LOWY INSTITUTE
FOR INTERNATIONAL POLICY

OCTOBER 2013

ANALYSIS

Fixing Australia's incredible defence policy

James Brown
Military Fellow
Tel: +61 2 8238 9118
jbrown@lowyinstitute.org

Rory Medcalf
Program Director
International Security
Tel: +61 2 8238 9130
rmedcalf@lowyinstitute.org

LOWY INSTITUTE FOR
INTERNATIONAL POLICY
31 Bligh Street
Sydney NSW 2000
Tel: +61 2 8238 9000
Fax: +61 2 8238 9005
www.lowyinstitute.org

Executive summary

Australia's new government must make tough decisions in defence policy. Australia's broad national interests and the challenging strategic environment in Indo-Pacific Asia make it essential to modernise the Australian Defence Force. The nation's defence capabilities remain underfunded and its strategic edge in the region is eroding. The gap between the nation's interests and capabilities is widening, and it is getting harder to meet the demands of the US alliance.

Australia's new government needs to restore focus and funding to defence. The government will need a first-principles review to identify the military strategy and force structure required to protect and advance the nation's interests. It will need to increase funding or be prepared to make drastic cuts to defence capability, with full awareness of the risks. It must also think deeply about the role of the US alliance in Australia's security, and take the initiative in shaping that alliance in Australia's interests.

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Fixing Australia's incredible defence policy

It's unlikely that many Australians spared a thought for defence issues at the polls on 7 September 2013. Just over five per cent of voters rate defence as an important political issue.[1] The 2013 election saw little pressure on either party to present detailed or even coherent defence policies.[2] Yet Australia's new Coalition government under Prime Minister Tony Abbott will need to make tough decisions that will have long-term effects on the nation's security, power and influence in the world. Failure to do so will be a consequential choice in itself. The new government will need to take major steps to address the serious funding and structural problems in Australia's defence policy.

Just as Australia faces large economic challenges, so too are long-held assumptions about the nation's security in flux. In Indo-Pacific Asia, the rise of China is changing relations between major powers, resulting in greater competition and mistrust and raising the likelihood of confrontation, coercion, and perhaps even war. Australia's military edge in its neighbourhood is slipping as military technologies change and countries with faster-growing economies spend more on their armed forces. Australia's alliance with the United States is being reshaped in ways that will place new burdens on Australia. And even after a decade of foreign deployments, Australia's military will need to be ready for a wide range of new contingencies.

Any further decline, or even continued stagnation, in Australian defence spending would imperil its ability to respond to these challenges. Australia's defence budget has been shrinking as a proportion of government spending. As a proportion of overall national wealth, measured by gross domestic product, it is (at 1.6 per cent) close to its lowest level since the 1930s.[3]

Both major political parties have agreed that Australia's future military capabilities will include many elements of *Force 2030*, a modernised defence force to be constructed over the next two decades, outlined in the Rudd government's 2009 Defence White Paper and largely endorsed in the Gillard government's 2013 version. Yet real doubts remain that this aspirational force will ever be realised. At a time when security experts show a rare degree of unanimity on the alarming state of defence policy, it is not clear that political leaders are assigning it a high enough priority. This is most evident when looking at the state of Australia's defence budget. The new government will need either to set out a credible plan to boost defence spending or begin serious cuts to capabilities and personnel.

This Lowy Institute Analysis details some of the key defence policy decisions that Australia's new government must make, notably in three areas: what it wants the Australian Defence Force (ADF) to be capable of doing; how it is going to pay for a force that can deliver such options; and what the future of the US alliance means for both of these issues. This is not intended to be an exhaustive study. Forthcoming Lowy Institute research will consider more detailed reform, force posture and strategic options for Australia's defence. What this Analysis will underline is the clear disconnect between, on the one hand, the increasingly complex strategic environment Australia faces, and its broad strategic interests, and, on the other hand, the low priority both sides of politics accord to defence policy and funding.

Broad national interests

Australia has broad national interests. It has one of the world's largest zones of maritime jurisdiction. The country is located far from most of its friends and allies and is not a member of any closely aligned regional bloc. Its prosperity and security depend highly on seaborne commodity exports, secure sea lines of communication, global flows of trade, finance, information and people, a rules-based international order, stability among powerful nations in Asia and the strategic imperatives and choices of its powerful ally the United States. For all these reasons, Australia's interests extend well beyond the immediate physical security of its citizens and the protection of its territory. An Australian government could choose to define its national security interests narrowly in order to justify reduced defence spending. But that would make Australia a very different country, one no longer capable of contributing to international coalitions or otherwise influencing its strategic environment.

That strategic environment is also becoming more challenging. Australian interests now extend through much of the Indo-Pacific, and that broad region is entering a phase of geopolitical uncertainty and change.[4] The rise of China, and to a lesser extent India, is unsettling the Asian strategic order. Economic and political dysfunction is worsening across a range of countries, and multiple interstate security tensions remain unresolved, including over maritime sovereignty. Nationalism, resource pressures, military modernisation and strategic mistrust are reinforcing each other in dangerous ways. The probability of armed conflict involving major powers in Asia remains small, but has become more thinkable than it was five years ago. For all of the upsides of economic growth, disruptive societal and technological change is making the behaviour of major countries in the region less predictable. This period of heightened risk and uncertainty will continue for many years, and could worsen.

