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## Australian defence policy assessment 2010

by Andrew Davies, Rod Lyon and Mark Thomson

The Rudd Government firmly placed its stamp on Australian defence and strategic policy last year. In May, it published a new Defence White Paper and announced the decade-long Strategic Reform Program, and in June it released a new Defence Capability Plan.

This was the result of more than a year of analysis that commenced in early 2008. Key activities included an external audit of the Defence budget, a series of internal 'companion reviews' that examined various non-operational functions, and a force structure review. The audits and reviews fed into the central process that developed the Defence White Paper and Strategic Reform Program.

The government confronted three interrelated challenges in developing a new package of defence and strategic policy. Specifically, it needed to:

- take account of strategic developments since 2000, including the attacks of 9/11 and the events that followed, and the growing recognition of China's strategic importance
- re-establish a clear and credible link between strategic priorities and plans for the future defence force

- close the gap between promised future defence funding and the actual (much larger) cost of delivering what was then planned.

This ASPI *Special Report* surveys and assesses the results of the government's efforts. It does so through three essays. The first, by Rod Lyon, looks at the government's declaratory strategic policy; the second, by Andrew Davies, examines the force structure laid out in the 2009 Defence White Paper; and the third, by Mark Thomson, looks at defence funding. As always with ASPI publications, the views expressed are those of the individual authors.

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## 1 Australian declaratory policy: the White Paper revisited

Rod Lyon

So far, the core of the current government's declaratory strategic policy is most comprehensively outlined in the Defence White Paper of 2009. Now, almost a year after its launch, it's worth revisiting the document to consider its themes in a more leisurely fashion. At the time of its publication, a wave of media speculation and analysis depicted the White Paper as too focused on China, overambitious in its force development plans, and unaffordable.

A re-reading of the text provides three insights. First, it's important to see the document as a product of its times: indeed, perhaps only something like the current White Paper could have been approved by a new Labor government in Australia after eight tumultuous years of the War on Terror and George W Bush's presidency. Second, it's striking to see just how much 'uncertainty' is built into the paper's portrayal of the future international security environment. The paper frequently depicts multiple 'futures'. Moreover, the paper's authors often provide more than one judgment on key issues, generally at the price of confusion and contradiction. And third, it's interesting to notice the extent to which Australian defence planners remain realists: they trust power and military hardware as the principal means of securing Australia's interests close to its own coastline, but advocate rules-based order and institutions further away.

### A product of its time

First and foremost, the 2009 White Paper is a product of its time. In some sense, of course, all White Papers are—what else can they be?

But, in that context, it's appropriate to see this White Paper:

- not merely as an overdue re-articulation of strategic policy in the wake of three Defence Updates
- not merely as an attempt to reimpose a degree of coherence between strategy, capability and finances
- but also as the declaratory position of a new Labor government writing a White Paper after eight years of GW Bush.

During its years in opposition, the Australian Labor Party frequently criticised the Howard Government on issues of grand strategy. Especially after 9/11, Howard made no bones about Australia's strategic proximity to the US, his personal relationship with President Bush, his acceptance of the idea of a 'globalised' ANZUS alliance, his acknowledgment that the army might well have a larger role to play than many had previously supposed, and his theoretical openness to the new strategic ideas coursing through the US—including ideas about the increasing 'privatisation of war'. Part of the Labor government's agenda in this White Paper seems to be to paint those ideas as a short-lived deviation from the core principles of Australian strategic policy. An important political objective for this government is to reverse the more contentious elements of Howard's defence policy, and to reaffirm the traditional verities of Australian strategic thinking.

To do that, the White Paper highlights a series of 'classic' messages, each of them restorational messages in Australian strategic thinking. It says that:

- Australia intends to be self-reliant in its defence policy, and not dependent upon the US

- Australia and its immediate neighbourhood are our top strategic priorities
- the main role of the Australian Defence Force (ADF) is to engage in conventional combat against other armed forces
- maritime capabilities should be at the core of our defence force.

