Geopolitical Shifts in Australia’s Region Toward 2030

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This article examines the nature and prospects of geopolitical change in Australia’s region over a twenty-five year time horizon. In contrast to the past quarter of a century, in which the region was notable for very stable geopolitical relations, the coming twenty-five years will be marked by a fluidity in fortunes, uncertainty in diplomatic and strategic dealings and an absence of a settled pattern of relations among the major powers. The article’s first part overviews the region’s current setting, the areas of recent change and draws attention to the key developments from which one can expect breaks from the status quo to come. It will then argue that the major attribute of Asia’s international relations in the 21st century will be rivalry among the United States, China, India, Japan and to a lesser extent Russia. Conflict is not inevitable, but the management of rivalry will become increasingly complex and challenging. The final section will argue that Australia needs to put much greater emphasis on flexibility and creativity in its strategic policy.

This article examines the nature and prospects of geopolitical change in Asia, their likely trajectory and Australia’s strategic options over a rough twenty-five year time horizon. In stark contrast with the past quarter of a century, in which the region was notable for the predictability and stability of its geopolitical relations, the coming twenty-five years will be marked by a fluidity in fortunes, uncertainty in diplomatic and strategic dealings and an absence of a settled pattern of relations among the major powers. This article examines the unfolding international environment in three parts. The first will provide an overview of the current strategic setting, the areas of recent change and draw attention to the key developments from which one can expect breaks from the status quo to come. The second part will argue that the major attribute of Asia’s international relations in the 21st century will be rivalry among the United States, China, India, Japan and to a lesser extent Russia. Conflict is not inevitable, but the management of rivalry will become increasingly complex and challenging. The rivalry may appear similar to the pentarchy of Europe’s nineteenth century, but such similarities are entirely superficial and in many ways quite misleading if one seeks to glean diplomatic or geopolitical lessons from that analogy. The brief final section will argue that more fluid times demand a more nimble strategic policy from Australia and as such much greater emphasis will need to be put on strategic flexibility and policy creativity.

1 This article is based on a paper first presented to the Australian Strategic Futures Conference hosted by the Defence Science and Technology Organisation and Flinders University, Adelaide, October 2008.
Asia in Flux: The Current Strategic Setting

CONTINUITY?

A cursory examination of Asia’s security and strategic circumstances reveals a region following a settled pattern of relations. The United States is the region’s predominant military power and stabilises the strategic setting through an ‘off-shore’ balancing role. Its 1998 commitment to the long term continuation of a significant forward force projection appears to confirm that it believes the present circumstances warrant a maintenance of late-Cold War grand strategy. The US presence is managed by its series of bilateral alliance and quasi-alliance relationships with Japan, South Korea, Australia, Taiwan, Thailand, Singapore and the Philippines which equally appear to be largely serving the same function today as they have in the past. The allies provide key geostrategic advantages in return for which the United States underwrites regional stability and, in most cases, guarantees their security against aggression. America is also continuing its linguistically-challenged policy of ‘congagement’ with China. The United States continues to pressure China militarily while simultaneously fostering good economic and political relations. For its part, China is content with America’s security role. China recognises the benefits of America’s provision of regional stability, which is particularly important given the political priority put on domestic economic success. Any significant departure from this, China recognises, would require it to do more from which it would get a lower return than it presently does. This tacit consent for an American-brokered regional order is matched with explicit support from Southeast Asian states whose collective worst nightmare is United States-China conflict.

Just as the strategic parameters appear to retain a strong degree of continuity, it is also the case that the flash points are those which have been focal points for regional tension and crisis for almost forty years: North Korea, Taiwan and Kashmir. All is not just as it ever was, transnational security problems, most notably terrorism, transnational criminal networks and infectious diseases, are now an important part of the landscape. Also, America is distracted by extra-regional concerns, most obviously its military commitments in West Asia, but viewed from the macro geopolitical perspective, these recent developments are small beer. Things today appear much as they have been for much of the recent past. Appearances

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2 On this see Robert G. Sutter, *The United States and East Asia: Dynamics and Implications* (Boulder, CO: Lynne Rienner, 2002).
are, however, deceiving. There have been subtle but significant shifts in the regional order which are indicative of a broader set of changes in world politics. These militate strongly against the belief that the geopolitical context today, and over the next twenty-five years, is such that the continuation of that which has served the region well in the past is the optimal path in the future.

**CHANGE**

Given the extent and speed of economic change in North and South Asia, it is not entirely surprising that strategic change is afoot. Yet the power of inertia, and the slowness with which the American strategic ship changes course helps give the appearance of stasis. Even though America’s forward projection of force and its bilateral structure is being retained, there are some important reconfigurations that have been undertaken in the past ten years or so. The first relates the tightening of the US-Japan alliance that has occurred alongside, and indeed has to some degree facilitated, Japan’s military modernisation.\(^6\) America and Japan have, over a decade, rejuvenated an alliance relationship which was at risk of fraying in the 1990s in three ways: \(^7\) First, the two have enhanced their military linkages and increased the scope for Japan to help contribute to commonly held regional and global security initiatives and actions. Second, Japan is now more tightly bound to the United States, particularly through its commitment to missile defence systems, and third, both the United States and Japan conceive of the alliance as a mechanism that underpins regional security, as well as being part of America’s global strategy. Just as the United States has improved its relations with Japan, and made them subtly a less passive part of the regional setting, relations with South Korea are parlous. The rather significant gap that has opened up between the United States and South Korea derives from a range of sources that reflect generational and strategic change on the Korean peninsula.\(^8\) While we are some way from a Korea which has parted company altogether with the United States,\(^9\) the United States and South Korea clearly have very different threat perceptions, are approaching regional security issues in different ways and are disaggregating once joint-command military installations. As the United States tightens and recharges its political and strategic relations with

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\(^7\) For detail on this see Nick Bisley, ‘Securing the “Anchor of Regional Stability”: The Transformation of the US-Japan Alliance and East Asian Security’, *Contemporary Southeast Asia*, vol. 30, no. 1 (2008), pp. 73-98.

