reassurance patterns would remain primarily nationalistic. In this scenario strategies of deterrence would become more prevalent in the regional order to compensate for weaknesses in the reassurance contour.

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In the current Asia Australia should see its own alliance relationship as both a national empowerment strategy and as a regional reassurance strategy.

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In the current Asia Australia should see its own alliance relationship as both a national empowerment strategy and as a regional reassurance strategy. We should be contemplating more serious choices about how to strengthen both our own ANZUS Treaty relationship and US alliances more broadly in the Asia-Pacific. Our regional engagement strategy should already allow for the downstream as well as the upstream, and we should be building niche security partnerships with other first-tier and second-tier players. Those partnerships—plausible wherever we see common interests—would need to be built upon practical patterns of defence cooperation, not just pretty dialogues. We should be partnering more

with countries we share direct interests with and who would be willing to partner with us on hard security issues and not just soft ones.

We should be more interested in building a strategic partnership with Indonesia in a joint Southeast Asian power core and we might be more interested in working with a dynamic, extroverted South Korea. We'd be interested in partnerships, not merely 'ententes' (which are just agreements to consult). Closer defence and intelligence exchanges would underpin our relationships with those niche partners.

### **The Asias of one standard deviation**

If our current upstream policy is successful and over time we help to grow a more cooperative strategic order in Asia, we'd then have the luxury of recalibrating our strategic settings to press one standard deviation further upstream—hoping to enhance the prospects for a 'community Asia' or a 'concert Asia'. Our downstream policy could then be set at the level of attempting to prevent a slip back into 'co-opetitive Asia'. And we might be able to get by with spending a bit less on defence—perhaps as low as 1.5% of GDP—as long as our force structure didn't look anomalous for the region.

On the other hand, if Asia were to become more competitive rather than more cooperative we'd face a much more burdensome recalibration of our settings. Our upstream policy would attempt to regain lost ground and get back to the co-opetitive Asia, but our hedging policy would face the prospect of a continuing further slide of Asia towards conflict-proneness. The ADF, designed in the current co-opetitive condition to be merely expandable, would have to be expanded. We would be facing defence budgets closer to 3% or 4% of GDP rather than 2%. In general terms we might judge this to be the ADF appropriate to the 'muscular regional power' model that ASPI sketched out in an earlier publication (Thompson and Davies 2008). Our defence forces would probably be trying to find a 'gamechanger' for the simple reason that other regional countries would also be bolstering their own conventional forces. It's possible that Australia might move consciously towards bolstering its own nuclear skills in this Asia, if we become more anxious about the growth in nuclear latency among surrounding states.

### **The bleakest scenario: combative Asia**

Most dangerous of all for Australia—and for other regional states—would be a slide of the regional security environment towards armed conflict. The defining characteristic of this Asia would be a major breakdown of the regional order we see today coupled with the emergence of at least one coercive Asian great power. That scenario would arise in its bleakest form if the US were also playing a more constrained role in regional security, whether because of troubles at home or elsewhere or because of a deliberate attempt to return to a posture of offshore balancing (reminiscent of the US role in the world from 1900 to 1945).

Our upstream, order-building options would be relatively constrained in a combative Asia. We'd have a direct interest in making arms control work across the region as a means of stabilising arms races and crises. Arms control would return to a prominent place in international security debates that it hasn't had since the Cold War (confirmation of the old saw that arms control is most needed when least available). Those efforts would be haunted by all the old Cold War worries about verification and cheating by adversaries.

We'd have a strong interest in seeing our ANZUS alliance work in this environment. We might even be willing to accept deployments of US theatre-range nuclear assets on Australian soil,

as Europe did during the Cold War, if Washington were interested in such a commitment. Still, we'd have to face the fact that the breakdown in regional order might actually be the partial result of a more constrained US role in the region so our alliance might not be of full assistance to us in a combative Asia. If that were the case we'd face a difficult choice between partnering with another regional power and placing greater reliance on our own capabilities.

Our downstream policy would probably be a much more nationalistic Australian defence strategy, more self-reliance and a capable defence industry base in country (we'd have a great need for high-quality, reliable, cutting-edge defence equipment). If we judged that US extended nuclear deterrence was no longer credible we might well consider a radical option—the creation of an independent nuclear arsenal in Australia to end-run escalation threats. It goes without saying that in this Asia we wouldn't be the only regional country thinking about such an unsettling alternative. We'd be looking at a defence budget of the order of 4+% of GDP, and the government of the day would face serious choices of priority setting, not just within the defence budget, but between defence spending and competing social priorities.

### Likelihood and warning time

A dark, combative Asia is, fortunately, a relatively unlikely prospect, and no more likely, in fact, than a bright, cooperative Asia with great community spirit—no higher than a 5% likelihood. Major regional powers mightn't prove to be good regional reassurers, but they'd have little interest in allowing the regional security environment to slip into such a difficult state. More likely by far is a continuation of the current condition or an Asia that becomes rather more cooperative (but not a concert) or rather more competitive (but not combative).

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## Building a more cooperative Asia is already a challenging task.

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Building a more cooperative Asia is already a challenging task. It can be achieved only if Asian powers accept their status as consequential powers, their role as regional reassurers, and the need to work together for shared strategic interests. A more competitive Asia is just as likely: the current, slightly fractious, nationalistic Asia doesn't need to change much for that to happen.

At the moment the next two decades seem likely to herald considerable strategic re-ordering (or de-ordering) in Asia. Because Asia's future is transformational and uncertain Australian policymakers could sensibly reintroduce the concept of capability warning time—a concept that's been somewhat lacking in Australian strategic thinking during the past two decades. The notion of warning time is meant to allow Australian governments some flexibility in adapting to shifts in the regional strategic environment. Strengthening the concept in our defence planning might bring greater discipline to regional assessment, the resulting strategic policy settings and defence procurement, and the allocation of appropriate funding than Australia has shown over recent years.

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## Acronyms and abbreviations

ADF	Australian Defence Force
GDP	gross domestic product
NATO	North Atlantic Treaty Organisation
UN	United Nations



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How should Australia think of its own strategic settings in the possible range of Asia's futures. We should aim for a better Asia, a more cooperative Asia, even as we hedge against the prospect of a more competitive one. Our strategy, after all, is not to get to the competitive Asia; it is to get to the cooperative one. Much of the recent public debate about Australian strategy has focused on submarine and combat aircraft numbers, and typically confuses our hedging position with our actual strategy. We want to draw Asian powers more fully into regional reassurance strategies, whereby they accept their status as consequential powers, deal reliably and openly with each other, and pick up some of the tasks of supplying public goods to the region. That should be Australia's main strategic objective: to build a region in which we can live comfortably.

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