In a briefing before the official launch, the White Paper team placed considerable emphasis on this return to classic principles. In a first assessment of the White Paper, an ASPI paper argued that a return to classicism didn't make much strategic sense in a transformational security environment.<sup>1</sup> But it makes eminent political sense as a means of painting the era of the Howard Government as one of short-term deviationism.

It's also possible that the government saw a particular window of opportunity to rebuild a degree of bipartisanship in Australian strategic policy by taking such an approach. Many of the advocates of 'strategic transformation' were gone. Howard himself had lost his seat at the 2007 election; his Defence Minister, Brendan Nelson, had been replaced as leader of the opposition in September 2008; George Bush had left office in January 2009; and the War on Terror—or at least the first exchanges of the War on Terror—seemed to be a diminishing strategic priority. The government might well judge that it's been successful in achieving that objective: the Coalition's broad response to the White Paper has been muted, and has focused much more on funding than on the underlying strategic analysis.

Of course, it might be too soon to judge whether bipartisanship can be restored in Australian strategic policy. Certainly, the previous decade was not characterised by high levels of bipartisanship on strategic and defence issues. And it's entirely possible

that this White Paper might have looked considerably different if Howard had won the 2007 election. It might have rehearsed more fully some of the lines that started to emerge in the 2007 Defence Update.<sup>2</sup> But he didn't win the election, and that's the point: the White Paper is a political document, perhaps even more than it's a strategic one. Adding to that picture, it's interesting to observe that the shift back to 'classic messages' in the document has not led to a change in the ADF force structure, or to the abandonment of Howard's capability development plans.

### Uncertain times

Second, it's striking to 'pull apart' the picture that the White Paper paints of the international security environment.

Let's start with Chapter 4, which contains the core of the document's thinking on the international security environment. Straight away, we see a global order different from the one depicted in the 2000 White Paper. Where the 2000 paper identified two hallmarks of a stable, positive global order (globalisation and US strategic primacy), White Paper 2009 shows more hesitancy about both. That might well indicate that the government sees fewer reliable 'pillars' in the global system. And, immediately, the reader is given a hint that the global strategic order out to 2030 might be less positive than we've previously thought.

The White Paper's picture of globalisation is a mixed one. On the one hand, it still sees globalisation as a means of building closer linkages between states and regions (paragraph 4.3). On the other, it talks of globalisation's dark side: crises—demographic, environmental, public health, criminal—are also globalised, and they increase the prospects of conflict (paragraph 4.5). On top of that, the document was written at a time when the strategic

consequences of the global financial crisis were ‘still unfolding’ (paragraph 4.8).

What about US strategic primacy, the second global hallmark of the 2000 White Paper? Here the text is simply confusing. Paragraph 4.14, for example, offers a robust endorsement of continuing US strategic primacy out to 2030. It says ‘the US will remain the most powerful and influential strategic actor over the period to 2030—politically, economically, and militarily. Its strategic primacy will assist in the maintenance of a stable global strategic environment.’ But only five paragraphs later (at paragraph 4.19), the document talks of how US strategic primacy will be ‘increasingly tested’—and because this reference is in a subsection about the Asia–Pacific, we must assume the authors meant to say that it will be increasingly tested in that region.

Considerably later in the text (at paragraph 6.23), the White Paper says that US strategic primacy is being ‘transformed’ as economic changes redistribute strategic power. Indeed, right back at the start of Chapter 4, there are references to a global order that will become ‘increasingly multipolar’ (paragraph 4.4), even though such multipolarity<sup>3</sup> is unlikely to upset the existing network of liberal, market-based economies (paragraph 4.3). Multipolarity and US strategic primacy are not entirely contradictory concepts, but nor are they entirely comfortable in each other’s presence.

The portrayal of the Asia–Pacific region is also haunted by conflicting views. Paragraphs 4.18 and 4.20 talk, respectively, about economic growth and the continued evolution of regional mechanisms as instruments for building security cooperation in the region. They’re separated by a paragraph (4.19) that says there are likely to be great-power tensions both *where* the interests of the US, China, Japan, India and Russia intersect, and

*when* the power relationships between them change. The later part of paragraph 4.20 says that management of the strategic dynamics between the US, China and Japan will be particularly important for the future of Northeast Asian security, but offers no judgment on whether efforts at management are likely to be successful.