\(^8\) See Victor D. Cha, ‘Shaping Change in the Alliance’, *East Asia*, vol. 21, no. 2 (2004), pp. 42-8.

Japan,\textsuperscript{10} it is barely capable of maintaining the status quo with its Korean ally.

The changes in the alliances are occurring alongside the broader transformation of the American military. Through the Global Force Posture Review, the United States is attempting to use technological advances to reduce the size and scope of American forward projection globally while retaining the same strategic footprint.\textsuperscript{11} It is tempting to say that the changes are a direct manifestation of this, however, the transformation is itself a messy process. The fit in Asia is not at all even and the direction or logic of change is not clearly unidirectional, shaped as it is by international circumstances, alliance politics and bureaucratic compromise within the United States. One example of this complex interaction has been the moving of the Marine Expeditionary Force from Okinawa to Guam.\textsuperscript{12} In part this was intended to manage the negative consequences of the US presence in Japan and in part driven by the imperatives of the transformation agenda. Overall, this is producing a reduced American military presence in Northeast Asia. While this is not sufficient at this stage to precipitate a significant shift in the region’s strategic balance, some sense that America’s conventional deterrent force has been reduced.

The United States may retain its position as the least distrusted major power in the region, but the war in Iraq has undermined the policy utility of America’s military in Asia. At the centre of America’s stabilising role has been the projection of force to deter states from using military power to advance their interests. For a deterrent of this kind to work target states need to believe that the threat of retaliatory action is real, that is the commitment to act in the case of aggression must be credible. They must also believe that the force which they will face is sufficiently capable of making the price of aggression prohibitively high. Iraq has put important questions under both of the assumptions behind America’s deterrent capacity in Asia. To be clear, this should not be read as claiming that America is unable or unwilling to use its remarkable military prowess. But the confidence that many have had in America’s ability to use its military to maintain regional order has been slightly reduced. Subtle though this may be, its consequences for the strategic thinking of Asian states should not be underestimated.

\textsuperscript{10} The United States and Australia have also undertaken an enhancement and transformation process, but it is of much less regional strategic consequence. For a reflection on this see Nick Bisley, ‘Enhancing America’s Alliances in a Changing Asia-Pacific: The Case of Japan and Australia’ in \textit{Journal of East Asian Affairs}, vol. 20, no. 1 (2006), pp. 47-73.\textsuperscript{11} For an early discussion of this see Michael O’Hanlon, ‘US Military Modernization: Implications for US Policy in Asia’, in Ashley Tellis and Michael Wills (eds.) \textit{Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty} (Seattle, WA: NBR, 2005).\textsuperscript{12} On the basing and transformation agenda interaction see Christopher J. Griffin, ‘A Blossoming Relationship’, \textit{Armed Forces Journal} (February 2007).
These changes in the American regional role are important for two main reasons. First, they contribute to the sense of change and uncertainty which is building within the region and are already slightly destabilising. Second they are indicative of longer-term trends whereby the United States is, without incurring significant political and economic cost, increasingly unable to play the kind of strategic role that it has in the past.

As the part played by the United States in Asia’s international relations undergoes change, so does that of the other major powers. Japan is beginning to undertake a slightly more assertive foreign policy, although the consequences of this for the region should not be overstated; Japan’s military still cannot do much beyond its territory. It is, however, the actions of the other major powers in the region which are of particular interest. China’s rise, and its regional and global security consequences, has produced a cottage industry of scholarship and analysis. The conclusions reached in this array of work ranges from the strategic equivalent of a yawn, to predictions of inevitable conflict between the great powers. Space limits the extent to which one can consider this, but for our concerns China’s rapid economic success, and the political and diplomatic confidence that this breeds are of particular importance. The most obvious example of this has been the dramatic and sustained increase in China’s military spending. While the modernisation programme involves not especially controversial aspects, such as increased salaries and pensions (as the People’s Liberation Army (PLA) attempts to become a professionalised military and has to compete increasingly with the private sector), it also involves spending of regional strategic significance. This includes the development of a ‘blue water’ naval capacity and enhancement of its ‘area denial’ abilities, the expansion and modernisation of its missile fleet (including its nuclear capabilities) and the modernisation of the PLA Air Force. The second is the highly successful diplomatic normalisation process that China has conducted with all of its neighbouring states, as well as with key major powers. Although the extent to which China has improved relations with India and Japan through recent summits has been overstated, China now

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18 Ibid., pp. 359-61.
19 For an overstated interpretation of this see Joshua Kurlantzick, Charm Offensive: How China’s Soft Power is Transforming the World (New Haven, CT: Yale University Press, 2008).
has excellent diplomatic relations with all other Asian states. Moreover, the leadership it has shown in the Six Party Talks has shown that its diplomacy is not purely about instrumental positioning and reflects a shift in the way China thinks about itself and its place in the region. Finally, China very clearly has ambitions to be a great power understood not simply as a description of its attributes, but in the way that term connotes a distinctive membership category of international society. The leadership may not aspire to, and China may never have the capacity, be a ‘peer competitor’ in military terms with the United States, but its diplomatic ambitions are of the highest order and it has the political and economic capital to begin to make good this ambition.

None of this alone makes a decisive break with the past, nor indeed does it change the region’s strategic setting. However, military spending has been an important contributor to the evident regional uncertainty that is behind significant increases in spending across the region. But taken together it does provide a clear indication of the strategic trends the region is likely to experience.

