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Review of major international strategic policy developments of 2009

an address¹ to the Institute on 26 November 2009 and slightly updated since by

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Andrew Shearer reviews the major international policy developments of 2009 and comments on what they might mean for Australia and for our national security. He focuses on five themes: effective national institutions, policies and political leadership still matter; the nation-state is back – it has not been superseded by public or private global institutions; global power is shifting fast from the United States and Europe to Asia; power is shifting in Asia too, from Japan to China and increasingly to India, producing geopolitical uncertainty; and we also face serious non-traditional threats, such as natural disasters, pandemic diseases, piracy, terrorism and the proliferation of weapons of mass destruction. 2009 was quite a year and 2010 promises to be just as eventful! Australia again showed itself to be the ‘lucky country’, but it cannot afford to be complacent.

National security is not always a fashionable issue, but it is always important. Recognising this, the Royal United Services Institute has been promoting Australia’s national security for more than 120 years. I thank you for inviting me to present a review of the major international policy developments of 2009 and to comment on what they might mean for Australia and for our national security.

Whether or not it is to do with the information revolution and the superfluity of information in a 24/7 multimedia world, the pace of events seems to be accelerating. Indeed, it is extraordinary how much has happened since this time last year. I do not propose, however, to provide a chronology of 2009. Rather, I will to try to interpret the year’s events by addressing several themes in the hope that this might be more interesting.

This time last year the world was still reeling from the global economic crisis triggered by the United States sub-prime mortgage implosion, the collapse of Lehman Brothers and everything that followed. Those events are still reverberating and their full implications remain unclear. The global financial crisis has not changed everything, but it has influenced almost everything, one way or another. Those impacts are evident at the national, regional and global levels and have very significant implications for Australia.

The approach I want to take in this paper is to advance a series of propositions based on the year’s events.

1 National institutions, policies and political leadership still matter

No country has been unaffected by the global financial crisis, although of course some have been affected worse than others. This has highlighted that

national institutions, policies and political leadership remain very important.

In the United States, a new president, Barack Obama, was inaugurated in January 2009 against the backdrop of the worst global economic downturn since the Great Depression. This brought a massive outbreak of hope, domestically and internationally. The sub-prime mortgage implosion was the result of flawed policy decisions and poor regulation in the United States. Obama responded to the economic meltdown with a major fiscal stimulus which was necessary. Subsequently, however, we have seen that many aspects of the response to the crisis were also flawed – e.g. inconsistencies in bailouts of public companies and ‘pork-barrelling’ on behalf of special interests. As a consequence, the United States now faces a spending/debt crisis. Publicly-held debt will double over next decade from 41 per cent of gross domestic product to 80 per cent, which is unsustainable. Despite nearly US\$1 trillion having been spent to stimulate the economy, recovery from the economic crisis has been slow and virtually jobless, with unemployment still over 10 per cent. Obama has outsourced too much authority to progressive Democrats in Congress and struggled with health care reform. Obama also appears increasingly vacillating and weak on foreign policy, struggling with issues such as Afghanistan, post-election violence in Iran, and human rights in China during his visit there.

National institutions and leadership made a major impact in other countries too. In December 2008, Thailand underwent a domestic political crisis. In January 2009, the banking system and government of Iceland collapsed as a result of the global financial crisis; and April saw a further deterioration in Fiji’s political situation, with the suspension of the constitution and dismissal of judges.

In contrast, China’s nervous leadership responded to the global financial crisis rapidly with a massive fiscal stimulus; but the vulnerabilities of China’s authoritarian system were on show when rioting and violence broke

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out between Han Chinese and Uighurs³ in Xinjiang in July. In August Taiwan's government fumbled the response to a devastating typhoon; and flaws in the conduct of elections in Afghanistan further undermined international support for stabilisation and reconstruction efforts there.

We know now that Australia has largely escaped the worst effects of the downturn. There was no technical recession in 2009, unemployment remained under 6 per cent, and the Australian economy was the fastest-growing in the Organisation of Economic Co-operation and Development – a result not just of the government's fiscal stimulus, but of mineral exports to China coupled with a strong fiscal situation and well-regulated financial sector, the last two factors both legacies of the previous government! There is no room for smugness though. The budget deficit, loss of momentum on economic reform, the prospect of bottlenecks and inflationary pressures, the unedifying parliamentary and public debate on the government's carbon pollution reduction scheme, and the need for some real leadership to emerge at the national level, are indicative of major issues facing the nation as it moves into 2010.

