



This article is an extract from the Journal of the *Royal United Services Institute of NSW*
www.rusinsw.org.au.

"Promoting informed debate on Defence and National Security issues, since 1888."

To receive quarterly copies of this highly-regarded Journal and to obtain the other significant
benefits of RUSI-NSW Membership,
please see our online Membership page www.rusinsw.org.au/site/Membership.asp.

The 2010 Sir Herman Black Lecture: Review of major international strategic policy developments of 2010



an address to the Institute on 25 November 2010 and slightly updated since by

Andrew Shearer¹

Director of Studies and Senior Research Fellow
Lowy Institute for International Policy

Andrew Shearer reviews the major international strategic policy developments of 2010 and comments on what they might mean for Australia and for our national security. He focuses on four themes: reverberations from the financial crisis; leadership, democracy and the weakness of the West; shifts in global power; and stresses and strains in the international system. These trends will continue in 2011, subject to two critical variables: the rate at which the economies of the West recover; and the sustainability of China's growth.

The Royal United Services Institute has long been committed to promoting Australia's national security, so it is a pleasure and a privilege to be with you again to deliver the annual Sir Herman Black Lecture².

In reviewing 2010's major strategic policy developments, I do not wish to provide a chronology of the past year, nor an exhaustive account of its national security events. Rather, I would like to highlight some key emerging themes and to interpret what the major international events of 2010 may mean for Australia and our national security.

For Australia, perhaps the most pressing security preoccupation for 2010 was our continuing involvement in the coalition counter-insurgency campaign in Afghanistan. Despite dwindling public support for the war, Australia renewed its commitment to the allied campaign with a 50 per cent increase in civilian personnel following the announcement of the Dutch withdrawal in February. The Dutch withdrawal reflected a broader loss of confidence in the mission throughout the Western alliance, prompted by uneven military progress, increasing coalition casualties and, for a time, the Obama administration's seeming equivocation about the mission. For Australians, 2010 was the most dangerous and deadly year in Afghanistan to date. Ten of Australia's 21 fatalities³ occurred in 2010, and sixty personnel were wounded compared to 37 in 2009.

The current political dynamics surrounding the war in Afghanistan are also reflective of the broader trends

that I want to address today. One is the doubt cast on future Western defence capabilities stemming from austerity measures taken by alliance partners, such as the recent and substantial cuts to the United Kingdom's defence budget. Another is the diluted political mandate within several Western countries at the moment.

The 2010 debate on Afghanistan in the Australian parliament, the first of its kind in the nine years of the war, was brought about primarily by the more contested political space resulting from a hung parliament, and in particular by the gains made by the left-leaning Australian Greens at Labor's expense. Similar political trends were evident elsewhere, with centre-left parties suffering reverses in the United Kingdom elections, which also delivered a hung parliament, and the United States mid-term Congressional elections overturning a Democratic majority in the House of Representatives. The war in Afghanistan also highlights some of the other major trends evident during 2010, including renewed debate about the durability of United States power and leadership, particularly against the backdrop of the rise of China and India. Finally, the conflict highlights growing weariness with international efforts to combat terrorism, despite a series of thwarted attacks during the year which highlighted the continuing threat posed by the global jihadist movement.

Many of these trends predate 2010, and I addressed some of them in last year's lecture. Today I want to focus on four sets of developments which in some respects have reinforced those trends and in others mark something of a discontinuity:

1. reverberations from the financial crisis;
2. trends in leadership, democracy, and the weakness of the West;
3. shifts in world power dynamics; and

¹E-mail: ashearer@lowyinstitute.org

²For his 2009 lecture see: Andrew Shearer (2010). Review of major international strategic policy developments of 2009. *United Service* 61 (1), 7 – 9 (March 2010).

³Sadly, total Australian combat fatalities in Afghanistan rose to 23 early in 2011.

4. transnational challenges and growing systemic constraints on the international cooperation needed to address them.