China’s rise is very widely discussed, however, India’s emergence as an economically dynamic and strategically significant power is less well examined in terms of Asian strategy and security. Since 1991, India’s economy has grown quite dramatically, particularly over the past five years. Not only is it one of the most dynamic and sizeable economies in the world, of the developing market economies it is one of the most sophisticated with much of its success due to service industries. India has, through this economic success, as well as changes in the international system, been given the opportunity to rethink the direction of its foreign policy. Just as China has embarked on a long term diplomatic normalisation programme, India has also worked assiduously at cultivating good working relationships with all the major powers. This has involved not only the very high profile linkage with the United States through the civilian nuclear power deal, but also improved relations with Japan, and even China and its long time rival Pakistan. This has been made possible by the structural shifts in the

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20 For a broader reflection on this process see David Shambaugh, ‘China Engages Asia: Reshaping the regional Order’, *International Security*, vol. 29, no. 3 (2005), pp. 64-99.
21 There is a debate among some analysts about the extent to which increases in spending across the region indicates that an arms race has commenced. The evidence supporting this is thin, but the upward trend is marked and sustained and very clearly the product of uncertainty and mistrust. See Robert Hartfiel and Brian L. Job, ‘Raising the risks of war: defence spending trends and competitive arms processes in East Asia’, *The Pacific Review*, vol. 20, no. 1 (2007), pp.1-22.
24 Although the disputed territory of Arunachal Pradesh continues to plague relations as does India’s concerns about China’s military support for Pakistan.
international system which allowed India to effectively wash its hands of the foreign policy legacies of its first forty years and to take a pragmatic and interest driven approach to try to increase its regional and global influence. Beyond a more flexible and more activist diplomatic stance, India’s strategic policy is increasingly shaped by a sense that East Asia will have a determinative influence on its prospects. It is cultivating relations not only with East Asian powers but also attempting to integrate itself into the region’s institutions. This also indicates a further significant shift in Australia’s region, that is the extent to which Asia is no longer strategically carved up into its sub-entities which have rather discrete security concerns. The security concerns of Asian states increasingly have a pan-regional hue and this trend is likely to continue.

During the first decade after the Cold War most Asian states felt that Russia was of little significance. Its not inconsiderable internal problems coupled with the predominance of an Atlantic-focused ruling elite meant that, during the 1990s, Russia, a once dominant Asian military force, slipped off the analyst’s radar. Today, Russia is of increasing influence in the region. It is undertaking a significant expansion of its military forces with a particular emphasis on its Asian naval capacities. It is also the biggest supplier of weapons to the region, which spends more on the military than any other. It is a very significant supplier of energy and, perhaps most importantly, has placed high priority on securing stability and influence in its immediate border regions. Russia today does not consider its future to be in or among European powers and from a strategic point of view there is a strong case for thinking about Russia as an Asian player of growing significance.

The final point relates to the intangible yet profoundly important attribute of will. The major powers in Asia, China and India, as well as Russia, all have very clear ambitions to be great powers in the international system. What precisely being a great power means today is unclear, but it is evident that each has a different understanding not only of the kind of role great powers play in the international system in the 21st century but also for the way in which their great power aspirations will influence their foreign policy choices. For example, China is seeking to reassure its neighbours and the world that its rise will be peaceful and that it aspires to be a restrained and not an activist great power. Russia’s recent behaviour reveals a much more assertive if not acerbic approach to its great power ambitions, while India presents a pragmatic and deliberately coy stance eschewing a complete commitment to becoming a ‘Western’ power, but equally it is not actively rejecting Western advances and shows little interest in the demagogic anti-

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Western diplomacy of Iran, Venezuela and, to a lesser degree Russia. These developments, the economic growth of Asian states, their strategic integration and their diplomatic ambition, are not the only source of change to the fabric of the region’s international relations, they are also bringing new interactions and new conflicts of interest. An interesting remark by a senior Indian diplomat is revealing: “The thing you have to understand is that both of us [India and China] think that the future belongs to us. We can’t both be right.”

Beyond the purview of the major powers, the other key area of change has been the growth in interest in multilateral security cooperation across the region. This trend has a number of salient features for the concerns of this article. First, there is a growing demand for security cooperation among Asia’s states, but the supply side of the equation is still lacking. The demand is being driven by a recognition by many Asian states that the current security environment (both traditional and ‘new’ threats) is particularly risky and that cooperative responses appear to offer some means for mitigating aspects of that risk. But the failure of supply derives not only from the shortcomings of existing institutional and cooperative frameworks, but from different conceptions of threat as well as the considerable degree of mistrust among key powers. This tendency has led to the creation of new security bodies and frameworks (such as the Shanghai Cooperation Organization or the Trilateral Security Dialogue), the creation of new regional bodies which aspire to cover a range of issues including economic and security cooperation (such as the East Asia Summit or the ASEAN+3) and the inclusion of security concerns into existing institutions which had hitherto actively avoided talking about matters relating to security (such as APEC and ASEAN). All of which is indicative not simply of the complex diplomatic setting confronting security policy choices, it also shows the contradictory ways in which states respond to their external environments. While demand for multilateralism is a cause for some optimism—Asian states are not replete with unreconstructed atavism—the way in which multilateral endeavours have been and will likely continue to be the venue for competition and rivalry to play out is a cause for concern.

In some respects Asia’s strategic setting is much as it has been for the past fifteen to twenty years—the distribution of military force, the political structure of that force, the weakness of regional security institutions and the sources of likely tension are much as they were for that period—yet in a number of important ways, the region is becoming quite different. New and ambitious powers are rising in economic strength and matching this with increasing

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diplomatic and strategic heft. The predominant power is reconfiguring its force structure, its alliances and there are some questions over the efficacy of its stabilising force. Also, the institutional framework of regional security is undergoing change. While it is still the case that Taiwan, Korea and Kashmir retain their ability to be sources of tension, it is unlikely that they will remain the monopoly supplier of such things in the future. Conflicts of interest and mutual suspicion among the major powers will grow and the management of these are likely to overtake the historical flash-points as the major concern for Asian states’ security and strategic policies in the coming years.

