Strategic Challenges and Uncertainty: Navigating a Way Forward

Air Chief Marshal Sir Angus Houston, AK, AFC (Retired)

I would like to start by acknowledging the traditional owners of this land, the Ngunnawal people.

I pay my respects to their elders past, present and emerging.

Mr Scott Parker; Members of the McNeil Family; Mr Greg Moriarty, Secretary of Department of Defence; Rear Admiral Mark Hammond, Acting Chief of Navy; Mr Scott Thompson, CEO, Lockheed Martin Australia; Vice Admiral Peter Jones (Retired) - ANI President and Ms Rhonda Payget; Distinguished guests, ladies and gentlemen.

I am honoured to deliver the 2019 Vernon Parker Oration on the subject of 'Strategic Challenges and Uncertainty: Navigating a Way Forward'.

Vernon Parker was founder of the Australian Naval Institute and a very effective Naval Attaché in Indonesia during Confrontation.

He joined the Royal Australian Navy as a midshipman in 1940.

He served on the warships that fought in the Battle of the Atlantic keeping Britain's vital lifeline, the sea lines of communication open against the ever-present threat of German submarines.

As John Keegan, the great British historian, wrote of the Battle of the Atlantic:

> It was truly both a battle and a war winning enterprise. Had it been lost … the outcome of the Second World War would have been entirely otherwise.

So, we owe a lot to Vernon and all those who went on those small ships out in the Atlantic during the Second World War.

I would be remiss if I did not mention the Battle of Midway on the 77th Anniversary of this great battle which changed the course of the war in the Pacific between 4 and 7 June 1942.

Enabled by signals intelligence two US Navy carrier battle groups destroyed all four opposing Japanese carriers and their highly capable and experienced air wing for the loss of one carrier in what John Keegan described as 'the most stunning and decisive blow in the history of naval warfare'.

And of course, that also removed the last threat to Australia in World War Two, not that we gave up fighting then but certainly the homeland was much safer after that battle than it was before.

Moving forward to the present.

In 2019 the USA and China are fully engaged in a trade war in a highly charged competitive geo-strategic relationship.

Meanwhile following unsuccessful talks with President Trump, Kim Jong Un ordered short range missiles to be fired, and most recently was dissatisfied with five of his staff and last week had them executed.

This is the man who maintains a small arsenal of long-range nuclear weapons in North Korea with the potential to threaten most countries in the region.

Last week Royal Australian Navy helicopters were lased by fishing boats in the South China Sea.

Last Sunday Prime Minister Scott Morrison conducted a very successful overseas visit to the Solomon Islands.

Overnight we learned that the ANU was the target of yet another cyber attack.

It is certainly an interesting world out there and something new seems to happen every day.

Since 1951 the ANZUS Alliance has been the cornerstone of Australia's Defence policy.

And since Vietnam, US foreign policy in Asia has been characterised by:

- free trading
- strong alliances and bilateral security relationships
- a strong military presence
- promotion of democratic values and institutions; and the
- maintenance of the rules based international order.

This has given us 40 years peace, stability, and prosperity.

In 2011 President Obama announced the rebalance to the Asia Pacific.

The Force posture initiative is going well with US Marine Corps rotations through Darwin.

We also have the enhanced air cooperation between the RAAF and the US Pacific Air Forces.

These programs have been good but the pivot to Asia was not as extensive as we expected.

And with the arrival of President Trump we have seen changes.

Bill Burns, former US Deputy Secretary of State from 2011 to 2014, decries the President's 'America First' approach.

In the latest edition of *Foreign Affairs,* he suggests that under Trump alliances and multilateral arrangements were, 'millstones and constraints rather than sources of leverage and other international bodies were distractions'.

He concludes that the Trump administration has diminished the United States' influence.

In regard to trade, President Trump ruled out the Trans Pacific Partnership and has embarked on a protectionist approach to restore trade balances in America's favour.

Substantial tariffs have been imposed on China to initiate a spiralling trade war.

I would add that tariffs have also been imposed on other nations including Canada and Mexico, the immediate neighbours of the United States.

To this point Australia has not experienced any trade restrictions.

Our Alliance remains strong at all levels through regular AUSMIN meetings and excellent military to military relationships and activities.

Talisman Sabre the major high level combined and joint exercise will be conducted in Australia in July.

I understand a carrier is coming and I also understand they will not invade Australia once; they will do it twice; we have found somewhere else the Marine Corps can land in Australia. I am sure they will enjoy it immensely.
The United States is not only our most important security partner; they are also our number one investment partner and the Alliance underpins Australia's security posture.