Reverberations from the Financial Crisis

The last time I spoke at the Royal United Services Institute, the world was still reeling from the global financial crisis. Many of those forces were still reverberating in 2010, working their way through developed economies, which continued to struggle. In the United States, economic growth and jobless recovery remained slow. On 21 July, Barack Obama signed into law the *Financial Regulation Bill*, the biggest overhaul of the United States financial-regulatory system since the Great Depression. Later, in November, the chairman of the United States Federal Reserve, Ben Bernanke, announced that he would allow the Reserve to purchase an additional \$600 billion in government bonds over the next eight months, in a policy referred to as 'quantitative easing', but amounting more crudely to printing money. A similar attempt in 2009 had produced little result, and this second wave was met with widespread debate and criticism within United States policy and media circles.

Across Europe, countries adopted tough austerity measures to reign in financial problems. In the United Kingdom, as I mentioned previously, major cuts were made in the defence budget by the new Conservative-Liberal Democrat coalition government as part of a much wider two-year deficit reduction programme. Following the demotion of Greece's credit rating to 'junk bond' status in April, Eurozone governments and the International Monetary Fund had to bail Greece out with an emergency loan package of \$147 billion – one of the largest bailouts ever assembled for a country in modern history. Ireland, hailed the 'Celtic tiger' only a few years ago, struggled to slash a budget shortfall that will likely balloon by the end of 2010 to a staggering 32 per cent of GDP — a record for post-war Europe. The international bailout of Ireland is likely to reach between €80 and 90 billion; and there are increasing calls for the Irish Prime Minister to quit.

By contrast with Western economic travails, the economies of many developing nations are powering ahead. While the average growth of OECD⁴ nations in the first three quarters of 2010 flickered between a very meagre 0.8 and 0.9 per cent, Chinese growth ranged between 9.6 and 11.9 per cent in the first three quarters of 2010. Likewise, India's growth was just over 8 per cent, and Indonesia's growth rate in the September quarter alone was just under 3.5 per cent. Economic growth rates in Africa are exceeding that of the OECD by margins not seen for 25 years. This has, in effect, produced a two-speed global economy. The geopolitical implications of this trend, should it be sustained, would be profound.

Leadership, Democracy and the Weakness of the West

2010 was not a good year for Western political leaders. In April, the President of Poland, Lech Kaczyński, was tragically killed in a plane crash. In June, Australian Prime Minister Kevin Rudd suffered his own premature political death following an unprecedented leadership spill against a first-term Australian prime minister. Japan's Prime Minister, Yukio Hatoyama, also fell from office, resigning just nine months after taking office after leading his Democratic Party of Japan to victory over the Liberal Democratic Party for the first time in over 50 years. Hatoyama's poll ratings plummeted from more than 70 per cent to below 20 per cent approval. German Chancellor Angela Merkel's centre-right coalition government was close to collapse in the middle of the year, weakened by a string of disagreements and intense infighting over austerity cuts, policy reform, and the departure of senior conservatives. Austerity measures led to the outbreak of physical violence against Ecuadorian President, Rafael Correa, who was attacked with tear gas and held against his will in a hospital in a failed police *coup d'état* in October. Meanwhile Italian leader, Silvio Berlusconi's coalition government continues to crumble following the recent resignation of several key ministers.

Political leaders have felt the pressure from the reverberations of the financial crisis and the challenge it delivered to the broader Western liberal economic and political model. Initially, progressive commentators, activists, and political figures were quick to assume the global financial crisis would bring about a resurgence of social democracy. In 2009, Kevin Rudd published an ill-judged article in *The Monthly* blaming the financial crisis on 'extreme capitalism' and 'excessive greed' and proclaiming the end of 'neoliberalism'. Yet in 2010, electorates around the world delivered a series of stunning rebukes to left-of-centre governments. In the United States, the Democrats suffered the worst mid-term congressional losses since 1938. The Labour government in the United Kingdom was defeated and replaced by a Conservative-Liberal Democrat coalition. Here in Australia our own elections saw the Labor government clinging to power as a minority government reliant on the cooperation of the independent members and the Greens. Ironically, even where social democratic governments have not been voted out, they have been forced to adopt sweeping fiscally conservative, 'neoliberal' policies, such as wide-scale privatisation and cuts to welfare.