**Rivalry and Mistrust in an Uncertain Asia**

Trying to anticipate future developments in any realm, let alone one as messy and complex as the geopolitical, is an extremely fraught endeavour. Even if one where to formulate an accurate model of geopolitics, in which one could be confident that the assumptions were sound, the projections reasonable and the relations between variables appropriate to future circumstances, one can still get things badly wrong. History has, as Hegel famously put it, a penchant for surprise; randomness is a fact of human existence. Bearing this in mind, this section of the article charts what are likely to be the main changes to Asia’s geopolitical circumstances. Perhaps the most important point to emphasise is that Asia’s geopolitical terrain is going to be shaped most significantly by the shift in the international system’s centre of gravity away from the North Atlantic and toward the Asian continent. The macro changes in the global system are important for Australia’s strategic policy not only because it is the stage on which Australia foreign policy has to be played out, but because these changes involve the movement of Australia’s region to the centre stage of world politics.

**FROM A NORTH ATLANTIC TO AN ASIAN INTERNATIONAL SYSTEM**

American predominance in the international system, of the kind that has prevailed over the past fifteen to twenty years is unlikely to last. To be clear, the United States is not about to collapse or be brought to its knees, however, the gap that presently exists between the United States and everyone else is going to narrow. It will do so for a number reasons. First, America’s share of global output has been in decline for a number of years and will continue to move in this direction for so long as its growth is outpaced by global output. Second, the United States is increasingly dependent on the rest of the world for its economic well-being. It is now reliant on cheap manufactured goods, primarily from China, on imported energy supplies and on international credit markets to maintain its standard of living. This does not spell doom, but the size and scale of the US economy relative to everyone else, alongside its longer-run self-sufficiency, are all going to be reduced. This means that the United States will not be
the overwhelmingly predominant economic power that it was in the second half of the 20th century.\footnote{For a general, if slightly simplistic depiction of this see Fareed Zakaria, The Post-American World (New York: W.W. Norton, 2008).}

While it is unclear whether the United States can continue to spend ten times as much as the next state on its defence over the longer run, no state is likely to have the ability or interest in becoming a military power on a par with the United States. So its preponderance of raw military power will continue. Of much greater importance, however, is not how much the United States spends but its ability to turn military power into preferred policy outcomes. For at least a generation, Iraq is going to make the use of force by American governments very costly in domestic political terms. Iraq has also made clear that the political utility of American military predominance is more constrained than in the past. American military might has underwritten global order for at least thirty years, and, for European and allied powers for over sixty. It has done so by conventional deterrence and by using its naval and airpower to ensure that the vital arteries of the global economy—sea lanes, underwater cables and air transport corridors—remain open. As noted above, the confidence that many place in America’s ability to use its military to maintain global order is going to be reduced.

There are also signs that America’s broader strategic vision lacks the wherewithal to maintain its global influence effectively in a changing global order. Although the ‘war on terror’ has been put at the centre of American defence thinking, it has not really penetrated the underlying strategic culture of the United States nor has it become a paradigm for strategic purpose in the way the Cold War was. Indeed, it is striking that the United States still lacks a broader and coherent strategic vision. While the United States retains a strong preference for a perpetuation of the strategic status quo, there is not much more to go on. The following observation of US strategic purpose, made in 2006, by Ryan Henry, then principal deputy under secretary of defence for policy planning is revealing:

> We in the defence department feel fairly confident that our forces will be called on to be engaged somewhere in the world in the next decade where they’re currently not engaged but we have no idea whatsoever where that might be, when that might be or in what circumstances that they might be engaged.\footnote{Cited in Hew Strachan, ‘Making Strategy: Civil-Military Relations After Iraq’, Survival, vol. 48, no. 3 (2006).}

The United States lacks a sense not only of the kinds of wars it may be involved in, but also the broader policy purpose that its military serves.

The second change in the international system relates to shifts in the distribution of power. Asia’s major powers, Russia, China and India, are all undergoing remarkable economic revitalisation. Each has its own particular
economic strength: Russia is getting rich on the back of high commodity prices, particularly high hydrocarbon prices, while China’s strength lies in manufacturing and production. But each is using its economic success to develop its military capabilities. Russia is undergoing a high-profile modernisation of its nuclear programme, retargeting its ICBMs and, in a provocative move, has recommenced its high-altitude nuclear bomber flights and submarine patrols. China’s defence spending has achieved double-digit growth rates for some time and has become the point of considerable diplomatic tension in its relations with the United States. While China is a long way from being a military equivalent of the United States, it has already significantly increased its ability to raise the price of any conflict in Asia and is actively seeking to advance its ability to project force beyond its territory. This is most evident in its naval modernisation programme, where China seeks to be able to advance its interests beyond the South China Sea and into, at least, the Indian Ocean. China is also expanding both the number, range and capabilities of its missile fleets, both nuclear and conventional. India has likewise been increasing its military spending. It is clearly committed to maintaining its regional predominance as well as attaining a naval capacity capable of protecting its interests in and beyond the Indian Ocean.\footnote{For data on military spending see, IISS, \textit{Military Balance}, 2008, Russia: pp. 205-24; India: pp. 329-31; and China: pp. 359-63.}

