

**Australia's New Security Environment**

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I am going to use the term 'security environment' very broadly to describe all those conditions of the external world that shape in important ways Australia's capacity to secure its core interests and to protect its people and its infrastructure.

But the important question I want to ask first is how much of Australia's security environment really is new.

Like all the members of our species, we humans are genetically programmed to distinguish the fresh from the familiar. Over the long millennia of evolution, natural selection favoured hominid brains which were best able to pick out what was new in the environment around them. This has obviously been a good thing for our survival, but change usually comes more slowly to the geopolitical landscape than the appearance of a sabre tooth tiger on the prehistoric savannah so I want to begin by speaking about continuity.

A core and unchanging element in Australia's security environment is, of course, our geography – the fact that Australia is a nation on a continent; that it has no contiguous land borders with other countries; that a barrier of sea and air protects us from the outside world. This barrier provides protection not simply against traditional forms of invasive threat, but against the emerging non-traditional threats such as pandemic disease and illegal people movement. Not total protection, of course, and in some important ways the security value of the barrier is diminishing, but Australia nonetheless has a margin of comfort in dealing with such threats that many other countries lack.

In global terms, geography has placed us at the end of a heavily populated archipelago of islands stretching from the Asian mainland through to Melanesia, rather far from our key traditional allies and from many of our most important markets.

Geography, together with geomorphology and climate, has also determined the nature of the continent's resources and their distribution. The combination of these natural forces has in turn helped to shape yet another implication for our security: a population that is small but relatively affluent.

It is not just the physical world that influences our security environment; our history and culture do too. Our experience as a nation affects the way we interpret developments in the outside world, the way we define our interests and the direction in which we try to influence outcomes. Like our geography, that does not change either, or at least it does not change quickly.

In saying this, I certainly don't mean to imply that the strategic implications of these physical and human factors are in any sense immutable. The intention or will of major international actors, technological developments, even local politics, can change the meaning of geography very dramatically and very rapidly.

But, as you may have guessed from the fact that I have chosen to start with continuities, I am naturally skeptical of claims of sweeping change in the world. They crop up too frequently in the rhetoric of ministerial speeches and the commentary of pundits to be always true, but I am nevertheless quite prepared to concede that the past ten years have genuinely been a transforming period in Australia's security environment.

It is this decade between 1996 and 2005 that I want to address. I have called it the trans-millennium. Ten years is a long enough period for us to be able to begin to distinguish significant changes from the transitory.

The roots of the changes in the transmillennium lie back in 1989 with the unexpected revolutions in Eastern Europe that were to culminate three years later in the dissolution of the Soviet Union. This was genuinely what Hegel would have called a 'world-historical' event. The structure of the international system – the Cold War that had dominated the forty years of post-World War Two international politics – disintegrated. The victor in that war, the United States, was left as the largest economy in the world and its sole superpower – the only country with the capacity to deploy effective force anywhere on the globe. In the face of change of this magnitude it necessarily took time for the key players to adjust to the new environment. Throughout the early 1990s the precise form of this emerging international order was obscure, as was the role the United States would play in it.

But from the middle of the 1990s to the end of 2005, we began to see more clearly the shape of the new system, and to discern its implications.

Two critical events – the 1997 Asian financial crisis and the terrorist attacks of September 11 2001 – were the harbingers of change in Australia's security environment. But these events reflected deeper structural shifts in global power that I want to focus on today. These were China's rise and, more generally, the slow rebalancing of global power towards Asia and the significant increase in the power of transnational, that is non-state, actors in the international environment. Both these, in their turn, had their origins in the communications and technological revolution that we describe in short-hand as globalisation.

The Asian financial crisis began in Thailand in 1997 and spread rapidly, fanned by the formal or informal linkages that most of the so-called Asian tiger economies had established between their currencies and the US dollar. Between 1995 and 1997 the greenback had risen nearly 60 per cent against the yen and it had dragged the Asian currencies up with it. Exports began to fall and the current accounts of regional countries were exposed to closer scrutiny. That scrutiny exposed serious structural flaws in some regional economies. Their regulatory agencies were weak and opaque, their banks and other financial institutions poorly regulated and vulnerable to politically-directed lending and their legal systems were corruptible.

Thailand was the first economy to be hit. Speculation by currency traders, including some of the world's largest financial institutions, intensified from May 1997. Unable to defend its currency, the Thai Government was forced in July 1997 to float the baht.