In all of this, the probability of an adversary attacking Australian interests or territory remains low. But it is not zero. If strategic circumstances changed further, it is conceivable that another country might attempt to constrain Australia's choices or threaten its interests through force. Conflict between major powers in our region, even one that did not directly involve Australia, would have profound implications for Australian interests. Plausible scenarios include armed confrontation between China and Japan, the Philippines and Vietnam over maritime disputes, with the prospect of the United States being drawn into one or more of these conflicts. A security crisis or even conflict on the Korean Peninsula remains an ever-present prospect.

Australia also faces an enduring range of security challenges in its nearer neighbourhood. Various South Pacific island states along with East Timor will remain prone to severe governance problems, resource and population pressures, natural disasters, and the effects of climate change. Piracy, illegal fishing and the smuggling of people, weapons and drugs will also need to be tackled. And the threat of terrorism has not gone away; it will pose a persistent threat to Australians.

Living on the defence edge

For decades, Australian defence policy has assumed that the country had a strategic edge over other militaries in the region by virtue of its access to advanced defence technology and the 13th largest defence budget in the world. This is clearly starting to change. The 2013 Defence White Paper concluded that 'over the next three decades, Australia's relative strategic weight will be challenged as the major Asian states continue to grow their economies and modernise their military forces.'[5] Analysis by the Australian Treasury concludes: 'If both we and other countries were to maintain military spending as a constant share of GDP, other countries' higher growth rates would lead their military capability to grow more rapidly than our own.'[6]

Although Australia still has a more professional military than its neighbours, some countries in the region are acquiring advanced fighters and submarines, and developing sophisticated reconnaissance systems. Technology is shifting the balance. Disruptive military innovation has seen the development of offensive capabilities that are relatively cheap to acquire and deploy. Maintaining a regional defence edge is now more difficult for Australia and the ADF will need to raise its levels of capability, or face a relative decline.[7]

Australia's military capability is also eroding in absolute terms. After a decade of foreign deployments, much of the ADF's equipment is worn and requires replacing.[8] The impact of the 10.5 per cent budget cut levied by the Gillard government in 2012 is only now being understood. Maintenance, logistics, and training are underfunded. Some capabilities, such as tanks, have been effectively mothballed. Whilst the ADF looks largely the same, its preparedness has been affected with fewer platforms and capabilities at a level of readiness necessary to provide options for government. This is particularly risky for a small and already finely calibrated force. In 2012, the then defence secretary issued a stark warning: 'as things stand I don't think we are structured or postured appropriately to meet our likely strategic circumstances in the future.'[9]

The ADF may have already reached a point where short term savings measures have caused some military capabilities to decline below their regeneration point for expected conflict warning times. The army, for one, has already signalled that without further augmentation it will not be able to concurrently sustain separate brigade and battle group sized deployments, as mandated by government.[10] The inefficient defence estate, paucity of naval engineering capability, and underdeveloped national defence infrastructure are also jeopardising current capability and future force modernisation plans.

Defibrillating *Force 2030*

In recent years both sides of politics have shared essentially the same vision for a future modernised ADF – *Force 2030*. Unveiled in the 2009 Defence White Paper, and largely reaffirmed in the 2013 Defence White Paper, *Force 2030* has been envisioned as 'a stronger, more agile and harder-hitting defence force' with the 'necessary combat weight and reach to be able to operate with decisive effect against credible adversaries.'[11] This force structure was largely seen to reflect concern about the power of a rising China, and anticipated the

acquisition of about 100 advanced 'fifth-generation' strike aircraft, 12 submarines, and a large number of surface ships armed with land-attack cruise missiles. This vision of the ADF has been repeatedly resuscitated over the past four years, by both sides of politics as well as by much of the security establishment.

Force 2030 has been estimated to cost up to $275 billion to build over the next two decades - requiring more than $146 billion in additional funding beyond anticipated annual defence budgets.[12] Yet in the four years since *Force 2030* was announced, only $18 billion of funding has been committed to new defence capabilities. This is partly because the Defence Department has lacked the institutional capacity to process such a bow wave of spending. But, critically, it is also because under short-term political pressures the Rudd and Gillard governments began deferring much of their own plans to modernise the nation's military, delaying or cutting more than $20 billion in defence investment.[13] Most security experts believe that *Force 2030* is now unachievable – one estimates that in the next decade alone an additional $33 billion beyond current defence budget projections will be required to meet the capability aspirations of the 2013 Defence White Paper.[14]

Part of the challenge is that each year the latest defence equipment becomes more complex and more expensive, so deferring modernisation to save money in the short-term makes it more costly in the end. The acquisition cost of modern defence equipment grows at approximately 4 per cent.[15] Even if Australia were to increase defence funding in line with long-term GDP growth rates (calculated at 2.7 per cent a year), for each year that the construction of *Force 2030* continues to be deferred the scale of underfunding will be magnified.[16]