While the shift in power which this reflects is again marginal, none of these three individually or collectively is likely to challenge the predominance of America’s raw power, shifts at the margins can be decisive. The main immediate implication of the growing military power of these three is the fuel that it provides to incipient security dilemmas. This is most obvious in East Asia where uncertainty caused by China’s growing military power is prompting significant increases in military spending and the practice of strategic hedging.\footnote{On strategic hedging see Evan S. Medeiros, ‘Strategic Hedging and the Future of Asia-Pacific Stability’, \textit{The Washington Quarterly}, vol. 29, no. 1 (2005-06), pp. 145-67.} Japan has responded with a modernisation programme of its own, and across the region, strategic uncertainty is producing predictably conservative responses. America’s strategic embrace of India is also a function of this and indicative of the thinking we can expect to see in the coming years whereby major powers forge relationships designed not only to advance common interests but to balance or contain rivals. A second and related element of the changing landscape is the spectre of nuclear proliferation. The NPT regime has failed to reign in the nuclear aspirations of India, Pakistan and North Korea and seems ill equipped, as presently configured, to deal with current circumstances. Iran appears to be determined to acquire a nuclear capability, and given its strategic location this is not at all surprising nor unreasonable. Less likely but now more plausible than in the past, is the prospect of a nuclear arms race in East Asia, particularly if either South Korea or Japan were to cross the threshold.
The sense of insecurity in Japan is considerable, while alone not presently sufficient to make it formally acquire nuclear weapons, it is a sign of things that might transpire. As such the possibility of widespread nuclear proliferation is very real and a function of the fear and loathing that times of power transition historically bring.

AN UNEXPECTED GLOBAL ECONOMY
A very significant aspect of change in the global order, and which will have considerable consequences in the future, derives from the completely unexpected way in which the global economy has developed over the past ten years. In the mid-1990s, the global economic story seemed fairly predictable. The orthodoxy of neoliberalism seemed set in concrete, globalisation was here to stay, its benefits lifted all boats, the demons of inflation were banished by independent central banks and the success of the Asian tigers had shown that free markets and global integration was the best way out of under-development. Such assumptions seem to be from an altogether different time. As we enter the second decade of the 21st century, the global economy looks decidedly different from the one we thought we were going to get. So how different is it and what are the implications of these unexpected changes?

The degree and finality of globalisation’s openness was always overstated. However, the consequences of global economic integration have prompted a backlash and not only among the usual left-wing suspects. Protectionism is back on the agenda and has already played a considerable part in the American elections and elsewhere. Americans and Europeans are both actively seeking to limit trade from China and concerns over outsourcing to India are evident around the developed world. Nowhere is protectionist sentiment more obvious than in the heel-dragging over the Doha round which increasingly looks to be dead in the water. Indeed from a global point of view it is sobering to reflect on the fact that there has been only one successful round GATT/WTO round in the past thirty years.

Credit and financial crises have once again exposed the risks inherent in the global economy’s deregulated financial system. The unravelling of the debt and credit markets has meant that the balance between regulation and efficiency, which had been tilted heavily in the latter’s favour, looks set to be re-made. But regulation of financial markets is only the tip of the national iceberg floating in the global economy. The orthodoxies of 1990s

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neoliberalism seem increasingly hollow in the face of the revival of major national economic players. These take three distinct guises: sovereign wealth funds; publicly listed state owned firms and the return of the once moribund policy of nationalisation. By 2012 the IMF estimates that sovereign wealth funds will control around 1/5 of all managed assets in the global economy. 36 But more disconcerting for some is the strategic role that such firms play in buying up key assets not simply for economic return but to advance broader national objectives. This presents a clear challenge and one which looks to be dealt with by regulation. The problem, however, is how to discriminate between forms of capital investment without creating further political tensions? It is increasingly likely that investment regulation will become deeply politicised and will play a part in geopolitical considerations.

The notion that states have no business being in business, a mantra central to the liberal thinking of the 1990s, is put to one side by the stunning success of so many Chinese, Middle Eastern and Russian firms. Surprisingly, five of the world’s ten largest firms are state owned publicly listed enterprises. Perhaps the most notable development in this sphere is that in an era of growing energy scarcity between 80 and 90 percent of the world’s energy is controlled by state owned firms. The nationalisation of Northern Rock by the British government and of Fannie Mae and Freddie Mac by the American government was indicative of what was to come. Now the US government is, in effect, the world’s largest player in the financial services industry. National bailouts of stricken banks and finance houses has become the norm since August 2008 and virtually all the nostrums of neoliberal financial management have gone by the wayside. The high period of neoliberal thinking is clearly past.

The other surprising feature of the global economy which has confounded the expectations of many held a decade ago are the manifest failings of international institutions. Contrary to expectation, globalisation has worked not to advance global multilateralism but to expose its limitations. 37 These trends have become plain to see in recent years. From concerns about the legitimacy of the IMF voting quotas to the palpable inability of the WTO to drive trade liberalisation, the institutions which try to provide governance to the global economy are increasingly coming up short. The IMF and World Bank are also discovering competition for business. In the past it was thought that commercial or national banks would have little interest in providing development loans, yet China and a number of other countries are becoming a competitor in the business of development finance to poor states. That said, the recent financial crisis has given the IMF a shot in the

arm, but even with this it is clear that what is left of the Bretton Woods system is set for fundamental change in the wash out of the current crisis.

The global economy today is different in terms not only of the location of growth and wealth, found increasingly in the developing market economies, but also in its structures, principles and institutions. China, India and others have shown that state intervention in the economy, albeit linked into global markets, can work very effectively. They also show that the mantra of untrammelled liberalisation, privatisation and deregulation that was taken as gospel truth only a few years ago is of greatly reduced relevance to the 21st century. So far have things come that arguments can be heard for replacing the notion of a ‘Washington Consensus’ with a ‘Beijing Consensus’. While this may be overstating things, we have come a long way from the thinking in the 1990s in which there appeared to be little alternative to the North Atlantic liberal way.