China is our most important economic partner.

Over the last 30 years we have seen in China 10 per cent growth per annum. That has dragged 800,000 people out of poverty.

Bates Gill and Linda Jakobson in their excellent book *China matters* suggest that this presents opportunities and challenges for Australia.

The opportunities:

- China is our most important trading partner. We export 1/3 of our exports to China.

- With two-way trade, students being educated in Australia, and the provision of services, our prosperity has continued for many, many years.

However, there are costs and challenges:

- Australia is now the most reliant G20 economy on China.

- China has leverage and the ability to use economic power to advantage against us if they were to choose to do so.

As a University Chancellor I know most of our universities particularly the Group of 8 are highly reliant on Chinese students, and it would be a disaster if they did not keep coming.

A few words about power relativities in regard to the US and China.

Last week in Singapore the Lowy Institute launched its *2019 Asia Power Index* - 126 indicators across eight thematic measures of power comprising 30,000 data points on a state of the art digital platform are used to track the nature, speed and extent of power shifts in our region over time.

Intensive and objective research has confirmed two superpowers in our region: the United States with a score of 84.5, and China with a score of 75.9.

And two major powers: Japan with a score of 42.5 and India with a score of 41.

Australia lies 7th with a score of 31.3 in a cluster of regional middle powers.

The paper does suggest that we have advantages those of:

- favourable geography; and

- the fact that we are distant from areas of tension.

Lowy draws some interesting conclusions but I will focus on those pertaining to the United States and China, and I quote their conclusions:

> America is the dominant military power … as well as the most culturally influential power.

> Combined with strong demographic and geographic fundamentals, these results go some way to dispelling the notion that US power is in absolute decline.

However, Lowy does identify that the United States faces relative decline with the power gap to China narrowing in 2019.

> Current US foreign policy may be accelerating this trend.
> The Trump Administration's focus on trade wars and balancing trade flows one country at a time has done little to improve the glaring weakness of US influence, its economic relationships.

In terms of China, Lowy notes that, 'China's economy grew by more than the total size of Australia's economy in 2018. Within its region, China's defence budget is 56 per cent larger than those of all 10 ASEAN economies, Japan and India combined'.

On the other hand, Lowy emphasises that, 'Beijing faces political and structural challenges that will make it difficult to establish undisputed primacy in the region'.

The most notable structural challenge is that China's workforce is projected to decline by 158 million people from current levels in less than 30 years. I guess that is a consequence of the one child policy.

Recent reports by the London Economist suggests other developments in China:

- Government companies are currently being given priority for investment.

- The private sector has stalled to some extent. Productivity, growth and exports are down; and GDP, although advertised at 6 per cent, some commentators are saying it is actually lower than that.

- They have increased debt and there is increased hostility abroad to the implementation of the Belt and Road projects. Each of those projects basically involves Chinese labour being brought into that country to deliver the project that is on offer, and of course the financing for those projects is on a concessional line basis which leaves the country receiving the service with a debt, and sometimes with a debt they find hard to pay.

The *Economist* suggest that this is a very bad cycle.

In Australia, we face substantial political challenges and greater uncertainty into the future.

We have always defined our strategic outlook in terms of the relationships between the major powers of the Indo-Pacific: The United States, China, India and Japan.

Of course, the most important of these relationships is the one between the superpowers – the United States, our alliance security partner; and China, our number one trading partner.

This relationship will be the overpowering influence on Australia's strategic circumstances, now and into the future.

China is by some measures already the biggest economy in the world and will continue to develop its substantial political and military power.

However, the US will remain the pre-eminent global military power over the next 20 years.

China is playing a long, highly strategic game to ensure China becomes the most powerful and prosperous nation in the world.

The United States, under Trump, appears to be playing a much shorter, tactical, more inwardly focussed and transactional game to make the United States great again.

Before 2017 the relationship was a mixture of competition and cooperation with an expectation that over time China would become more liberal as it became more prosperous on the platform of the global capitalist system.

This has not eventuated.

In 2017 at the Communist Party Congress President Xi Jinping made very clear that the Communist Party was central to his leadership.

He is the first living leader to be named as a guide to the Party and he demands 100 per cent loyalty to the Party.

He is the Party.

At the Congress he also announced a two-stage development plan to 2035 and then to 2050 to achieve his vision for 'the China Dream'.

To establish China as the predominant power.

In 2018 the United States responded robustly to all of this with an announcement by then Defence Secretary Mattis and a statement by the Vice President Pence that the US would embrace a strategy to remain the No. 1 power.