In the 2013 election, the main defence 'promise' made by both sides was to increase defence funding from 1.6 per cent to 2 per cent of GDP, presumably to fund the core capabilities of *Force 2030*. The Coalition promised to 'cauterise the hemorrhage' caused by Labor's 2011-12 cuts, and then 'return to the aspiration of 2 per cent of GDP and 3 per cent real growth in the Defence Budget.'[17] Then opposition leader Tony Abbott subsequently promised that 'defence spending will be 2 per cent of GDP' within a decade.[18] The then prime minister, Kevin Rudd, committed Labor to 'sustained defence expenditure at 2 per cent of GDP', but without giving a timeframe.[19]

Though *Force 2030* has remained the vision for Australia's future military force structure, deferral and underfunding is making it look more like a mirage. Neither side of politics has fundamentally revisited either the rationale for *Force 2030's* force structure or its feasibility should increased defence funding not eventuate.

Three steps to tackling tough defence choices

This pattern of delay and denial is not a sustainable basis for the nation's defence policy. Australia must face up to some tough defence choices. As our allies and partners are already learning, when it comes to defence you cannot have it all. New Zealand has accepted a smaller, value-for-money military structured around a joint amphibious task force. The United Kingdom and France have reduced their expeditionary forces and even begun sharing some capabilities. Canada is reconsidering large

purchases like the Joint Strike Fighter and trying to redefine its area of strategic interest. The US Quadrennial Defense Review next year is expected to be 'radical and reformist',[20] and a just-completed US Strategic Choices and Management Review lays out an austere choice for defence planners – reduce military readiness or investment in new capabilities.[21]

Yet in Australia few of these types of tough defence choices have been discussed, much less made. Few Australian politicians show a sustained interest in defence. There is presently no distinct school of defence thinking on either side of politics, unlike previously when Labor was associated with the 'defence of Australia' doctrine while the Coalition placed greater emphasis on expeditionary operations. Over the past six years of Labor government, only Kevin Rudd showed an active interest in shaping military strategy. Despite the release of a National Security Strategy and a Defence White Paper in 2013, neither former defence minister Stephen Smith nor prime minister Julia Gillard offered much by way of their views on the strategic purpose of the nation's military. In the last parliament, the few occasions when defence was discussed were dominated by relatively trivial issues such as travel leave for soldiers, ministerial movements on the air force VIP fleet, the carbon footprint of the ADF, and the future of part-time military bands.[22] Even debate on military involvement in Afghanistan was overly focused on platitudes and tactics. There has been a bipartisan lack of political focus on the priority decisions needed to build and maintain an effective military force.

There also seems a reluctance to face up to the gathering weight of risks and expectations in the changing strategic picture, and the challenges of crafting a defence and strategic policy to match. Policy statements, public speeches, and published official assessments are optimistic or euphemistic about the region's future, exuding confidence that the United States and China will manage their differences and that there will be warning time for major strategic change. Continued neglect of military strategy at a time of great change, uncertainty, and complexity in the regional and global geopolitical landscape amounts to a needless accumulation of risk. This is not only about hedging against the strategic risk of a breakdown in the peace. It is also about hedging against the political risk of being caught without options when national interests are at stake.

Historically most Australian political leaders have only engaged on strategic military issues in reaction to a crisis or strategic shock. This neglect has often proved risky. The 1999 East Timor experience of being caught with a defence force unprepared to deploy still resonates deeply. Then, prime minister John Howard and defence chiefs were able to use tactical fixes to 'adapt rapidly and get it "right on the night"' in what the current Chief of Army has called 'a triumph of improvisation rather than professional mastery.'[23] But in the years since, warfare has become more technologically complex, and more reliant on interoperable systems and weapons that take years to develop and master. During the Howard era Australia had a high degree of flexibility about when and what niche military contributions it could contribute to allied campaigns. Strategy was set in Washington, not Canberra. In an Asian century and with the US rebalance to Asia, Australia's future possible military deployments alongside the United

States are more likely to be in its region and therefore will be more strategic. Australia's military deployments with the United States will also be less discretionary than those of the last decade, in which Australia had great flexibility in choosing what forces to contribute and when. Under such circumstances, capability shortfalls within a hollowed defence force will be more apparent. Tactical fixes will no longer suffice.

Prime Minister Tony Abbott's views on defence policy are almost entirely unknown to the public, and appear largely unformed at this stage. Defence Minister David Johnston possesses deep knowledge of technical and personnel issues, but is only beginning to articulate views on strategic-level military issues, such as what the ADF and major assets like its new amphibious assault ships should be used for and why.[24]

So what then should the new government focus on when it comes to defence policy? Our recommendations are threefold. First, before deciding on how much to spend on defence the new government should decide what it wants the ADF to be able to do in the decades ahead. This will help determine whether a substantial change of direction of force structure from *Force 2030* is in order. Second, the new government should commit the additional funds necessary to chart a credible path towards *Force 2030*, or alternatively make the tough decisions to reduce the ADF's force structure and capabilities to match what it is willing to spend. Third, some deep thinking on the future direction of the US alliance is required, including to shape America's rebalance to Asia in ways that suit Australia's interests.