China is an especially vexed issue. Across the pages of the White Paper stride two Chinas: the first, a responsible stakeholder and security partner that’s an important contributor to regional security in coming years (paragraph 4.25); the second, a revisionist China, opaque about its military intentions but increasingly armed with a military capable of projecting power to more distant parts of the globe (paragraph 4.26).

Closer to home, in Southeast Asia, the White Paper’s authors see less of a looming power shift than they expect elsewhere in the Asia–Pacific (4.29), but offer two competing visions of a future Indonesia:

- ‘the stable, democratic state with improved social cohesion’ (paragraph 4.32)
- ‘a weak, fragmented Indonesia beset by intractable communal problems, poverty and failing state institutions’ (paragraph 4.33).

The first Indonesia is, of course, the Indonesia that’s made remarkable gains since the fall of Soeharto, and is our partner in the counter-terrorism effort; the second, the Indonesia that slips again into authoritarianism or nationalism and is a worry both for us and for its other neighbours. The paper acknowledges that the second Indonesia is ‘considerably less likely’ than the first, but there are distinct resonances here of an enduring worry in Australian strategic history. The ghost of White Papers past can still be seen in this one, walking across the back of the stage.

So the White Paper serves up two views of globalisation, two views of US primacy, two views of the Asia–Pacific security environment, two views of China and two views of Indonesia. It’s some relief to come to its coverage of the South Pacific and to find that subregion is almost the one constant in a changing world. Unfortunately, constancy is something of a mixed blessing in this regard, because the White Paper expects most of the island states and East Timor to suffer continuing problems of economic stagnation, weak governance, crime, and the afflictions of climate change.

The end of Chapter 4 contains a series of disparate ‘add-ons’, suggesting to the reader that the authors were uncertain about where those topics fitted in relation to the earlier schematic of globe, region and neighbourhood. The add-ons include:

- a fleeting reference to a troubled and violent Middle East and a fragile Africa
- a section on South Asia and Afghanistan which includes a claim that ‘over the period to 2030, the Indian Ocean will join the Pacific Ocean in terms of its centrality to our maritime strategy and defence planning’ (paragraph 4.43)
- an acknowledgment that Islamist terrorism will be a ‘destabilising’ force in the global security environment for at least a generation
- a somewhat oddly placed section on the growth of military capabilities in the Asia–Pacific and weapons of mass destruction worldwide, suggesting that Australian policy in the event of a more proliferated world has yet to be properly considered
- six paragraphs on the ‘new security concerns’ of climate change and resources security.

In general, then, the White Paper’s strategic assessment is characterised by considerable uncertainty. Sometimes it’s the world itself that’s uncertain; as paragraph 4.4 acknowledges, when we try to look out to 2030, ‘the range of even moderately likely strategic futures is wide.’ And sometimes the assessment of an issue within the paper wavers—as on the question of US strategic primacy. It might well be that the government’s convictions about ‘classic verities’ were strengthened by such uncertainties—that ministers and key officials decided that the best course was to attempt to rebase Australian policy on a more traditional foundation.

## Of power and rules

Finally, it’s worth focusing briefly on what the White Paper tells us about Australian strategic identity. It seems to tell us that:

- we take our sovereignty and freedom of action seriously, and we like decisions about those issues to rest in our own hands
- we’re still nervous about our neighbours (see paragraph 5.7: ‘what matters most is that they are not a source of threat to Australia’)
- we’re still nervous about US abandonment (see paragraph 4.17)—this might be called ‘the Singapore effect’ in Australian strategic thinking (great powers sometimes aren’t there when you need them), and the fear seems reawakened here by the uncertainties about US strategic primacy
- we like rules-based order at the global level, but trust power closer to our shores.