One by one, in slightly different ways, Korea, Malaysia, Singapore, the Philippines and, finally, Indonesia, were also infected. Any short-term money that could be pulled out of regional banks and stock exchanges fled, as foreign investors began nervously to question their commitment to Asia as a whole. The result was catastrophic: a \$100 billion reversal of capital inflows to Korea and the ASEAN countries in a single year from 1996 to 1997.

The IMF and the World Bank offered financial assistance to the countries affected but loans came with increasingly elaborate requirements for the application of austerity measures, often in areas quite peripheral to the crisis. Actively driven by the United States Treasury, the IMF used economic pressure to achieve broader political ends. Even the Fund now accepts that its prescriptions were seriously flawed.

It was in Indonesia that the interplay of the Clinton administration's economic and the political objectives were to have the deepest impact. Under intense pressure from the IMF, unable to staunch the economic crisis and with few reserves of political support left to draw upon, President Soeharto, who had governed Indonesia since 1965, resigned in May 1998.

With him went the New Order regime which had in so many different ways shaped Australia's security environment – mostly beneficially - for more than thirty years. A centralised, authoritarian state dominated by the military suddenly became an open, decentralised, rather chaotic democracy.

A further consequence of the financial crisis came when Soeharto's chosen successor, the eccentric B.J. Habibie, unexpectedly opened up the question of the future status of East Timor. The results of the UN-supervised referendum and the violence that followed are well known. After the Australian-led intervention, East Timor emerged as an independent but fragile state in the region – another important change in Australia's security environment.

In retrospect, the surprising thing in the aftermath of the financial crisis was Asia's resilience. By 1999 all the Asian tigers had returned to positive growth (although still well behind their starting point).

A great deal of the responsibility for that result was the emerging economic power of China. With its currency fixed and its economy more controlled than the other developing Asian economies, China sailed through the crisis without a hitch in its growth. Perhaps the most important consequence of the financial crisis was to hasten and cement China's rise as a major economic and political power. This rise had its origins in the historic decision of Deng Xiaoping to bet on the market system as the best way of preserving the power of the Chinese Communist Party. China's economic growth averaged more than 9 per cent a year between 1995 and 2004, and GDP per person almost doubled. Foreign direct investment flooded into China. In 2001 it was admitted to the World Trade Organization and by 2003 it had become the world's largest recipient of FDI. It is now the single most important contributor to the overall growth in world trade. China also used the crisis to burnish its credentials as a regional political leader, for example by contributing to the IMF relief packages for its neighbours and helping to develop regional responses to the crisis like the Chiang Mai Initiative on bilateral currency swaps.

By the end of the decade of the transmillennium, and largely as a result of China's growth (because Japan, the world's second largest economy, had stagnated through much of the period), Asia had recovered its position, and had emerged with more resilient economic structures. In addition, and more importantly for the long term, much of the region's trade and economic growth was being generated by *intra*-regional trade. Between 1995 and 2004 China's receipt of East Asian exports roughly tripled. On current trends, China will be the region's major export market within the next few years. Much of this trade still flows elsewhere, to the United

States in particular, but with domestic demand growing so strongly in China and India, that will change.

The important geopolitical development here is not just China's economic growth but Asia's return to a central position in the global economy and power structure. You can measure the size of economies in a couple of ways, but if you use purchasing power parity which is best for comparing wealth between nations, the United States is the largest economy in the world but three Asian countries China, Japan and India fill the next spots.

There's nothing especially remarkable about this. The really extraordinary thing is that we had a couple of centuries in which – largely because of the industrial revolution in Europe – the wealth of two of the world's most populous countries, nations with old and sophisticated cultures, slumped so precipitately. In 1820, China and India together were worth almost 50 per cent of world trade, but by 1950 that had dropped to only 7 per cent. In 2001 the figure was back up to almost 20 per cent.

The rise of India has been less dramatic than China's but is still impressive. It seems to have entered a new phase of sustained growth at higher levels of around 7 per cent a year with a model led by the export of services rather than manufactures.

So what we have seen during the years of the transmillennium is the restoration of China and India to their former positions of importance in the global economy, just as you would expect from two countries with a combined population not far off 2.5 billion.