What should Australia's military be able to do?

Senior military leaders and defence civilians have privately made clear that more detailed military strategic guidance is needed from politicians. In the end, only political leaders can choose what military options will be required to pursue national policy goals. Rather than just discuss what major weapons systems the ADF should acquire, a more detailed discussion is needed at the political level of what contingencies those capabilities may actually be needed for.

There are some reasons why politicians may be reticent to discuss military contingencies: to protect diplomatic relations; to preserve secrecy for national security; or because military professionals are better qualified than they are to formulate strategy. However, none of these stands up to scrutiny. There are ways of publicly formulating policy on the hypothetical use of force without causing undue diplomatic harm. Though secrecy about capabilities is understandable, secrecy about strategy must have limits in a democracy. And military professionals can only make effective contingency plans to the extent they have a clear sense of what the nation and its leaders might want them to achieve.

The Abbott government has promised a new defence white paper. This would provide an opportunity to take stock of Australia's national interests and the changing strategic environment, and on that basis formulate a new military strategic vision for what the ADF should be able to do. This ought to include a cool-headed and unprejudiced appraisal of the 2009 and 2013 white papers and the classified work that supported their judgments.

A truly first-principles review is needed rather than a process that modestly adjusts inherited capability choices and endorses pre-decided constraints. The basic structure of the ADF has remained essentially unchanged since the Menzies era and should be critically assessed alongside the ongoing appropriateness of *Force 2030*. What might now seem radical and imaginative options for the ADF, such as a step-change investment in unmanned systems, must be considered. The new white paper should incorporate thorough independent analysis, in a similar fashion to the US Quadrennial Defense Review, and conclusions should be publically justified against other alternatives. At the end of the defence white paper process, the political leadership should be able to clearly articulate what military options it expects the ADF to provide, and in what range of contingencies. Here are some credible scenarios where the government will need to consider its military options.

Like most militaries the ADF needs to be able to respond to a range of contingencies, from major state-on-state conflict at one end of the spectrum, to limited policing or humanitarian missions at the other end. Short of a highly unlikely direct attack on Australian territory, the ADF's most demanding missions are most likely to be those in support of its key ally, the United States. Given our history of fighting alongside one another, the convergence of our interests in upholding a stable and rules-based regional and global order, and the obligations of our alliance treaty, it is difficult to imagine an Australian government refusing to provide military support of some kind in response to an American request under a range of plausible scenarios of confrontation or conflict in our region.

Though the chance of war between the United States and China will continue to be small, it would have an extremely high impact on Australian interests even if Australia were not directly involved. Recent maritime tensions between China and other Asian countries, notably Japan, the Philippines and Vietnam, have the potential to escalate. There would be particular pressure on the United States to assist its allies, Japan or the Philippines, should this occur. Many conceivable crisis scenarios in Asia involve coercion being brought to bear on a US partner or ally, leading to one of three outcomes: the coercion is not resisted, in which case a troubling precedent is set in the regional order; the United States supports its partner or ally, leading to an armed confrontation or face-off that is managed without war; or there is escalation to war. All such outcomes would have implications for Australian interests, and in the second or third possibilities the United States would almost certainly seek Australian support, such as through the provision of a naval taskforce including submarines and major surface combatants.

Not all the high-intensity conflict scenarios in Asia would directly involve China as an adversary. A crisis in North Korea could generate US expectations of an Australian military contribution, and not only because Australia is party to the UN Command in place since the 1950-53 war. There would also be specific roles for Australian combat troops (particularly Special Forces) to help US and South Korean forces secure North Korea and its nuclear weapons in the event of a regime collapse.

Below the level of major regional conflict, there is a high probability of Australia being called

on to lead humanitarian or stabilisation activities. Most such missions would be small. One exception would be the remote possibility of being asked to restore order in Papua New Guinea – something beyond the current capabilities of the ADF. The need for the ADF to undertake humanitarian, disaster relief and evacuation missions further from Australia's region is also expanding as Australian nationals and corporate interests increase their presence across the world. Allies, partners and the Australian public will expect the ADF to continue playing a role in the fight against terrorism, even after the deployment to Afghanistan ends. Australia might also be called on to provide forces to distant US-led stabilisation operations, including in the Middle East or Africa.

Restore defence funding or make drastic cuts

The government must set out a credible and detailed long-term defence budget plan that commits the additional funds necessary to fund *Force 2030* or its revised force structure. There are several problems with the government's current defence-spending aspiration of 2 per cent of GDP, beyond the fact that it may be deferred until the end of the decade.

For a start, it may not be enough to restore the funding trajectory for *Force 2030*. It does not account for the impact of the past four years' delay in funding defence acquisitions. Second, just because 2 per cent of GDP has historically been European NATO's aspirational spending target, this does not mean that Australia's alliance 'dues' should be the same. Australia's strategic circumstances are entirely different from those of European NATO countries. Australia lacks the strategic depth provided by proximate allies with advanced militaries. Moreover, the findings of a new defence white paper process or increasing demands for alliance burden-sharing may mean that the cost of a credible ADF would be higher than 2 per cent of GDP.