2. The state is back

2009 was a year in which the nation-state re-asserted its pre-eminence. I never bought the proposition advanced by some scholars, such as Philip Bobbitt⁴, at the turn of the century that globalisation would inevitably bring about the demise of the nation-state as the fundamental organising unit of government and the international system. On the contrary the global financial crisis seems to have further strengthened the revival of the state.

Indeed, fiscal stimulus packages and renewed emphasis on regulation mark a return of big government, to the extent that the United States government now owns General Motors, something that was unthinkable heretofore. Similarly, in China, much of the fiscal stimulus has gone into state-owned enterprises, thereby undercutting the privatisation agenda. Nationally-owned companies have become increasingly influential, especially in the resources sector, and this trend has been coupled with the rise of sovereign wealth funds which have sought to invest strategically abroad in their nation's interest as part of a broader mercantilist policy.

Coupled with these trends has been a return of soft protectionism, such as 'Buy America' and 'Buy New South Wales' campaigns, United States anti-dumping measures on tyres, and the like. Indeed, the collapse of global trade and decline in private foreign investment seemed to presage a period of de-globalisation.

³The Uighurs, the traditional inhabitants of Xinjiang, since c. 1950 China's westernmost province, are Turkmen-speaking Muslims from Central Asia, who have become a minority in their province following several decades of Han Chinese immigration. Their language and culture are being displaced and recently they have been conducting an international campaign for greater cultural and political autonomy similar to that of their southern neighbours, the Tibetans. The campaign came to a head in the lead-up to the Olympic Games in Beijing in 2009

⁴Bobbitt, Philip (2002). *The shield of Achilles: war, peace and the course of history* (Penguin Books Ltd: London) 922 pp. – see review by David Liece (2006). *United Service* 57 (2, June), 35.

3. Global power is shifting, fast

Power was shifting from the North Atlantic to Asia even before the global financial crisis, but the economic downturn seems to have accelerated the process during 2009.

The United States is still by far the world's biggest economy and its only superpower. It boasts massive military superiority and unmatched ability to project power globally; but it has been stretched by wars in Afghanistan and Iraq, preoccupied with Iran's and North Korea's nuclear aspirations and the Israeli-Palestinian question, and weakened economically. I am an optimist about America's resilience and regenerative capacity, but there can be no doubt that its credibility and capacity has taken a big hit, to the extent that there is some evidence of loss of confidence in its own model and values.

The United States-China relationship is now the most important in the world. Both nations need each other to resolve major challenges, such as fiscal imbalances and climate change.

India is also rising. While its growth has not been as fast as that of China's, it has left Hindu rates of growth in the past. It has genuine domestic demand, institutional advantages (such as a well-established federal democratic system and an independent judiciary) and superior demographics (in that it has not been burdened as China has by years of a one-child policy resulting in a preponderance of males of marriageable age for whom there is a deficit of female partners).

These changes were manifest at the Pittsburgh G20 Summit in late 2009, when world leaders announced that the G20 would replace the anachronistic and Euro-centric G8 as the main global economic coordination forum.

4. Power is shifting in Asia too

China's rise – and to a lesser extent India's – dominated much of 2009 in Asia, where economic power was clearly shifting from Japan to China and India.

A more powerful and assertive China had palpable consequences for Australia. Chinalco, a Chinese-government owned resources company, bid for the Australian resources giant, Rio Tinto, but was turned down at the last minute in favour of a joint venture with the other Australian resources giant, BHP-Billiton. Rio Tinto's Australian chief resource-sales negotiator with the Chinese, Stern Hu, was then imprisoned without charge by the Chinese and remains in prison. A controversial visit to Australia by the exiled Uighur leader, Rebiya Kadeer, further strained Sino-Australian relations – Australia was accused of providing support for human rights and autonomous sentiments in China, and so of interfering in China's internal affairs. Finally, the release of Australia's Defence White Paper (*Defending Australia in the Asia-Pacific Century*), which highlighted shifting power balances and growing uncertainty in Asia and flagged an Australian military response based on enhanced naval power, drew a strong response from China and further exacerbated bilateral tensions.

For the first time, Australia's major economic partner, China, is not our major security provider. China is not an ally, is not a developed economy and is not a democracy. This represents a profoundly significant structural

change. It will make for a much more complicated bilateral relationship, which will be more pervasive, more contested and more difficult to balance. The Australian government is struggling to lay out a durable framework for the relationship. It needs to focus on common Sino-Australian economic interests, while making clear that Australia will not sacrifice its strategic interests (including the United States alliance and other regional partnerships) or its values.