The final key change that is in train lies in demography. What is likely to occur is reasonably well understood, although how to manage its consequences is rather less clear cut. Essentially, the population of virtually all the developed economies are in decline, with the speed of ageing varying among them, and the developing world’s population is growing. Japan, Italy and South Korea are ageing most quickly and some settler societies, such as Australia and the United States, are making up for natural ageing through migration. Two central developments that are of particular importance are the speed with which China will age and India’s continued expansion. It is thought that China will grow old before its get rich, something never experienced in modern times, and whose consequences are impossible to predict. Some economists have even suggested that over the next hundred years there is a very real prospect that the historical balance of power between capital and labour, which has been very much in capital’s favour, may shift as the scarcity of labour gives it a new salience.

All of these changes together mean that the era of North Atlantic predominance and its attendant world order are coming to an end. Scholars, policy-makers and planners need to recognise that the major decisions shaping the global strategic balance, the form, function and membership of international institutions, and the content and impact of international norms will no longer be the exclusive preserve of the North Atlantic community.

**RISING POWER, GROWING RIVALRY**

In a recent piece, a number of scholars argued that the emerging powers were creating a “world without the West”. While overstated, the argument that new powers are establishing not only a redistribution of power, but also new institutional structures and norms which reduce Western influence,

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needs to be taken seriously. It is increasingly clear that the world is moving through, what Singaporean diplomat and political commentator Kishore Mahbubani describes as a remarkably ‘plastic’ moment in history.\(^{39}\) The distribution of wealth is changing and the locus of global influence and power is slowly moving toward Asia. Over the next twenty to thirty years we will see this further consolidate. For Australia’s region, the consequences will be increased geopolitical instability deriving from rivalry and broader strategic uncertainty.

While the specific parameters of influence and power will shift, the fundamental structural features of the international system will be maintained. That is, the universality of the sovereign state will continue, buttressed as it is by norms of sovereign equality and non-interference. This system will continue to have an uneasy relationship with the complex web of transnational relations, whether economic, political or cultural. Efforts to try to advance global governance across the system will continue on their stuttering way. The big changes will be evident in the locus and character of power within this framework.

It is not a simple geometric economic extrapolation of current trends which drives the argument that Asia will be home to the world’s most important states and that their international relations will be marked by uncertainty. That said, this conclusion is reached by assuming that China and India will continue to experience significant economic growth over the next twenty years and that by 2025 they will be the second and third largest economies in the world.\(^{40}\) The key reason will come from the narrowing of the gap, economic, political and strategic, between the United States and everyone else, and most particularly key Asian powers. America’s relative size will shrink, and its ability to use its military to decisively shape international policy in its favour, will also be reduced.

There is another reason why Asian powers are going to be the key players in the new global order. It is not only because of their traditional power resources that derive from their physical and demographic size, location and the ability to link this with economic success, but also because of an often neglected dimension: will. Entirely reasonably, the ambition of Asian powers to be global leaders will increase with their economic success. Beyond the obvious major players in Asia—China, Japan and India—Russia and the United States will also be Asian-focused. In part this is simply a function of their interests and the consequences of shifts in global power shaping the


\(^{40}\) It is of course not certain that this will transpire. Inflationary problems, demography, political instability and ethnic tensions, to say nothing of the ability to make the step from labour intensive to more complex economic systems of production and value-adding, will all pose very real challenges. The claim here is an assumption based on a reasonable assessment that, on balance, China and India will continue on their current trajectory over the medium term.
geographic location of those interests. For the United States, its Asian interests and its forward projection of military force will ensure that it conceives of its international policy through an Asian lens. Of course, its remote location and diverse economic interests will mean that it is less of an Asian power than India or China, but it will be a key player in an Asian world order. More precisely, its deeply rooted Asian interests will mean that Washington will look increasingly westward when shaping its foreign policy priorities.

While Russia is geographically substantially in Asia, it is its key interests and priorities which will make it an Asian power in the 21st century. First, Russia’s most immediate sense of insecurity will come from its Central Asian border zones and its strategic attention will be focused on its southern and eastern borders. Second, Russia will continue to be the biggest single supplier of defence material in the region. Third, it will be the second most important supplier of energy to Asia. Assuming relatively high hydrocarbon prices continue then its ability to tap and transport its substantial reserves located in its frozen Northeast, of particular interest to China and Japan, will further this trend. Finally, as Putin and Medvedev have made clear, Russia is increasingly unhappy with both the European Union and NATO (even as it makes most of its revenue from Western European gas supplies). Russia does not envisage a European future for itself and while it is unlikely to establish the kind of Sino-Russian alliance that many conservative Americans fear, its geopolitical place in the world is likely to have a distinctly Asian flavour. All this means that India, China and the United States, as well as Japan and Russia, will be the five most significant geopolitical players in the international system. Most crucially for Australia, they will play out their rivalries in Asia and its maritime environment.