The last point is an interesting one, but it’s an inescapable conclusion from a bald reading of chapters 5 and 6. In relation to how we think about securing our ‘abiding strategic interests’

in Chapter 5, for example, the objective of ‘a secure Australia’ is spelled out in three paragraphs that speak unabashedly of our determination to defend Australia and its approaches using military force. By contrast, the chapter contains five paragraphs that talk of securing ‘a stable rules-based global security order’: the bulk of those concern the United Nations and other institutions and regimes, and only one talks of ‘the global leadership role of the US’ in providing the strategic underpinning for the current global order. In part, of course, this is a reflection of the first problem discussed above: that the document is a political and not merely a strategic one. After eight years of Bush, the government was probably reluctant to say straight out that US power is a key foundation of world order.

Still, Australian power is—apparently—in no such bad odour. Chapter 6, which outlines Australia’s defence policy, says at paragraph 6.9 that, despite the United Nations, ‘human affairs are not yet—and might never be—at the point where nations can afford to cede to a world body the direct responsibility for the defence of their territory and people, or for securing their strategic interests.’ This observation sits oddly with the earlier endorsement of the United Nations as the principal means of securing our global strategic interests (although that claim, in turn, sits oddly with the observation in paragraph 4.2 that ‘the global distribution of power, and in particular the strategic primacy of the United States’, has fundamentally shaped Australian defence planning since World War II).

Paragraph 6.12 then says that Australia can’t actually rely on coalitions for its defence either, because coalitions are built on ‘implicit bargains’ that mightn’t hold on a day of reckoning. That aversion to relying on international partnerships to achieve our key strategic interests also shows up in the

odd placing of the specific chapter on that topic: Chapter 11, sandwiched between two chapters on ADF preparedness and defence intelligence, belatedly claims that defence relationships are crucial for Australia. If they are crucial, it certainly doesn’t show up much in earlier chapters.

And so we come to ANZUS. Although government ministers have frequently spoken in very positive terms about the ANZUS alliance—Rudd did so during his comments on Afghanistan back in April 2009, for example—the assessment of the ANZUS alliance, both at paragraphs 6.14–6.15 and at paragraphs 6.32–6.34, is just plain confusing. Paragraph 6.15 concludes that Australia needn’t be drawn by the alliance into risky, distant theatres of war where we’ve no direct interests at stake. But what does that mean? Would an attack on the metropolitan territory of the US by a terrorist group operating out of, say, Somalia require some action by Australia ‘to meet the common danger’, or would it not?

The later paragraphs are similarly confusing. They state (at 6.32) that we wouldn’t expect our ally’s military assistance in anything less than a direct attack on Australia by a major power. This seems to be taking self-reliance to extraordinary lengths. (We mightn’t choose to rely on US assistance, but we should certainly expect it.) The White Paper suggests (at paragraph 6.33) that we’d really be interested only in the American ‘enablers’—intelligence, logistics, high-tech equipment and so on—in relation to our direct security, when the truth is that we’d be interested in much more. And it implies (in the first sentence of 6.34) that the US extended nuclear deterrence assurance to Australia, under ANZUS, will be automatically available for as long as Australia wishes to have it, when the doctrine is actually under Washington’s control and not ours. (Moreover, the real uncertainties about extended nuclear deterrence have less to do

with its provision and more to do with its credibility in a changing environment.)

The upshot, of course, is that Australia finds itself recommitted to a policy of self-reliance, one of the ‘classic verities’, almost as Hobson’s choice. We have low expectations of the United Nations, coalitions and allies, so who else will defend us if we don’t defend ourselves? The signal that Chapter 9 then gives—that Australia must ‘weight up’ to secure its own interests in an increasingly challenging security environment—can hardly come as a surprise. Still, the signal isn’t a bad one to send in an age of geopolitical dynamism in Asia—it tells the region that Australia intends to remain a player in a shifting strategic environment.