Many other countries are wrestling with the same dilemma. All around the region we are seeing 'bandwagoning' – on mainland Southeast Asia, Burma, Bangladesh, Sri Lanka – and hedging – in Australia, Singapore, Indonesia, Vietnam, the Republic of Korea and, very likely, Japan as well.

China's rise coincides with lost decades of economic stagnation and political sclerosis in Japan, where a new Democratic Party of Japan government is finding its feet and needs to implement major economic reforms to stimulate domestic demand and tackle the budget deficit. Pre-election commitments concerning the United States alliance were problematic, leading to real tensions with the United States over military bases in Japan. There is hope for improvement after Japanese upper house elections next July, but, in the meantime, this makes for a strategically anxious Japan.

India's rise is now being taken seriously, including by China. This is evident from a recent rise in Sino-Indian border tensions and growing competition over energy and food supplies. It is also a consequence of President Bush's far-reaching decision to reach a civil nuclear deal with India. The Indian prime minister made an official visit to the White House to reassure the new United States president on the nuclear issue; but, unfortunately, the Australian prime minister's delayed visit to India produced disappointing results, with Australia's irrational uranium export policy and the mishandling of recent violence against Indian students in Australia remaining major stumbling blocks to a genuine strategic partnership with India. Such a partnership would make sense from consideration of mutual economic (bilateral trade is growing very fast warranting a free-trade agreement), maritime (the Indian Ocean is becoming more important strategically), counter-terrorism, and nuclear non-proliferation interests, and as a counterbalance to China.

Finally, while the Cold War may have ended in Europe two decades ago, it remains unresolved in Asia where Cold War flashpoints persist. North Korea's provocations continued during 2009, including missile firings. Taiwan remains an irritant, especially in Sino-American relations, as highlighted by Beijing's splenetic response to the announcement of defensive United States arms sales to Taiwan. Disputed borders and resources remain issues in the South China Sea and on the Sino-Indian border.

5. We also face serious non-traditional threats

Finally, 2009 showed that we continue to face a range of serious, non-traditional security threats, such as:

- **natural disasters** e.g. the Taiwan typhoon, the tsunami near Samoa which killed nearly 200, and the earthquake off Sumatra the following day which killed around 1000 in Indonesia;
- **pandemic diseases** e.g. swine flu which was declared a global pandemic;

- **piracy** e.g. United States Navy SEALs killed three pirates holding an American cargo-ship captain, and an international consortium of governments undertook anti-piracy operations off Somalia;
- **terrorism** – the 'war on terror' continued in 2009, e.g. Australia sent 450 extra troops to Afghanistan, a United States troop drawdown commenced in Iraq, and suicide bombers attacked two Jakarta hotels, killing eight and injuring 50; and
- **proliferation of weapons of mass destruction** – North Korea and Iran made further progress towards acquiring nuclear weapons and delivery systems; should they acquire an effective capability, pressure will build in Asia and the Middle East respectively for other countries to take the same path.

Conclusions

In 2009, Australia again showed itself to be the 'lucky country'. We are fortunate in that we have strong economic fundamentals and that we are a resources superpower at a time of global energy and food scarcity. We also have good institutions, positive demographics, a diverse and productive population, and an effective military.

But we cannot afford to be complacent. We face economic constraints, so will need to sustain our economic reforms, and this will require more political leadership than we have seen recently. Our budget deficit will limit our options, which, *inter alia*, may constrain future defence spending and development of our diplomatic network.

On the diplomatic front, getting the China relationship right will be vital – the government has done poorly here to date – and that will require getting our other regional relationships right also, especially those with Japan, India and Indonesia, all of which have lost momentum since 2007. Concurrently, we will need to maintain our strong alliance with the United States; and this will necessitate that we do more in Afghanistan now that President Obama has announced that he is sending extra United States troops there.

Finally, we must continue to promote free trade, negotiate bilateral free-trade agreements and fight protectionism at home.

2009 was quite a year and 2010 promises to be just as eventful!

The Author: Andrew Shearer is director of studies and senior research fellow at the Lowy Institute for International Policy, where his research interests include Australian and United States foreign policy, Australia-United States relations, and Asia-Pacific security. Previously, he gained extensive international experience in the Australian Government, occupying various positions in the Department of Foreign Affairs and Trade (including the Australian Embassy in Washington DC), the Department of the Prime Minister and Cabinet, and the Office of National Assessments. He was foreign policy adviser to former prime minister John Howard, and strategic policy adviser to former defence minister Robert Hill. He has honours degrees in arts and law from the University of Melbourne and a masters degree in international relations from the University of Cambridge [Photo of Mr. Shearer: Lowy Institute – The Interpreter].