Whatever caveats must be made about the dangers of projecting growth figures, it is hard to avoid the conclusion that by the middle of this century China's and India's economic importance in the world will have increased substantially. Measured by purchasing power China had 13 per cent of the world's GDP in 2004. By 2050 it is expected to reach 20 per cent. India will grow from 6 per cent to 12 per cent, the US will slip from 21 per cent to 14 per cent and Europe from 21 per cent to 10 per cent. Australia will slip more modestly from 1.1 per cent to 0.7 per cent.

So far we have been talking just about economic growth, but economic strength is a necessary foundation for two sorts of power – hard power, that is military weight and the willingness to use it, and soft power, which is the capacity to influence people culturally and through ideas. The degree to which such power is developed and used depends on other factors, including culture, politics and historical experience but Asia seems likely to provide a growing source of both forms of power in the years ahead.

China and India will inevitably seek to develop military capabilities commensurate with their size and influence. Both face enormous challenges of sustaining growth and development. Like Japan, they will have an eye on the security of the supply lines of resources and energy so critical to their continuing growth. But how will they manage that process? And how will the US react? These are potentially dangerous questions, further complicated by unresolved problems across the Taiwan Strait and on the Korean Peninsula.

It is important not to overlook Japan in any survey of the region. Japan is in some ways the most unpredictable major power in the world at present. I mean by that that while China, at least at the government level, has taken a national decision on its future, I am not sure that the same is true of Japan. Japan remains a huge economy – on exchange rate measurements the second largest in the world – and the world's third largest military force. After a decade and a half of economic stagnation as a result of structural problems in its economy, with a declining population, and faced with the rising power of China, Japan is undergoing a basic reassessment of its future. Its economy is experiencing deep changes, its political system has been shaken up by Prime Minister Koizumi's success in remaking the dominant Liberal Democratic Party, and it is reassessing elements of its post-war pacifist constitution. As a result of all this, though with typical cultural introversion, Japan is engaged in a fundamental debate about its future that will have large consequences for Asia.

On the second sort of power, soft power, Asia will also be more important. We have been used to thinking about globalisation as being the same thing as Americanisation or westernisation, but that is changing. Koreans have already joined the Japanese as Asian global brands but China and India will certainly be next. Even in popular culture – a vital source of soft power - Bollywood, Japanese *Manga* comics and *anime* and Chinese martial arts films are having a growing impact.

You might ask what is new about this for Australia's security environment? After all Asia has been a forum for our security interests for the past hundred years. The answer is that Asia is now more likely than at any time since Australia's European settlement to be the principal centre of global growth, and the crucible of strategic competition, and that it will contain a number of more independent and more powerful actors with the desire and the capacity to influence the 21<sup>st</sup> century world.

Let me turn now to the second great event of the transmillennium for the Australian security environment: the al-Qaeda terrorist attacks of September 2001, reinforced by subsequent terrorist assaults in Bali, Madrid, London, Jakarta and elsewhere.

These attacks had consequences that are still being worked through.

- They resolved, temporarily at least, the debate within the United States about how active a role it should play in the world
- They focussed world attention, including Australia's, more directly on the issue of fragile states and global borderlands, and more generally on threats from distant regions
- They underlined the fact that threats in the world no longer came from nation states alone but from a range of other transnational actors, and that these included groups that were not susceptible to traditional doctrines of deterrence and could not be dealt with by traditional military forces alone.

Since its emergence as the victor in the Cold War the United States had been grappling in different ways with the question of how it would use its power. Would it be an active leader seeking to shape a new multilateral foundation for the emerging world as the generation of Americans at the end of the Second World War had done? Would it see itself more modestly as a balancer, a member of a concert of powers, intervening selectively when it felt its interests were affected? Or would it use its power assertively to preserve this unipolar world? The 9/11 attack had the immediate effect of galvanising the United States and giving it, initially at least, a purposeful unity directed against international terrorism. It resolved the debate about how Washington should use the power with which it had emerged from the end of the Cold War. The answer was: actively.

In 2002 the Bush Administration launched its ambitious National Security Strategy, a unilateralist document whose ambition Owen Harries described as being 'no less than to effect a transformation of the political universe'. Soon afterwards, it linked the war on terrorism with the invasion of Iraq. At this point the temporary national and international consensus on American power was fractured.