**INSTABILITY AND UNCERTAINTY**

The hallmark of the new era will be its geopolitical instability. In the first instance, instability will be produced by the uncertainty that derives from transitions away from established orders. While states perceive change to be evident they can never know what will come so there is a tendency to act cautiously and hence prompt security dilemmas which had previously been damped down by a stable order. The huge increase in defence spending across Asia that has been prompted by uncertainty about China and India’s rise is evidence of the first shoots of this growth. We can expect such trends to continue. As the shift in Asia’s geopolitical setting becomes more consolidated, it is also likely to be less stable than in the past, although it will lack the proliferation of security dilemmas that are evident in times of transition. The region will be home to four to five major powers each of which will have significant nuclear arsenals, major militaries and most importantly, overlapping and physically contiguous security and economic interests. Moreover, they are suspicious of one another’s motives and because none of the United States, China, India and Russia, wants to be
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beholden to any other, with regard to their policy within the region, rivalry will flow from their interactions. Whether in the sea lanes of the Indian Ocean, oil and gas pipelines from the Middle East, Russia or Central Asia or the choke points in East Asian sea lines of communication, the combination of multiple powers and clashing interests will make the management of disputes and conflicts of interest more complex. The public good of regional stability and certainty, once provided by the overwhelming military predominance of the United States, and the acceptance of this by Asia’s major powers, will be no more. This does not mean that great power war is inevitable nor that Asia will lurch from crisis to crisis, however, frictions and rivalry alongside new found wealth, influence and ambition will significantly increase the risk of miscalculation and misperception increasing the incidence and consequence of major power tensions. It will also make hedging strategies less effective and will probably spell the end of Southeast Asian state’s efforts to bind China and the United States into regional systems of cooperation and modes of diplomatic behaviour. The costs of binding strategies will prove to be too high in the longer run.

Underlying the rivalry and instability in the region will be a number of key factors whose presence can already be seen but which are likely to become of increasing significance over the next ten to twenty years. Nationalism is perhaps the greatest threat to the region’s longer run strategic and economic well-being. In each of the major powers it is a growing force in domestic politics and its place, as prosperity increases, is likely to increase in significance. Nationalist sentiment is one of the few forces which can drive states to make decisions about the use of force in which sober assessments of cost can be neglected if not overlooked entirely. Related to this, Asia’s major powers have long running unresolved historical animosities which fuel the sense of mutual mistrust and suspicion. They also have a considerable array of unresolved territorial disputes which have become, in recent years, increasingly militarised and which have the potential to become significant points of contestation if not managed effectively. Kashmir and Taiwan are well-known, but the border dispute between India and China, the Senkaku/Diaoyu-tai Islands near Taiwan, the continuing problems between Japan and Russia over the islands claimed in 1945, as well as the disputes over the South China Sea provide more than a little grist for new found rivalry mills which will be fuelled by a growing confidence and sense of propriety. Newer problems will come from the growing competition for resources which has prompted a revival of mercantilist approaches to commodities and energy. If one is sufficiently concerned about supplies of resources such as coal, oil or iron ore that one will move away from market mechanisms for supply, then it should not be entirely unsurprising to see states follow this with more assertive military strategies which seek to ensure the security of supply lines. Thus, already maritime rivalry between India and China can be discerned as each does not wish to be dependent on the United States provision of security nor does each wish to be vulnerable to
the predations of the other. Finally, we can expect that Asian states will begin to adopt more forcefully the notion of spheres of influence. Major power competition will be exacerbated not only by the extension of the geographic and policy scope of areas they perceive to be in their vital interest, but also these spheres will be increasingly militarised. This will, in turn, expand the chances that states will perceive that their interests clash, as well as increase the chances of misperception and accidents leading to insecurity and ultimately to the possibility of conflict.

Some have argued that developments in Asia look similar to the period of the ‘pentarchy’ of great powers in 19th century Europe. For some, this is a source of comfort. For it was under the ‘pentarchy’ that European powers devised the system of great power conference diplomacy, forged at the Congress of Vienna, through which Europe’s major powers managed to contain their antagonisms and avoid serious major power conflict until 1914.41 Others are less sanguine and see in emerging major power rivalry not the seeds of a diplomatic concord, but the antagonistic competition which produced the complex alliance structures that turned a minor act of rebellion in Sarajevo into the blood-bath of World War I.42 While it is tempting to look to such historical parallels, on closer inspection they are not especially helpful. The context of world politics in the 21st century is so profoundly different—from the role of nuclear weapons, the place of information technology and the norms and practices of diplomacy and international law—as to make such lessons of Europe’s past of little analytic or policy utility. This holds both for the optimist who sees possibilities for another congress system and for the pessimist who likens China to Prussia and America to Britain. The nature of interests, the scale of the states involved, their approach to the use of force and their underlying values are so different that neither assessment is valid. Asia’s 21st century geopolitics will of course be shaped by forces which have their origins in the 19th century, but it is the history of the second half of the 20th century that one must look to for insight into the international relations of Asia in the coming twenty-five years. That said, there is perhaps one lesson to take from the concert period of European history. The stability of the European international order was underwritten not just by a rough equilibrium of power, there was a consensus as to the moral basis of the international order and, most crucially, a consensus among the great powers as to their common responsibilities to maintain that order. Worryingly, today there is no real consensus as to the moral basis of the international order and little common ground as to the role that great powers might play in maintaining order. Each power has a distinct view of not only its own place, but of the role of major powers in the system.

Asia is going to be a very different geopolitical space in the next thirty years than it has been in the past. States, while guided by the verities of their experiences will need to think creatively about how best to advance their interests in a world which is at best uncertain and at worst a lot more dangerous than in the past. States are also likely to have more variegated and more diversely spread interests and one of the more surprising features will be the way in which 21st century Asia will be increasingly economically integrated but equally politically fragmented and uncertain. Markets will not magically harmonise interests as some liberals may presently hope.