### The White Paper’s big concern: the United States

Each of the three issues discussed above tells readers something about the White Paper. But when they’re rolled together, they also point to a bigger conclusion. All derive from a single source: Australian defence planners’ concerns in 2009 about the US. It was the difficult, politicised agenda of the War on Terror that made Labor keen to draw a greater degree of separation between Australian and US policy. Similarly, the uncertain, transformational regional environment was given strategic potency by the deeper uncertainties surrounding the previous global-level stabilisers (globalisation and US primacy). And it seems to have been a renewed sense of worry about the US global and regional role that empowered the push for greater Australian strategic ‘weight’ in the neighbourhood. Australians have long accepted that the United Nations and multilateral coalitions would do little to underwrite Australian security in a crisis, but the relatively low expectations of our main ally seem to be a new theme in this White Paper. So the US, not China, is the real focus of the document.

The Australian Defence White Paper of 2009 shows a US ally struggling to come to terms with a quickening pace of geopolitical transformation within its region—when part of that transformation must concern the future regional role of the US itself. Canberra isn’t about to turn away from its principal ally. The alliance still offers too many advantages to Australia for the government to consider such an option. Indeed, the alliance retains its position at the core of Australian strategic policy. But the White Paper signals a range of deeply-layered worries about the relationship, exactly because of the centrality of the alliance in traditional Australian thinking. Those worries seem likely to last—they’re not simply the product of the Bush Administration. Indeed, Obama’s strategic agenda—which seems to focus on the long-term rebuilding of US power<sup>4</sup>—only increases the need for both nations to consider the way forward, not just for the next six months or one year, but for the next twenty years.

### Endnotes

- 1 Rod Lyon and Andrew Davies, *Assessing the Defence White Paper 2009*, Policy Analysis no. 41, 7 May 2009, Australian Strategic Policy Institute (ASPI), Canberra. [http://www.aspi.org.au/publications/publication\\_details.aspx?ContentID=210&pubtype=9](http://www.aspi.org.au/publications/publication_details.aspx?ContentID=210&pubtype=9)
- 2 For a fuller coverage of this issue, see Rod Lyon, *Assessing the Defence Update 2007*, Policy Analysis no. 12, 10 September 2007, ASPI, Canberra. [http://www.aspi.org.au/publications/publication\\_details.aspx?ContentID=139&pubtype=9](http://www.aspi.org.au/publications/publication_details.aspx?ContentID=139&pubtype=9)
- 3 ‘Multipolarity’ suggests an international system with many great powers. It is different from a system with one great power (unipolarity) or two great powers (bipolarity).
- 4 Rod Lyon, (2010) *Obama in his own words: On leadership, force and rebuilding US primacy*, Strategic Insights no. 49, March 2010, ASPI, Canberra. [http://www.aspi.org.au/publications/publication\\_details.aspx?ContentID=243&pubtype=6](http://www.aspi.org.au/publications/publication_details.aspx?ContentID=243&pubtype=6)

## 2 The Defence White Paper's Force 2030

**Andrew Davies**

Much was made in the press of 'Australia's military build-up', which would supposedly result from the 2009 Defence White Paper. In truth, while the paper contained some significant new projects, many of the 'new' capabilities were a reiteration of ones that were already in the Defence Capability Plan—some of them going back as far as the 2001 version. Table 1 shows the genuinely new initiatives in this White Paper. It's not a long list, and even then some of the entries are extensions of existing plans. There were some genuine innovations, such as land attack cruise missiles and ballistic missile defence, and an expansion of the submarine force. And the twenty new offshore combatant vessels look like a new capability but are in fact replacements for existing patrol boat,

minehunter and hydrographic survey fleets, albeit in a larger and novel form. However, most of the initiatives build on existing plans and capabilities.

Looking out twenty years at the mooted ADF of 2030, we find that it will be a lot like today's force with half a dozen extra submarines. And today's force is itself very similar to that of twenty years ago. Indeed, give or take an aircraft carrier and a few battalions, we can trace the essential shape of the ADF still further back. So this White Paper in many ways perpetuates the force structure that's been in place since the Menzies Government went shopping in the 1960s. This strongly hints that the strategic discussions in White Papers over the years has been less closely linked to the development of our forces than is purported to be the case. Governments and White Papers come and go, but the ADF marches on.