In terms of foreign affairs, China appears to be exploiting Trump's America First agenda with, perhaps, a view that a protectionist US will have less interest in the Indo Pacific.

This might present China with an opportunity to displace the United States as the dominant power in Asia and the Indo Pacific.

Indeed, Xi seems to be increasingly confident on the world stage with speeches early in 2017 suggesting a new role for China.

At Davos, China should 'guide economic globalisation'.

One month later China should 'guide international society towards a more just and rational world order'.

In the middle of 2017, we had the introduction of the Belt and Road Initiative with China planning to invest hundreds of billions of dollars in infrastructure in 60 countries across Asia and Europe.

By his actions and words, Xi seems to be disavowing Deng Xiaoping's Foreign Affairs principle 'keep a low profile and never claim leadership'.

Assertive behaviour in the disputed islands of the South China Sea has resulted in the construction of islands, reefs and associated infrastructure.
This was announced at the Congress in Beijing as a major achievement of Xi's first term.

Ignoring Deng Xiaoping's principle and previous Chinese practice of non-interference in the affairs of other states, China has been active in the affairs of Cambodia, Laos, Thailand and the Philippines.

China is also leveraging its economic power to pull South East Asian countries under its influence.

Xi also presented China as a governance model for other nations to follow at the Congress.

In terms of Taiwan, Xi declared, 'We will have a firm will, sufficient faith and adequate capacity to defeat any intention of Taiwan independence in any form'.

Interestingly, this approach was reinforced robustly at the Shangri-La Dialogue in Singapore by the Chinese Defence Minister General Wei who confirmed that China would defend their interest in Taiwan 'at any cost' and he repeated, 'at any cost'.

With continuing geo-strategic competition between the US and China, Australia needs to encourage the two nations to conduct regular high-level summit meetings.

These will be necessary to establish a more constructive relationship between the two superpowers and should enable deeper mutual understanding, respect and trust to actively manage the changing political and power relativities, differences in interests, and their associated risks. (By the way, I am the eternal optimist.)

This will also ensure that Thucydides' Trap as described by Graham Allison's book, *Destined for War*, can be avoided.
Indeed, a war between the two nuclear armed superpowers would be catastrophic, and must be avoided at all costs.

Of course, it would also be disastrous for Australia.

Since 2014, China's more assertive strategy has been very evident in the South China Sea.

At its furthest point, China's claim extends more than 1,300km from the mainland of China.

Nine artificial features have been built on the top of isolated rocks or reefs in the middle of the South China Sea in close proximity to some of the busiest and most important sea lines of communication in the world.

They are clearly designed to support air combat and surveillance aircraft.

This Chinese strategy is strongly supported by assertive civil coastguard patrol vessels and an aggressive state-subsidised fishing fleet equipped with state-of-the-art communications and surveillance equipment.

Under international law, all of China's construction activities in the South China Sea are illegal.

China has simply ignored the fact that they are illegal.
Why is China doing this?

I would submit that firstly, to establish a presence in the South China Sea.

Secondly, to establish exclusive access to the economic resources of the South China Sea.

Thirdly, to enhance surveillance.

Fourthly, to dominate the eastern approaches to the Malacca Straits, which of course is China's vital sea lifeline to energy suppliers in the Middle East.

Lastly, to bring the ASEAN nations into China's sphere of strategic and economic influence.

What are Australian interests in all of this?

Sixty per cent of our trade passes through the South China Sea, including all our refined oil.

We participate in military exercises in the South China Sea.

Australian Naval ships and Air Force aircraft have conducted regular surveillance patrols for almost 40 years in the South China Sea. Accordingly, we have always advocated freedom of navigation in the international waters of the South China Sea.

So, for Australia.

We face the daunting challenge of our No. 1 security and investment partner engaged in an escalating competitive geo-strategic relationship and trade war with our No. 1 trading partner China.

How do we navigate the strategic challenges that lie ahead?

Firstly, we have to maintain our alliance with the US while pursuing our own interests. The alliance:

- Underpins our security.
- Provides influence and leverage.
- We have great access to the very latest equipment, state of the art weapons systems, we gain intelligence and we also gain surveillance information. We are well connected in terms of research, science and technology and, as we are going to do in July with Talisman Sabre, we are privileged to engage at the highest end of exercising with the most powerful military nation in the world.
- There really is no other alternative. Going alone would be very, very challenging for Australia, the costs would be prohibitive and in my view we would be very silly to go down that route in this current geo-strategic environment we have in our region at the moment.
- I think it is important that when any of us go to Washington and also here at home that we always advocate the importance and the value of the Alliance to Australia and its security.