It is too soon to see the full security implications of the Iraq war. For Australia, however, the lessons the United States takes from its experience there will shape our security environment in important ways. Already public polling in the US is detecting a sharp increase in isolationist sentiment among the American public. How that translates in the post-Bush political environment will matter to us.

The Iraq war also brought home another important development of the transmillennium. During the Cold War the function of alliances was clear. In an almost mechanical way the weighting on

each side matters during a period of bipolar balance. But alliances in a period of unipolarity or multipolarity matter much less. What are they there to do? How are they structured? What sustains them? We have yet to answer that question properly. It seems to me that not nearly enough attention has yet been paid to this question. But signs are emerging. 'Coalitions of the Willing' are proving to be a more flexible and responsive mechanism for action in the new environment. East Timor (although formally under UN auspices), RAMSI in Solomon Islands and Iraq were all in their different ways manifestations of such an approach.

A second major consequence of the emergence of Jihardist-Salafist terrorism from the wastelands of Afghanistan and Sudan and the southern Philippines was that the security and human costs of ignoring the global borderlands became more apparent. During the Cold War the newly decolonised countries of the third world were important as tokens in the global power struggle between the United States and the Soviet Union. After 1989, that relevance faded, however, and the great powers turned their attention away. The lesson of September 2001 was that, whether from a hard-nosed security viewpoint or a humanitarian one, the margins of the world could not be ignored.

The security policy consequences for Australia of this lesson included the successful intervention in Solomon Islands, the development of active counter-terrorism partnerships with Indonesia and other Southeast Asian neighbours and, less successfully, the proposed Enhanced Cooperation Program with Papua New Guinea.

The terrorist threat, which linked our immediate region directly to the Middle East, also had the effect of expanding Australia's views of its security environment. Perhaps the most ambitious, but also the most comprehensively ignored, statement in the 2005 Australian Security Update was this: 'Australia's vital interests are inextricably linked to the achievement of peace and security in the Middle East'. This is a remarkably bold assessment by the government. Vital interests by definition are those we would have to use force to protect. The new statement goes well beyond the much more cautious words of the 2003 Defence Update which simply noted that 'In some regions of high strategic significance to Australia, notably North Asia and the Middle East, it is still conceivable that conflict could occur directly affecting Australia's interests'. The 2000 White Paper did not refer to the Middle East at all. So in five years 'the achievement of peace and security in the Middle East' has gone from being unmentioned in a strategic review to being a vital national interest. As it happens, I don't agree with the judgement, which seems to me to be far too loosely stated to be useful, but it reflects a more widely held view of the expanded geographical scope of our security environment.

In addition to a geographical expansion, we have also experienced an expansion in the sources of security threats. Because lying beneath the emergence of internationally focussed terrorism was a deeper change in the international system - the rise in the number and importance of transnational actors; that is, groups outside the state system but with the desire and capacity to influence world politics. This was another result of globalisation.

Globalisation in its contemporary form is the outcome of a technological revolution in travel and communications, including mobile telephony and the internet, that blossomed during the transmillennium. Technology slashed the cost of transferring things – and particularly information - around the world. The figures are well known. The cost of a three minute transatlantic telephone call fell from about \$US250 in 1930 to a few cents today. And the internet brings communications costs close to zero.

One result was a huge increase in global economic interdependence. We saw the development of global supply chains in manufacturing and the explosion of trade and foreign direct investment. Another result was the transforming cultural impact of rapid flows of news and information through the internet and satellite television as well as the freer movement of people that cheaper transport facilitated.

The effect has been to blur distinctions between the domestic and the foreign. Whether you are talking about the economy or health or domestic security, the line between the external and the internal is far less sharp than it once was.

Another consequence of globalisation, as my Lowy Institute colleague Alan Dupont has argued persuasively, has been to give resource issues like air and water, environmental issues like climate change and health problems such as HIV/AIDS and avian influenza, a sharper new security dimension.

However, structurally, the largest impact of globalisation has been to increase the impact of non-state actors on world politics. Groups such as the East India Company or the Catholic Church, or what would these days be called 'epistemic communities' like the anti-slavery movement have always had an important impact on international relations. But globalisation has greatly expanded their number, as well as the number of transnational businesses, and has given them an importance they have not had before. During the 1990s the number of International Non Government Organisations (INGOs) quadrupled from about 6,000 to 26,000. It is now easier than ever to identify likeminded people, to communicate effectively with them and to marshal them to help change state policy, as environmental groups such as Greenpeace or the WWF have done. The Ottawa Convention on Landmines was the first international instrument I can

think of which was negotiated without the initial support of any sovereign government, except, arguably, parts of the Canadian. The campaign for international debt forgiveness is a more recent example.