**Table 1: Projects new to the 2009 Defence Capability Plan**

Domain	Project	No.	Comment
Sea	Future submarine	12+	Largest project ever?
	Future ASW frigate	8	'beyond 2019'
	Multi-role offshore combat vessel	20	'beyond 2019'
	Maritime land attack cruise missile		For future submarines and surface combatants
Land	Ballistic missile defence		
Air	Joint Strike Fighter weapons		Extension of existing JSF project
	New <i>Chinook</i> medium helicopters	7	Modernisation of existing capability
Joint	Satellite communications enhancement		Extension of existing project
	Non-lethal weapons		
	Defence IT network rationalisation		
	ADF-wide electronic warfare		Databases and supporting systems; extension of existing project
	Intelligence, surveillance and reconnaissance support		New support systems for existing or planned capabilities
	Surveillance satellite	1	Concept dates from 2001 Defence Capability Plan



There are various reasons for this consistency. One is the sheer inertia of the total investment to date in the ADF's materiel and structures. It's difficult to change it significantly (except for the special case of a major downsizing) on timescales of less than a decade, and major sums of money need to be found for expansions. For that reason, there's less of a nexus between changing strategic circumstances and the force structures in place to respond to them than architects of defence policy sometimes suggest.

### Strategic logic—the past

To set the scene for the White Paper's rationale for force structure decisions, it's worth reviewing the reasons for the ADF we have today.

The story really starts in 1945. When the dust settled after World War II, all of the traditional Asian powers were in a catastrophically weakened state. The US was unquestionably the major military power in the Asia–Pacific region, and happened to be our close ally. In terms of the ability of any nation to threaten Australia directly, the postwar Asia–Pacific region has been a remarkably benign neighbourhood. For much of that time, Australia's most serious security concerns arose from conflict within and between Southeast Asian countries—and that effectively ceased in the early 1970s. Until then, the ADF was essentially used to make modest contributions to US-led interventions in Korea and Vietnam. (Modest in the sense that the effort was far removed from the national mobilisation of World War II. Since 1945, elements of the ADF, not the Australian nation, have gone to war.)

Developments in Malaysia and especially Indonesia during the 1950s and 1960s led the Menzies Government to plan and acquire a significant inventory of military hardware that was delivered progressively through the 1960s

and early 1970s. The inventory came from a range of sources, including twenty-four F-111 strike aircraft from the US, six *Oberon* class submarines from the United Kingdom and more than a hundred *Mirage III* fighters from France. Since then, 'like for like' replacement has been the order of the day. That force has suited Australia well, clearly overmatching any of its near neighbours (to an almost embarrassing degree, if serious analysis were applied) and providing a robust level of security against the risk of interstate conflict.

But today, with the rise of new major players in the Asia–Pacific and the Indian Ocean, that neat strategic picture has begun to blur. The past decade, in particular, has seen rapid economic growth in Asia, which has provided the capital for an expansion and modernisation of military capabilities. Across Southeast Asia, that doesn't seem to be a problem—there's no real sign of strategic competition, and the increased sophistication of regional militaries, coupled with higher levels of professionalism, has actually led to improved levels of cooperation and collective security.

### Strategic logic—the present

The real action is further afield, in what the White Paper calls the 'rising powers' of Asia. The White Paper opts for a narrative in which a changing power balance creates a situation where tensions can rise and miscalculations can occur, possibly leading to conflict. Hence, we need to prepare for an uncertain future. It doesn't argue directly that we should bolster the ADF in response to a perceived direct threat from China. But while India is a rising power by any definition, the focus is clearly on the impact of China's rise. No other country fits the bill of being a rising power and destabilising to the power structure we've been comfortable with for years.