Even assuming that an increase to 2 per cent of GDP provides sufficient funding to fix defence, finding this money will be challenging for the Abbott government. Defence's share of government outlays has shrunk from 5.8 per cent to 4.9 per cent over the past five years.[25] Across most portfolios, government spending increases over the past decade have outstripped GDP growth, but in defence the opposite has been true.[26] This trend is set to continue in the next decade – rising health costs alone are forecast to account for an additional 2 per cent of GDP by 2023.[27] Increasing funding for defence will conflict with the Abbott government's stated intention of restoring the federal budget to surplus, and other expensive new schemes such as paid parental leave. The Defence Minister will find it difficult to secure increased funding.

If the government is not really willing to increase defence funding, or cannot begin doing so soon, then it must start contemplating deliberate capability cuts in order to avoid the ADF becoming a hollow and, in the worst sense of the word, incredible force. As the United States has learned through sequestration, capability cuts that seem unthinkable can fast become a reality. It is better to minimise the damage by thinking ahead and identifying worst-case cuts according to a strategic and political logic than to have them occur in an abrupt and arbitrary way when the gap

between budget and ambition becomes impossible to paper over.

If funding for defence remains less than 2 per cent of GDP, significant cuts will need to be made to ADF capability. The following examples are intended principally to illustrate the scale of the cuts that would be necessary. The cost figures and calculations below are necessarily rough and should be taken as indicative of the scale of savings only. We are not recommending that these cuts should be made, but we list them to highlight the strategic and political risks that would accompany reduced funding of Australia's defence capability:

- *Freeze the salaries of civilian and military staff for one year*: This could save more than $2.5 billion over the next decade, but it would undoubtedly be politically sensitive to freeze the salaries of serving military personnel, some of whom may have only recently returned from duty in Afghanistan.[28]
- *Cut back on the 'hardened army':* The Army's planned fleet of new armoured vehicles is estimated to cost in the range of $10-16 billion.[29] A 25 per cent reduction to the future armoured vehicle purchase could save about $3 billion over the life of the project, but would mean fewer armoured vehicles for deployed troops, exposing them to greater risk.[30]
- *Reduce fighter aircraft and flying hours:* Australia plans to purchase at least 72 Joint Strike Fighters (JSF) to complement 24 Super Hornets and 12 'Growler' electronic warfare aircraft. Australia could reduce the readiness of existing fighter squadrons and purchase one fewer JSF squadron, bringing the JSF purchase down to just 48 planes. This would be out of step with regional trends (China for example is increasing fighter readiness and numbers), but could save somewhere between $3 and $4 billion.[31]
- *Shrink the Defence Materiel Organisation* (DMO): DMO has 7440 staff, three times more than the Department of Foreign Affairs and Trade (DFAT) and larger than both the Australian Federal Police and Customs.[32] Reducing DMO personnel by 13 per cent could save about $1 billion over the next decade, with a corresponding impact on the organisation's procurement and sustainment functions. Fundamentally cutting back the role and structure of DMO so that personnel numbers could be halved would save about $4 billion over the same period.[33]
- *Buy fewer submarines:* Australia has committed to modernising and doubling its submarine fleet at a cost that is currently unknown, but has been estimated at $36 billion. The government could decide to build fewer submarines, for example eight, potentially yielding long-term savings in the vicinity of $9 billion.[34] This would mean giving up the strategic weight that a larger submarine force would provide, and shouldering less of the alliance burden of submarine and anti-submarine operations.

Any of these cost saving options would be politically difficult, and could seriously add risk to Australian interests – and even lives – in future security contingencies. There would be material consequences for Australia's ability to carry its alliance burden and thus influence alliance strategy. But these options at least demonstrate the scale of the challenge facing a

government unable to fund existing defence modernisation plans, let alone recurrent defence spending at 2 per cent of GDP. The government would need to implement all of these policy measures in order to make up only a portion of the long-term shortfall in defence funding, which may be as high as $33 billion in the next decade alone.

If the government were to make these sorts of cost savings in defence, it would need to re-evaluate the mission set of the ADF. For instance, instead of being prepared to lead any stabilisation of South West Pacific states, the ADF might only be able to contribute elements to such tasks. Rather than maintaining maritime surveillance in the Eastern Indian Ocean, South Pacific, and the South China Sea, Australia might have to choose just one of these areas in which to operate. Australia might want to ease off on its defence diplomacy so as to reduce the expectations of what we can do for friends and partners such as Japan. Canberra would need to decline most future requests to join peacekeeping or stabilisation operations beyond the near neighbourhood. Above all, Australia would need to reset the expectations of its ally, the United States.

Time to think hard about the US alliance – and take the initiative

Even if it wants to be ambitious in its defence policy and strategic goals, the new government will need to think deeply about the US alliance. The US alliance remains critically important to Australia's security, given that Australia cannot protect and advance its expansive interests single-handedly. Yet a defence policy that relies single-mindedly on what the alliance can do for Australia is unsustainable. A strengthened alliance and good regional defence relations are complements, not substitutes, for ensuring that Australia possesses strategic weight of its own.