These electoral outcomes seem to reflect not only economic stress but growing voter disenchantment with politics and politicians irrespective of their political hue. The 2010 election in the UK saw a slump in traditionally high figures of voter turnout, with around 35 per cent of eligible citizens declining to vote. While some 42 per cent of registered voters turned out for the

⁴Organisation for Economic Cooperation and Development

United States mid-term federal election (around 1.2 percentage points higher than in 2006), this largely reflected discontent with both major parties and the rise of the small-government Tea Party movement. In Australia, where of course voting is compulsory, the 2010 federal election delivered the highest informal vote count in over a decade, reaching just over 5 per cent of the total vote.

It was not only Western political systems, however, that came under strain in 2010. Widespread dissatisfaction and a push for democratic reform arose in several areas of the developing world. In Thailand, the National United Front of Democracy Against Dictatorship, commonly referred to as the 'red-shirts', led a violent escalation of anti-government protests from March to May. There were also violent opposition protests and demonstrations in Kyrgyzstan in April which forced President Bakiyev to flee the capital. Subsequent rioting in June in southern Kyrgyzstan between ethnic Kyrgyz and Uzbeks culminated in a referendum on 29 June, which led to the approval of a new constitution. In November, the Burmese military junta held elections for the first time in 20 years and released Nobel laureate and democratic activist Aung San Suu Kyi from house arrest. Unfortunately, these measures signified a mere democratic veneer amidst renewed calls for true reform after years of repression. Economic developments at both the global and national levels will continue to shape not only the balance of power between nations, but the destiny of governments and systems of government.

Shifts in Global Power

Democracy remained a distant prospect in other areas of the world, particularly China, where – despite the internet and the rise of social media – repression has become more sophisticated and arguably more pervasive in recent years. China reacted aggressively, both at home and abroad, to the awarding of the 2010 Nobel Peace Prize to Liu Xiaobo, a courageous political activist who had participated in the Tiananmen Square protests and co-authored the Charter 08 document, which called for greater freedom in China and an end to the Communist Party's political dominance. Within China, Liu's supporters were detained, his wife placed under house arrest, and strict Internet censorship was imposed, rendering Chinese search terms for 'Nobel Prize' and 'Peace Prize' unsearchable on major search engines. The Chinese government also placed pressure on other governments to boycott the award ceremony. This interference with online search engine technology was also seen in January, when Google threatened to leave China after a series of alleged government-sponsored cyber security attacks on the search engine, as well as several attempts to gain access to the Gmail accounts of Chinese dissidents and human rights activists. In March, Google shut down its China site altogether and redirected users to the Google Hong Kong site.

The Chinese government also flexed its growing muscle diplomatically and militarily. In August, China's economy officially became the world's second-largest, surpassing Japan's. In late April, Rear Admiral Zhang Huachen, deputy commander of China's East Sea Fleet, noted in an interview with *Xinhua* that the nation's naval strategy was changing, and that China would now expand "from coastal defence to far sea defence". China's naval build-up and naval operations have indeed become increasingly assertive. The initial focus of its operations has been on controlling the 'first island chain', however China has been developing a nascent blue-water fleet which it has already deployed on anti-piracy operations in Gulf of Aden, protection of strategic communication lines, and naval diplomacy, including a high profile swing through the South Pacific. China is now extending its naval and mercantile access arrangements to bases in the Indian Ocean, a policy Western analysts have labelled a 'string of pearls' strategy.

During 2010, this increased assertiveness extended to China's posture in a series of longstanding tensions with its neighbours. Tensions were heightened in the region overall owing to China's firmer stance on a number of ambit territorial claims and the declaration attributed to a senior government official that the entire South China Sea amounted to a 'core interest' for Beijing. China also hardened its position on the longstanding border wrangle with India over Arunachal Pradesh province, scuppering an Asian Development Bank loan to India in March owing to its provisions for infrastructure projects in the disputed province. Beijing also denied visas to Indian officials from the province seeking to visit China on business, claiming that the officials were already residing within China. In its relations with Japan, China adopted a hardline approach in demanding the release of a Chinese trawler captain who was detained in September when his boat collided with a Japanese patrol vessel in the disputed Senkaku/Diaoyi Islands. The Chinese cut off top-level ties including territorial negotiations and reportedly ceased the exportation of rare earth metals to Japan. Japanese prosecutors subsequently buckled and released the trawler captain. Even South Korea, who has traditionally enjoyed fairly favourable relations with China, was dismayed by China's refusal to acknowledge North Korean responsibility for the unprovoked March sinking of the South Korean corvette *Cheonan*, as well as the absence of an official Chinese condemnation of North Korea's shelling of a South Korean island in November.