Much has been written elsewhere about the rise of China and its growing military capability, and some of it's been quite hyperbolic. For example, China's stated ambition to acquire an aircraft carrier capability is unlikely to result in any real competition to the US Navy on the global stage for decades to come. But there's a very real power shift occurring nonetheless. Closer to China, the ability of the People's Liberation Army to compete with the US is growing apace. And that's a quite deliberate aim, as is made clear in the recent Chinese Defence White Paper—although the language is again intended to retain some ambiguity, there's little doubt which 'external power' China intends to restrain from operating in its immediate approaches.

It's worth expanding further on the Australian Defence White Paper's logic. The future is uncertain precisely because we're allied with the waning power in the Western Pacific and a newcomer (if that's the right term for a country that's been a major regional player for thousands of years but happens to have had a backseat role for the past hundred) is now throwing out a challenge. And it happens that the rising power is, by many measures, also our largest trade partner. This is a difficult situation for Australia. If we read the US Quadrennial Defense Reviews and the annual assessments of Chinese military power for the US Congress and then look at the Chinese Defence White Paper, we come to the uncomfortable conclusion that our major ally and our major trading partner are, at some level, getting ready to fight one another. China says that it's developing an anti-access strategy to keep external powers at bay, while the US invokes the idea of fighting in an anti-access environment.

So the dilemma is in how Australia positions itself. By siding with its major ally, or with the rising power that is geographically closer? Or is a less partisan position preferable? In trying

to understand the position the Australian Government takes, we could start by reading the narrative in the White Paper. But, as a companion essay in this report shows, that leaves a lot of ambiguity, if not outright confusion. Instead, we can look at what the White Paper *does*—as opposed to what it *says*—as a guide. A look at the allocation of dollars (the true guide to policy) through force structure choices and the division of labour between the services sheds some light on the leanings of the government.

### **Strategic priorities and force structure**

To see why the narrative in the White Paper isn't particularly helpful in this respect, it's worth testing the logic from grand strategy to detailed force structure. If the logic is sound, the force structure proposed should be well matched to the strategy expounded.

In attempting to tread the fine line between the US and China, the White Paper falls back on some tried and true approaches. And, like much of Australia's defence policy, it can be understood in terms of the debate between the 'defence-of-Australia approach' on one hand and the 'global, expeditionary approach' on the other. The former, in the ascendancy from 1960 to 2000, called for the defence of Australia's air and sea approaches to the north of the country. The latter is more congruent with a view of Australia as a significant middle power whose interests are best served by contributing to operations further from home in support of an international order that suits us and our allies.

This is where there's some strategic 'sleight of hand' in the White Paper. It says that the clouds on the horizon come from rising major powers that are far from home, but then situates the force structure firmly in the 'defend the moat' camp. It returns to the 'concentric circles' model of Australian

strategic priorities that underpinned previous Australian White Papers, with a focus on our air and maritime approaches as our top strategic priority and the near neighbourhood the next priority (and the only other force structure determinant). Further from home, the ADF can ‘come as it is’ for the most part, although the 2009 White Paper allows for some tinkering at the edges.

It does that by positing two sorts of threats the thus-configured ADF must defend us from. In both instances, the threat is to Australia directly, either from attacks by minor powers (where the paper inexplicably excuses the US from having a role in such a conflict), or from major powers staging through the near neighbourhood, possibly as a result of our involvement in conflict further afield—that is, we bring the threat down upon ourselves.

### Force 2030

Setting aside any discussion of the likelihood of either scenario, what sort of force structure would be needed? First, we’d want a force of tactical aircraft supported by wide area surveillance from airborne early warning aircraft and tankers to allow persistence over the air–sea approaches. There’s a tick for consistency there—the plans for the RAAF match the scenario well. However, this may be a case in which market forces rather than strategic calculus are the main drivers of force structure. With the retirement of the F-111, it was almost inevitable that our air combat capability would consist of smaller tactical aircraft—the world market offers nothing else.