If Australia appears less than serious about its own security, or about shouldering a portion of the security burden in a changing Asia, it will be difficult to maintain credibility in the eyes of the United States, itself struggling to follow through on its declared 'rebalance' to Asia. Conversely, the differences within Washington over the future of its Asia strategy – what it is for, how it will be resourced, what is the right mix of military, economic and diplomatic levers – offers an opportunity for a smart ally to play a disproportionate role in shaping the rebalance.

There is no doubt that the alliance brings great benefits to Australia, including high-level access to strategic deliberations, exceptional intelligence sharing, access to advanced military technology and a set of explicit and implicit security guarantees. These have long reduced the incentive to build what would be an enormously costly military deterrent commensurate with the size of our territory or the security challenges of our region.

But transformative strategic change in Asia will reshape the alliance, whether we like it or not. So in tandem with reinvigorating Australia's own defence strategy, and increasing funding, the new government needs to take the initiative to shape the alliance. It is better to ensure the alliance is adaptable and politically robust now, when it is not under strain, than to test its resilience in the thick of some future crisis.[35]

Some changing dynamics in the alliance need to be closely examined and understood by the

Abbott government. One is deepening military integration, which the past few Australian governments have pushed a long way without much prior parliamentary or public discussion. Serving Australian officers and civilians have recently been appointed to senior positions within US Pacific Command and US Central Command. A US Marine Air Ground Task Force is establishing a forward presence in Darwin. US combat aircraft may well soon stage from Australia's northern airfields, and a US space-tracking radar is due to be positioned in Western Australia. Other initiatives have been floated, including enhanced US naval access to Australian ports as well as intelligence, surveillance, and reconnaissance cooperation from Australia's Indian Ocean territories.

It might be tempting for a cash-strapped Australian government to volunteer further strategic real estate as its main contribution to the alliance. But a greater US forward presence in Australia is predicated, more than any time in the past 50 years, on a credible ADF, able to protect and fund defence facilities on its sovereign territory. It is not clear who would pay for the infrastructure US and Australian forces would need as a result of the rebalance to Asia, such as improved airfields in northern Australia or on the Cocos Islands. In the aftermath of sequestration, it is hard to imagine the US Congress releasing major funds to make up for an ally's unwillingness to provide infrastructure for the enhanced US military presence that same ally wants.

An expanded US military footprint in Australia would also bring its own strategic complexities requiring close political attention. This includes the possibility of US units staging future military action from Australia, as well as managing the sensitivities of Australia's neighbours. On all of these fronts, policy should be driven by political leadership, rather than emerging from habitual discussions between officials or through the momentum of existing military connections and enthusiastic staff planning.

Another dynamic relates to demands on Australia as a force contributor as the United States rebalances its military and diplomatic posture in Asia, and looks to recalibrate military burden-sharing with its allies. Australia has grown used to providing niche military capabilities and broad political support for US global military campaigns. That does not mean this is the only or the wisest way for Australia to approach its alliance commitments in its own region.

There is much Australia can contribute to the US alliance beyond serving as a location for American military assets and providing moral or political support for US military operations. Australian contributions can and should include leadership on security contingencies in the South Pacific; major responsibility for shared situational awareness in the eastern Indian Ocean and the core Indo-Pacific zone of maritime Southeast Asia; undertaking tailored engagement with countries that the US military is legislatively prohibited from engaging deeply with (including China); and providing military intelligence, planning, and wise strategic counsel in the event of regional crises. But Australia's effectiveness in all of these roles requires credible and properly funded military capabilities of our own, underpinned by clear thinking on our own strategic and diplomatic goals.

Facing up to the challenge

Ultimately, the defence decisions the new government will need to make must connect with a vision of Australia's future national interests. The country's political leaders will need to level with the public about the strategic challenges and choices ahead, from the defence budget, to the alliance, to the strategic realities of the Asian Century. Political leaders will need to engage more deeply and proactively with military strategy to determine what military options Australia needs in the decades ahead.

The context of Australian defence policy has changed. The tactical alliance contributions, guaranteed defence funding increases and reactive big-ticket capability purchases of the Howard era are no more. Gone, too, are the contradictions of the Rudd-Gillard era, a combination of brief strategic flourishes with prolonged political inattention, budget cuts and deferrals. The new government has a responsibility to set a new course. If Australia is to have strategic weight in a more challenging region, it must start facing up to risks and make difficult choices on defence policy now.

NOTES

[1] *Defence and national security not on voter's radar*. Roy Morgan Research, 26 April 2013: http://www.roymorganonlinestore.com/News/Defence-and-national-security-not-on-voters%E2%80%99-radar.aspx.

[2] Though security issues like East Timor, the 9/11 attacks, the Iraq War and the use of the navy to stop asylum seekers have played into some previous election campaigns, in the 2013 election defence was not a prominent issue, to the point that the Australian Labor Party did not release a formal election policy document.