This projection of Chinese power has produced a general feeling of anxiety throughout the region, leading to a greater defence build-up and the strategic tightening of United States alliance partnerships. Vietnam signed a \$1 billion deal with Russia for the delivery of twelve SU-30MKK fighters, as well as associated weapons, service, and support. Australia and Malaysia are also boosting their defence

capabilities through the acquisition of modern submarines, with Australia also purchasing joint strike fighter aircraft. Indonesia, too, is considering upgrading its submarine fleet.

The United States responded to Chinese assertiveness by re-emphasising its commitment to maintaining the security of its Asian allies and friends. In July, Hillary Clinton set the tone at the Association of South-East Asian Nations Regional Forum Meeting in Hanoi, countering China's abovementioned announcement by declaring for the first time that the United States considered the peaceful resolution of competing sovereignty claims in the South China Sea to be an American 'national interest'. In November, President Obama made a 10-day visit to Asia's great democracies – India, Indonesia, Japan and South Korea. Obama affirmed American engagement with the region's multilateral architecture, announcing that the United States would participate in the East Asia Summit in Indonesia in 2011 and would appoint its first resident ambassador to the Association of South-East Asian Nations, to be based in Jakarta. The United States also began a review of its defence strategy and force posture in the Pacific, confirming its Air-Sea Battle concept to counter anti-access strategies and flagging further force posture changes. Australia is likely to feature in these plans.

2010 thus saw both a heightening of strategic competition between America and China and reminders of the growing interdependence of the world's two largest economies. During 2010, this tension played out in the increasingly open insistence of senior Chinese officials that the United States 'get its own house in order' rather than criticise Chinese economic controls. Before the joint Strategic and Economic Dialogue in May, China's assistant Finance Minister, Zhu Guangyao, sought to shift attention from China's artificially low currency to the Eurozone's woes and Washington's rising indebtedness. America also hardened its position, with the United States House of Representatives passing a bill in September that would allow sanctions to be placed on imported Chinese goods owing to the undervalued exchange rate. In the defence sphere, Beijing suspended much-needed Sino-American military-to-military dialogue following United States sales of defensive weapons to Taiwan, which China viewed as interference in its internal affairs. United States Secretary of Defence, Robert Gates, responded firmly at the Shangri La Dialogue in June, where he described China's continued refusal to restart military-to-military exchanges as counter-productive and urged greater transparency in China's defence policy.

In all, these events point to a more uncertain and contested security environment in Asia, with significant consequences for Australia. While 2010 saw some improvement in our bilateral ties with China compared with the previous year, the growing divergence

between our fundamental economic (China-orientated) and strategic (United States-orientated) interests is making our management of key foreign relationships far more complex. For Australia, navigating the regional security environment has become more difficult now than at any stage in the last 60 years.

With Asia growing in global strategic importance and the United Kingdom's capacity to assist with expeditionary military operations declining, Australia is becoming more, not less, important to the United States and to its force posture in Asia. At the 2010 AUSMIN ministerial-level meeting between Australian and United States foreign affairs and defence officials, both parties highlighted their commitment to strengthening the bi-lateral alliance. The meeting also led to the ratification of the important *Defence Trade Cooperation Treaty*, which will facilitate cooperation between Australian and American defence industries. United States expectations of Australia as an ally are rising. For example, the future is likely to see Washington seek greater access to Australian military bases and training facilities. This is a prudent response to a less certain regional security environment and in my view would serve Australia's interests, but the Australian government will have to do more to prepare public opinion for an increased United States military presence.

The International System – Stresses and Strains

Traditional competition between nation-states was not the only challenge during 2010, however, which also featured a number of continuing and recurring transnational challenges, both natural and man-made.