Secondly, we need to develop greater self-reliance to enhance deterrence. I would submit that the current defence force provides a level of deterrence, but I don't think it is enough. I think there is a need to increase defence spending to provide for a more robust ADF. And in the first instance we need to eliminate the 'hollowness' that you see in a lot of our operational capability.

I think we need to enhance preparedness and that means workforce and people. I think all three Services need more people, particularly the Navy and the Air Force, and we need state of the art weapons. Some of our weapons are quite old and what we need are modern weapons, precision weapons and we need lots of them; we need stock levels that match the strategic challenges that we face out in the region at the moment.
I think we need to become a 24/7, 365 defence force.

If you have a look at the Air Combat Force, it is really sub-optimal for around the clock operations. We saw that when we took eight Air Combat aircraft to the Middle East in 2003; simply put we had to send about half the people in the Air Combat Force to the Middle East to sustain operations with only eight aircraft.

So, I would contend that where we spend the money first is fixing up some of these issues with hollowness and not having sufficient manning and the wherewithal to support the level of operations we would have to conduct in harm's way.
And it is not just air crew, it's not just other people, it is also weapons – we have to have sufficient weapons. I think we have learned in the past that the 'cargo cult' doesn't work when you want weapons urgently from a provider on the other side of the Pacific.

And it is the same with logistics. We need to have more robust logistics supporting our Defence force so we can sustain our operations and we are fully prepared for the contingencies that might pop up in a very uncertain strategic environment. We have done a lot of good work lately in the protection and security of our bases. But we have to do more: hardening, dispersal, protection; and we need to protect not just the platforms, we need to protect the people too, the weapons and the fuel.

And again, I think a lot more needs to be done in that area; in other words, we need a lot more depth. I think we need to exploit cyber, space and disruptive capabilities to deter, defeat or deny an adversary.
Although progress has been good, we always we could do a lot more.

We have a huge supply vulnerability in terms of our fuel. I mentioned that our sea line of communication (SLOC) for refined fuel is through the South China Sea. So cut that SLOC and where does that leave us? Particularly with the stock levels that we maintain at the moment – about three weeks – and then we will have all these shining platforms on the ramp with no fuel, and we can't fly them.

So, I think fuel is something we really can do something about. It has been raised a number of times in recent years and in Japan they have a stock level of 150 days which is realistic for the sort of strategic circumstances we have at the moment.

And I think there is a need to look to re-establishing some form of oil refining capability in Australia for contingent circumstances. The last thing we need to be seen to be is the nation that lost the war because we didn't have enough fuel.

The third thing we need to strengthen is regional relationships. It was great to see Australian leadership deliver a Trans Pacific Partnership 11; it is fantastic that we got there. We need a sharper focus on the region with more robust relationships: bilaterally with Indonesia, trilaterally with Japan and India and quadrilaterally with the US, Japan and India. And it is not to contain China; it is to bring like-minded countries together.

I think the step up in the Pacific is long overdue and I am delighted to see the Navy is maintaining up to two large vessels out in the Pacific on a daily basis. It is imperative, as the Prime Minister has said, that we support our Pacific family and if we don't do that, then we will find that someone else is doing that for us – and this would not be a good outcome.
The last thing we need is another large nation having access to a base just off the coast of Australia.

The fourth thing we need is a better resourced diplomatic and military-diplomatic function, particularly in South East Asia and particularly out in the Pacific. I remember the days when we used to have the Maritime Surveillance Advisors and I think those young officers did a superb job in the Pacific nations that they were in and we could learn from what happened then as a good model for the future.

And we need more aid to support our diplomacy. Over recent years we have been cutting aid again and again, and what we need to do in the Pacific is to provide aid, untied aid, so that the nations can decide what to do with the funding that is provided to them.

Fifthly, we need to play by the rules – all the rules. We need to set the standard and we need to advocate for a rules based international order including the rules pertaining to the World Trade Organisation and our other undertakings with the UN.

Sixthly, we need to maintain and develop our relationship with China.

- We have mutual interests – economic, regional and disaster response interests.

- We do have influence with China.

- We need to stand up for our interests. We need to engage constructively. We need to explain. We need to advocate.

And we need to call them out in private when we think they are wrong.