[3] David Watt and Alan Payne, *Trends in defence expenditure since 1901*, Parliamentary Library budget review: http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201314/DefenceExpenditure.

[4] Rory Medcalf, Indo-Pacific: what's in a name? In *Reports from a turbulent decade*, edited by Michael Fullilove and Anthony Bubalo. Melbourne, Penguin Australia, 2013, pp154-157. On the extent of geopolitical change, see for instance: *Global trends 2030: alternative worlds*. United States National Intelligence Council, December 2012: http://www.dni.gov/index.php/about/organization/national-intelligence-council-global-trends.

[5] Department of Defence, *Defence White Paper 2013*. Canberra, Commonwealth of Australia, May 2013, p 15.

[6] Christine Duke and Cameron McKean, *Alternative methodologies for projecting defence spending*. Economic Roundup, (2) 2008: http://archive.treasury.gov.au/documents/1396/HTML/docshell.asp?URL=01_Defence_spending.htm.

[7] Department of Defence, *Defence White Paper 2013*. Canberra, Commonwealth of Australia, May 2013, p 14.

[8] For example, the army's fleet of light armoured vehicles has seriously deteriorated after a decade of constant use in Iraq and Afghanistan, see LTGEN Morrison comments on ASLAV fleet in Parliament of Australia, Hansard transcripts, *Senate budget estimates*, 13 February 2013, p 62: http://www.aph.gov.au/Parliamentary_Business

/Senate_Estimates/fadtctte/estimates/add1213/index.

[9] Duncan Lewis, *Talking dollars and strategy: the challenging link to defence planning*. Speech to Australian Strategic Policy Institute Annual Dinner, 23 August 2012.

[10] Land Warfare Development Centre, *The Army Objective Force 2030 Primer*. Puckapunyal, Commonwealth of Australia, 2011 states 'In order to meet the requirements of strategic guidance – to deploy and sustain a brigade sized force engaged in combat operations for a prolonged period of time while simultaneously deploying a battle group sized force – the AOF 2030 will need to restructure and augment the current force. In the absence of augmentation, the AOF 2030 will be unable to sustain the concurrency as detailed in strategic guidance', p 42. Available at: http://www.army.gov.au/Our-future/~/media/Files/Our%20future/Publications/Army%20AOF%202030.ashx.

[11] Department of Defence, *Defending Australia in the Asia Pacific century: Force 2030, Defence White Paper 2009*. Canberra, Commonwealth of Australia, May 2009, p 63.

[12] Department of Defence, Answers to questions on notice, *Senate budget estimates,* 3 - 4 June 2009, p 28: http://www.aph.gov.au/Parliamentary_Business/Senate_Estimates/fadtctte/estimates/bud0910/def/index.

[13] Mark Thomson, Defence funding in 2013: means, ends and make believe. *Security Challenges* 9 (2) 2013, pp 51-58.

[14] Mark Thomson, *The cost of defence: ASPI defence budget brief 2013-2014*. Canberra, Australian Strategic Policy Institute, May 2013.

[15] Christine Duke and Cameron McKean, *Alternative methodologies for projecting defence spending*. Economic Roundup, (2) 2008: http://archive.treasury.gov.au/documents/1396/HTML/docshell.asp?URL=01_Defence_spending.htm.

[16] The Treasury, *Intergenerational report 2010*. Canberra, Commonwealth of Australia, 2010, p 4: http://archive.treasury.gov.au/igr/igr2010/report/pdf/IGR_2010.pdf.

[17] Senator David Johnston, Speech to the Lowy Institute for International Policy. Sydney, 29 April 2013: http://www.lowyinstitute.org/publications/coalition-defence-policy-speech-lowy-institute.

[18] Tony Abbott, *Campaign launch speech*. 25 August 2013: http://www.smh.com.au/federal-politics/federal-election-2013/tony-abbotts-campaign-launch-speech-full-transcript-20130825-2sjhc.html#ixzz2d4Lxa9nd.

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[20] Squeezing the Pentagon: the wrong way to cut America's military budget. *The Economist*, 6 July 2013: http://www.economist.com/news/united-states/21580460-wrong-way-cut-americas-military-budget-squeezing-pentagon.

[21] Chuck Hagel, *Statement on Strategic Choices and Management Review*. US Department of Defense, 31 July 2013: http://www.defense.gov/speeches/speech.aspx?speechid=1798.

[22] Philip Ruddock, *Support for army reserve bands*. Motion in the Australian Parliament, 18 June 2012: http://www.philipruddock.com/BerowraElector

ate/Speeches/tabid/78/articleType/ArticleView/articleId/1647/Motion-Support-for-Army-Reserve-Bands-18-Jun-12.aspx.

[23] Lieutenant General David Morrison, *Seapower Conference 2012*. Address to the Royal Australian Navy Seapower Conference, Sydney, Australia, 31 January 2012: http://www.army.gov.au/Our-work/Speeches-and-transcripts/Seapower-Conference-2012.

[24] David Wroe, War footing: Minister eyes next hotspot. *Sydney Morning Herald*, 21 September 2013: http://www.smh.com.au/national/war-footing-minister-eyes-next-hotspot-20130920-2u5dm.html.