2010 witnessed several major environmental catastrophes around the world. At the beginning of the year, an earthquake measuring 7.0 on the Richter Scale devastated Haiti, killing an estimated 230,000 people and leaving some 1.3 million homeless. April alone saw several major environmental disasters: a 7.1 magnitude earthquake killed 400 and injured 10,000 in China's Qinghai Province; volcanic ash from Iceland brought European travel and trade to a virtual standstill; and on 20 April, an explosion at the Deepwater Horizon drilling rig in the Caribbean Sea led to an oil leak that lasted three months and released over 700 million litres of crude oil into the ocean. In July, the sky opened up over Pakistan, with massive floods damaging infrastructure, killing around 1600 people and leaving around 14 million people displaced from their homes. Last but not least, in September, a 7.1-magnitude earthquake hit Christchurch, New Zealand, causing major damage across the city. These events tested national and international response systems to their limits.

Transnational terrorism remained a major threat in 2010, although fortunately authorities managed to foil several planned attacks. On 3 January, the United

States and the United Kingdom closed their embassies in Yemen following Al Qaeda threats to attack Western interests there. These threats were thought to be linked to American and Yemeni strikes against Al Qaeda in Yemen. Other major plots were foiled in Times Square, New York, and involving a bomb in a UPS printer cartridge.

Despite instances of effective cooperation during 2010, the international system came under increasing strain. Many western economies have begun to turn inward, adopting mostly 'soft' forms of protectionism in response to job losses and other domestic economic weaknesses. Core differences over exchange rate and fiscal policy have divided major economies and split the G-20 nations, raising concerns that we may have passed beyond the high-water mark of international economic cooperation. The Doha Round of multilateral free-trade talks remained stalled in 2010, as did prospects for a break-through in negotiations on an international agreement to combat climate change, following the abject failure of the United Nations talks in Copenhagen in December 2009. The follow-up in Cancun in December 2010 made only modest progress and much hard bargaining is still to be done before the next meeting in South Africa in December 2011. There is little sign that differences between major developed and developing emitters will be bridged any time soon.

The proliferation of influential non-state actors in the international system is also making it harder for states to mount effective policy responses to international problems. A prominent example of this in 2010 was the way that the release of classified United States military and diplomatic documents by WikiLeaks in late September and December complicated United States diplomacy around the world and its efforts to prosecute the already difficult war in Afghanistan. The influence of global non-state networks continues to grow, both for good and for ill.

Conclusions

Looking forward, it is likely that most of the major strategic dynamics evident in 2010 will continue in 2011. Two critical variables will be:

- how rapidly and comprehensively the United States economy and other Western economies can recover from the global financial crisis will largely depend on the quality of political leadership – it is hard to be very optimistic on this front; and
- the sustainability of China's growth: this will be strongly influenced by China's 2011–2015 Five-Year Plan (now in preparation), which could trigger re-evaluation, reforms and change – China faces massive environment, demographic and other changes, and inflation is on the rise.

In 2011, we can expect much of the West to remain economically weak, with countries continuing the trend of turning inward and cutting defence capability. We

can expect to see further tension between the United States and China, especially in the lead-up to the change of Chinese leadership and the United States presidential election in 2012. The competition in Asia over resources, sea lanes, territory, access, and influence will continue to grow. Overall, it will be a time of instability and shifting power dynamics, especially within our region.

There are several consequences arising from these trends for Australia. With key alliance partners, such as the United Kingdom, retracting their military capacity and Asian power dynamics shifting, Australia's collaboration with the United States in Afghanistan and within the Asian region will take on greater importance. Additionally, Australia will find itself a key player in the inevitable response to the insecurity of food and energy supplies, which will regain a renewed focus as the pace of economic growth picks up.

In adjusting to these shifting international trends, Australia must prioritise:

- strengthening its alliance with the United States;
- fostering its relationships with Japan, South Korea, India and Indonesia;
- implementing a sustainable, hard-headed China policy, including the diversification of our economic relationships so as to avoid over-dependence;
- putting a premium on getting our domestic policies right – this includes creating a more flexible and competitive economy, labour market and tax system, and boosting productivity improvements and infrastructure;
- providing the Department of Foreign Affairs and Trade with resources commensurate with its tasks – its resources have been seriously eroded over the past two decades; and
- effectively implementing the policy and force structure outlined in the 2009 Defence White Paper – there are already doubts about how sustainable this document will be.

The Author: Andrew Shearer is director of studies and a 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 an honours degree in Arts/Law from the University of Melbourne and a master's degree in international relations from the University of Cambridge [Photo of Mr. Shearer: Lowy Institute].