And in regard to Naval engagement: I was really surprised to see the commentary over the last couple of days with the China port visit to Sydney. Ships like that have been coming to Australia for the last 20 years. I remember the first time they came when Chris Ritchie was the Maritime Commander – two major ships into Sydney, nobody worried about that. Indeed, we welcomed them. And, as I recall it, they went off to New Zealand and exercised with F-111s en-route.

We have been working with the Chinese in the naval environment for a long time and I think it has enhanced our relationship with China and I think it should continue. I was very pleased to see our Navy participate in the Chinese fleet review. And I might add in relation to Chinese ships in our waters, in the search for MH370 we had six destroyers out there all with helicopters all searching

in the Southern Indian Ocean over a very long period of time, and they all came into our ports to refuel and to sustain their operations over a period that lasted two to three months.

I think we need another Defence White Paper.

I think the Defence White Paper 2016 when it came out in 2016 was an outstanding document.

I think the three strategic defence objectives are enduring and they have stood the test of time. But other judgements are based on the environment we had in 2015 – a completely different strategic outlook.

For the rapidly changing strategic outlook that we are experiencing at the moment we need an enhanced emphasis on self-reliance and an increased deterrence posture.

So, I submit we need a 2021 White Paper. I am not particularly fussed if this White Paper is national security or defence, but my preference would be a Defence whole of Government White Paper that goes through the normal process. A consultative phase and a strategic assessment which identifies strategic risks. We would then work with scenarios to assess the risk, the probability of the risk eventuating and what the consequences would be if that were to happen. That would inform force design, the force structure review and capability investment.
I want to say a few words about capability management.

Submarines: I have heard many commentators talk about the Collins capability and the future submarine capability. I would submit that we have one capability and it is the submarine capability and in managing that capability we need a holistic approach. That is particularly important when we discuss sustainment of the submarines that are in the water at the moment.

In our current strategic circumstances, the top priority must be to sustain current operations, not with providing a workforce for the future submarine. That workforce that is delivering four boats in the water almost all the time and supporting a submarine force that is doing extraordinary things and doing them very well. So, my congratulations to the Navy on a great outcome with the way you are going with the Collins submarines. I understand that the operational workforce has a separation rate of about 5 per cent, with crews happy and enjoying what they do.

I understand the Collins Life of Type Extension and Capability Enhancement will be done one at a time and concurrent with the full cycle docking.

The point I want to make is that we need to protect the submarine sustainment workforce. There have been suggestions to move the workforce to Western Australia and do the full cycle docking over in WA.
I am advised that most of the workforce would not go to the West; they want to stay in Adelaide. The point is we don't want to mess with something that is working wonderfully well at the

moment – with four boats in the water all of the time, with CDF getting all his operational requirements met all of the time, day in and day out, month in and month out.

The first future submarine is planned to come into service in 2034/2035. We have got to speed that up. There must be a way. I know it will take money and that is one of the things we need resources for because frankly we need them sooner than that, and the sooner the better.

I would like to say a little about Naval shipbuilding.

I don't think we should talk about Navy shipbuilding all the time. In my view we should be discussing Navy shipbuilding and sustainment.

The sustainment is incredibly important in our present circumstances, and with all these designers, all these manufacturers that are with us at the moment and the people who sustain the submarines, it all needs to be coordinated so that capability manager's priorities and requirements are maintained.

I think we need a shipbuilding authority to coordinate and resolve all of the workforce issues including higher level education, training, STEM and other strategic issues.

I believe in a program approach rather that a project approach. I think if you had two really robust programs with subordinate projects, you will get better shipbuilding and sustainment outcomes for the capability manager and by extension the Nation.

I must say something about Defence industry. I would like to add my congratulations to Peter and the Jenkins team. It is great to see a small-medium enterprise like you deliver such a great outcome for the nation and for the Navy. Thank you very much for your efforts. This is a classic case that demonstrates that industry is an important, fundamental input to capability. To see you recognised tonight Peter was great. So, thank you Peter and thanks to Jenkins.

Can I also say that the Primes and the SMEs are working very well together. This is important if we are to become more self- reliant.

We need more Sovereign Capability.

The final thing before I conclude is Defence Science and Technology.

The collaboration with universities is going wonderfully well. I think that Defence Science and Technology Group could be asked to have a look at disruptive capabilities – what can be done offensively and what can be done defensively to enhance our deterrence?

To conclude, geo-strategic competition is escalating in our region to the detriment of our national interests.

We do not want to be caught in the wrong corner of the strategic room.

A deterrent strategy with an enhanced diplomatic service and a more robust, self-reliant fully resourced ADF provides the best way forward.

Thank you very much.