There was a dark side to the growth of transnational actors as well. Organised criminal gangs, money launderers, people smugglers and terrorist groups like al Qaeda or Jemaah Islamiyah could just as easily use the tools of globalisation – ease of travel, efficient movement of capital, cheap and speedy internet communications, effective use of satellite television – to pursue their aims. The security threat terrorism posed was greatly magnified by the erosion of the nuclear non-proliferation regime and the emergence of new nuclear weapons states such as Pakistan, North Korea and now possibly Iran. The potential for non-state groups to secure access to weapons of mass destruction from non-, or at least quasi-, state proliferators of weapons of mass destruction like A.Q. Khan's network, introduced an entirely new and worrying dimension to our security concerns.

Piece by piece the structure of the state-centred Westphalian system is coming under pressure. Core norms like non-interference in the internal affairs of other countries are being eroded. One of the few positive things to come out of the failed anniversary summit of the United Nations was the slow emergence of a consensus on humanitarian intervention – the 'responsibility to protect'.

You can sense the inner tension and uncertainty among governments as they grapple with these delicate questions of sovereignty and the centrality of the state, and it applies to Australia as well. Surely one of the most striking lines from the 2005 Australian Defence update was the declaration that 'Non-state actors can, in some circumstances, constitute a strategic threat'. That is a remarkably important judgement. If it is true, profound consequences flow from it. It might still be arguable but it is not a statement that an Australian government could have made ten years ago.

It is clear that some of the old structures of post-World War Two global architecture cannot effectively survive in this new environment without wholesale change. The sheer number of new states – there are four times as many now as in 1945 – the shift in global power towards Asia, the erosion of the idea of untrammelled state sovereignty, the growth in the importance of non-state actors, the potential for some such groups to arm themselves with weapons of mass destruction, the expansion of globalisation and its blurring of distinctions between the domestic and the foreign, all combine to determine a shift in the way the world is organised.

The new model of 'coalitions of the willing' that emerged first in the area of defence and security has since spread into many other areas from the Proliferation Security Initiative to the G20 Group

of Finance Ministers to the Asia-Pacific Partnership on Clean Development and Climate. They seem likely to grow in importance.

We will need to find some way of developing multilateral forums which can effectively incorporate the views of some relevant non-state actors into the decision-making processes of states. I want to make it clear that I am not arguing for Greenpeace membership of the UN or for the proposition that News Limited or Sony do the same things as states and should be treated like them. But I am arguing for the revision of multilateral structures that are rigidly and archaically structured around the Westphalian idea of the nation state. Both sides of politics agree that something like this is coming: for the Right, as we saw a couple of weeks ago with the Asia Pacific climate conference, it is business involvement that is particularly important; for the Left, it is the involvement of elements of 'civil society'. But in both cases what is at issue are methods and forms of involvement rather than destinations.

Let me end by returning specifically and briefly to the implications for our defence forces and the national security agencies of government. Globalisation has changed not just the way the Australian government thinks about security but the way it has to act to preserve it.

Over several centuries of hard-won experience we have developed a reasonably good understanding of the incentives and disincentives that will help shift state behaviour. But these incentives do not apply to non-state actors. In particular, conventional deterrence does not work against international terrorists. There is no home base against which to take reciprocal action. So the security threat such groups pose – the potential strategic threat, if the Australian government is right – as well as the other threats that a globalised world throws up, need to be addressed in quite new ways. They need a highly integrated response that includes international policing, intelligence cooperation, public diplomacy and emergency response in with the traditional military mix. This has imposed a high premium on whole of government, cross-portfolio, coordination. For me, Australia's effective changes in this area have been one of the Howard Government's most significant security achievements.

Faced with new adversaries, the role of the military is changing. It would be foolish to say that war between the great powers is impossible, but the prospect is probably more remote than it has been for a hundred years. How military forces operate, what they are intended to do, the nature of the interaction between domestic and external security, the link between government forces and private provision of military services (including, I believe, a reassessment of the role of mercenary forces), all require new ways of thinking.