[25] *Defence economic trends in the Asia-Pacific 2013*. Defence Intelligence Organisation, May 2013, p 57: http://defence.gov.au/dio/documents/DET_13.pdf.

[26] John Daley, *Budget pressures on Australian governments*. Grattan Institute, April 2013, p 15: http://grattan.edu.au/static/files/assets/ff6f7fe2/187_budget_pressures_report.pdf. Grattan includes spending on the Australian Federal Police and intelligence agencies as well as defence operational supplementation in the category of defence spending.

[27] Ibid. p 71.

[28] Author estimates based on a low inflation environment and modelled over the ensuing decade with no subsequent wages catch up. It should be noted that there would be procedural difficulties in implementing this freeze given military remuneration is set by an independent tribunal and defence civilian salaries are linked to other government departments.

[29] Department of Defence, *Defence Capability Plan: public version*. Canberra, Commonwealth of Australia, 2012, p 203.

[30] Author estimates based on assumed total project cost of about $13 billion and nominal savings from 25 per cent reduction in planned vehicle numbers for Land 400.

[31] Author estimates based on purchasing 24 fewer JSF and immediately reducing flying hours for existing fighter squadrons on a rotating basis.

[32] DMO personnel figures from Department of Defence, *Defence Annual Report: 2011-2012*. Canberra, Commonwealth of Australia, 2012, p 285. DFAT personnel figure (2480) from Department of Foreign Affairs and Trade, *Annual Report 2011-12*. Canberra, Commonwealth of Australia, 2012, p205. AFP figure (6543) from Australian Federal Police, *Annual Report 2011-12*. Canberra, Commonwealth of Australia, 2012, p 173. Customs figure (5222) from Australia Customs and Border Protection Service, *Annual Report 2011-12*. Canberra, Commonwealth of Australia, 2012, p 19.

[33] Author estimates based on current DMO civilian and military personnel costs.

[34] Author estimate of nominal savings assuming that costs for the final four submarines are below an estimated average $3 billion per-unit cost for 12 boats. The cost of the eight to twelfth boat in the future submarine project cannot at this stage be accurately projected. It is possible it could be as low as 60-80 per cent of the cost of the first hull, but each hull would not necessarily be cheaper than the one before, depending on decisions to incorporate new technology in subsequent building blocks. See Sean Costello and Andrew Davies, *How to buy a submarine: defining and building Australia's future fleet*. Canberra, Australian Strategic Policy Institute, October 2009, p 21.

[35] The Lowy Institute's opinion polling indicates that an overwhelming majority of Australians (82 per cent) consider the alliance to be

important to Australia's security, and 61 per cent support the basing of US forces in Australia. However, according to the poll only 38 per cent of Australians would want to see their country supporting US-led military action in Asia. Alex Oliver, *The Lowy Institute poll 2013*. Sydney, Lowy Institute for International Policy, June 2013: http://lowyinstitute.org/publications/lowy-institute-poll-2013.

About the Authors

James Brown served as an officer in the Australian Army prior to joining the Lowy Institute. He commanded a cavalry troop in Southern Iraq, served on the Australian task force headquarters in Baghdad, and was attached to Special Forces in Afghanistan. He was awarded a commendation for work in the Solomon Islands and as an operational planner at the Australian Defence Force Headquarters Joint Operations Command. James also instructed at the Army's Combat Arms Training Centre.

James is the Military Fellow at the Lowy Institute and his research focuses on military issues and defence policy. He previously coordinated the Lowy Institute MacArthur Foundation Asia Security Project, which explored security cooperation in Asia. James also coordinates a project investigating the use of private military security companies in disaster and conflict zones.

James studied economics at the University of Sydney and completed graduate studies in strategy at the University of New South Wales. He is a visiting research fellow at the Australian Army's Land Warfare Studies Centre.

Rory Medcalf is Director of the International Security Program at the Lowy Institute and a Nonresident Senior Fellow in Foreign Policy at the Brookings Institution in Washington DC. His professional background spans diplomacy, journalism and intelligence analysis. He has worked as a senior strategic analyst with the Office of National Assessments, Canberra's peak intelligence agency. His experience as an Australian diplomat included a posting to New Delhi, a secondment to Japan's foreign ministry, and truce monitoring after the civil conflict in Bougainville. He has contributed to three landmark reports on nuclear arms control: the Canberra Commission, Tokyo Forum, and International Commission on Nuclear Non-Proliferation and Disarmament. His earlier work in journalism was commended in Australia's leading media awards, the Walkleys.

In parallel with his analytical work, Mr Medcalf has been active in the development of Australia's relations with India. He is Associate Director of the Australia-India Institute and the head of its Sydney Node at the University of New South Wales. He is also co-chair of the Australia-India Roundtable, the leading informal dialogue between the two countries.

His principal research subjects in 2013-14 include opinion polling on Indian attitudes to the world, the development of an Indo-Pacific concept of the Asian strategic environment, Australia's defence challenges, and maritime and nuclear strategy in Indo-Pacific Asia.

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