**Australian Strategic Policy in an Uncertain Asia**

Rivalry among four to five major powers with often clashing interests is going to be the predominant feature of the global strategic setting in the coming fifty years. Terrorism may continue but it will be a matter of coping with its small scale strategic effect (though no less shocking for its size). As has been the case for much of Australia’s history, its foreign policy and national well being is going to be shaped by the ways in which it responds to the rivalries that are going to become the key feature of its region. The competition for power and spheres of influence are real and not the figment of deluded Kissengerian fantasists. To respond effectively to this context, Australia needs to rethink aspects of its strategic policy. First, it should put a very high priority on promoting regional confidence building measures and to help drive diplomatic efforts to prevent rivalry becoming conflict. As with the ASEAN states, Australia’s fate will be beholden to the relations of the major powers. Thus Australia’s vital interests will be best served by helping the major powers manage their relations, deal with the crises that will emerge from their overlapping interests and help to ensure the use of force is kept to a minimum. How this can be done to best effect is unclear. Institution building has thus far not produced significant increases in regional trust among major powers (although it has done well among minor powers). It is very unlikely that Prime Minister Rudd’s recently proposed ‘Asian Union’ has the capacity to do what others have not been able to do, however, it is clear that some form of multilateral security cooperation is better than none. Moreover, the tactics of ASEAN states will be sorely tested as the number of major powers increases and the chances of hedging and ‘binding’ or ‘enmeshment’ tactics have reduced efficacy.

**CREATIVITY AND THE NEED FOR FLEXIBILITY**

Creative diplomacy which builds on the many common interests and concerns of Asian states to manage major power relations is the best way forward. Such diplomatic efforts must avoid the rhetorically grandiose architectural metaphors and instead be grounded in the unglamorous graft of trust and confidence building through concrete initiatives with realistic goals to create and maintain diplomatic momentum. Most importantly any multilateral or institutional efforts must actively avoid competitive dynamics. More broadly, Australia should encourage diplomacy which is built around a
recognition of the legitimacy of the great power ambitions of China and India and not on efforts to constrain either the capacity or the recognition of aspiring powers. An important minor feature of Europe’s Concert era that is applicable today was the priority placed on ensuring that great powers’ position in the order was respected and that diplomatic efforts were always made to avoid their humiliation. A lesson that contemporary policy makers would do well to learn.

Second, Australia needs to devise a more flexible approach to advancing its interests as significantly increased policy agility will be required to manage Asia’s more complex strategic terrain. Not since 1914 has Australia’s fate been shaped by the machinations of so many major powers. Australian strategists will, in the first instance, need to assess the form and function of America’s global military presence. It is plain that America will focus its global strategy on its Asian and Middle Eastern interests. The United States has already moved away from its ‘Two War’ doctrine of Cold War vintage and this is indicative of the path down which it is moving. At first glance, for Australia, this seems to be of little immediate concern. The United States is going to maintain its Asian focus and given the place of the alliance in Australian defence thinking this is a good thing. The growing strategic significance of Asian powers, on the surface, appears to suit Australia very well. Its greatest strategic fear, that the United States will retreat behind its dual ocean frontier, has been slain by the rise of Asia. Equally, we can provide a useful partner for America and should be able to parlay that to our advantage. But what are the risks that may be hidden by these immediately evident benefits? The first is that the classic dilemmas of alliance politics—those of entrapment and abandonment—will become more acute. The second is somewhat more prosaic but needs careful consideration. The global strategic environment will change very rapidly. The way in which the alliance binds our strategic hands at a time in which a high premium should be placed on flexibility is of particular concern. Over the past decade or so Australia has not only improved the quality of its relationship with the United States it has bound itself firmly to America. The changes in Asia’s power distribution, and the strategic policy shifts it has prompted, shown most obviously by the growing gap between Australia’s economic interests and its strategic policy, should force Australian policy-makers to rethink how the alliance is valued. Will our alliance preclude making substantive strategic commitments with India, with Pakistan or with China? Is it possible that alliances will become less concrete? The pre-eminent challenge that the changing regional order poses to the strategic policy-maker is not how to deal with China or India, but lies in working out how to value the alliance, its costs and benefits, in these new, fluid and fast changing strategic circumstances. Instead of a simple instrumental exchange valuation, of the kind which presently predominates, a more sophisticated way of thinking about the costs and benefits of strategic commitment needs to be developed. Specifically, policy-makers need to begin to think carefully about
the value of options that particular strategic commitments provide and the way in which the alliance as presently configured places costs on strategic policy by limiting choice. Under new circumstances, these costs may prove to be very high.

Ultimately, Australia needs to reduce its dependence on America’s strategic guarantee. This does not mean an end to the alliance, rather that the junior partner needs to develop a greater capacity for strategic autonomy. Australian strategic planning needs to put a particular premium on policy flexibility. It is likely that the emerging strategic landscape of world politics will be fairly fluid and fast moving, thus states will need to be nimble in the way in which they advance their security interests. This is likely to lead to creative alignments among states and ones which may be much less concrete and fixed than has been the case in the second half of the twentieth century.

The final recommendation involves linking the diplomatic and the strategic, and to work with allies and partners to reform the UN Security Council (UNSC). The body which bestows legitimacy on the use of force must be reformed to reflect changing power and changing norms in world politics. It is indefensible that the accident of history which gave the P5 their current status continues and it is counter to Australia’s interests that it goes unreformed. It is in Australia’s interest that the Security Council is changed to become more representative of the global distribution of power. In concrete terms this means that India should be given a seat at the table. Australia would be especially well served not pursuing the short term and utterly self-regarding aim of a rotating UNSC seat but by expending its energy and capital on advancing a reform agenda which gets India a permanent place at the table.

Australia’s strategic environment is undergoing significant change. The complex character of that change, and its velocity, mean that policy-makers cannot rely on a status quo approach to any major branch of strategic policy. Twentieth century history tells in all-too-tragic terms of the difficulty with which international order copes with significant transitions in power. We are living through one such epochal period. To avoid paying the price paid by our forebears we must think creatively about the foundations of Australian strategic policy. Australia has traditionally been a long way from the centre stage of world politics, in this century, we will not have the luxury of a tyranny of distance. For strategic policy to be at its most effective a high premium must be placed on flexibility, speed and agility. Without these attributes, Australia will find the pursuit of its interests much harder in the coming century than they were in the bloody one we have recently left behind.

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