Consistent with the White Paper’s focus on near-region conflict as the threat to be responded to, it specifically excludes ‘ground operations against heavily armed adversaries located in crowded urban environments’ in the Middle East, Central and South Asia, and Africa. In doing so, it emphasises a

near-regional focus for our land forces. As far as the Australian Army is concerned, it will plan for operations close to home—ironically while sustaining its tenth year of commitment to theatres further away. In the Asia–Pacific theatre, the army in its present form is constrained in the role it could play by its size (which is small by Asian standards).

The composition of maritime forces is more revealing of the thinking of the White Paper’s architects. In the immediate air and sea approaches, the defence-of-Australia picture allows us to contemplate operating largely within reach of friendly air power (arguably a necessary condition for surface vessels faced with serious opposition in any case) and with the ability to deploy simultaneously to a number of places in and around the archipelago to the north. A largish number of frigate-sized surface vessels with the sort of air defences being fitted to the Anzacs would seem to fit the bill.

Submarines would be able to operate relatively close to home, which would allow for smaller boats than the *Collins* class. Given the slowness of deployment of conventional boats and the number of chokepoints and ports they may have to operate against, a larger fleet of smaller boats would give greater flexibility.

But when we look at what’s posited in the White Paper for the navy, we find an altogether different picture. Rather than a larger force of smaller platforms, capable in a low-to-medium level threat environment and able to act in concert across Australia’s air and sea approaches and throughout the archipelago, we find a fleet that’s headed in the direction of larger vessels that are well suited for long-range operations.

We now have six 3,000-tonne submarines. In the future, we’ll have ‘at least twelve’ boats with an array of capabilities likely to drive them over 4,000 tonnes. They’ll be able to

remain on station several thousand nautical miles from home and they'll carry land attack cruise missiles. We currently operate eleven frigates and have three air warfare destroyers on the way. The frigates will be replaced by eight 'future frigates' larger than the Anzacs. At as much as 7,000 tonnes by some suggestions, those vessels will carry significant payloads over large distances. Like the submarines, they're also intended to carry land attack cruise missiles.

The boost in strike capability provided by these platforms is described as 'a hedge against longer-term strategic uncertainty'. The proposed 2030 naval force structure is a heavyweight version of the current one in many ways, with submarines and warships that are larger and better armed than their predecessors. They'll constitute a fleet that's able to operate at long range and carry significant strategic weight. Rather than a force optimised for the defence of Australia and operations in the near neighbourhood, this looks more like a muscular contribution to an allied fleet able to operate well into the Pacific or Indian oceans. Critically, it doesn't constitute a viable force on its own in a major conflict because of the lack of organic air power (a return of the aircraft carrier may have stretched the budget too far for serious contemplation), but it's a force that would certainly augment the US Pacific Fleet in a useful way. Which puts us back squarely in the frame for any conflict between our major ally and our major trading partner.

## The bill

While there's still little hard data on the costing of the White Paper's force structure initiatives, it's worth noting that the promised funding profile has a structural flaw. The White Paper promises a 3% real per annum increase out to 2018 and 2.2% from 2019

to 2030. Adjusting for the assumed rate of inflation between now and 2030, the additional promised amount is a little over \$130 billion in today's money. There's also a total of \$20 billion to be provided from finding internal efficiencies in the Defence portfolio over the next decade.

While that seems like a lot of money (and it is, especially when the future of the health sector is being weighed up concurrently), it mightn't stretch as far as hoped. Military equipment and costs have typically increased in real terms by 2.5% or more per annum above inflation. Any significant expansion of the ADF would require funding above that. Looking at the timeframes for the biggest ticket items—the heavyweight maritime platforms—we see that the real increase falls below the 'treading water' point just at the time that extra funding will be required. Given that there'll be several elections and a couple of White Papers before most of these initiatives take the form of hardware, there seems to be plenty of scope for some revisiting of these plans.

## Conclusion

It's hard to reconcile the broadbrush picture of the strategic landscape in the White Paper with its stated rationale for the force structure. Similarly, it's difficult to reconcile the rationale for the force structure with the actual force structure that emerges. But if we leave out the middle part, we can draw a link between the strategic argument—which could be paraphrased as 'the rise of China may upset the power structure we're very comfortable with, and we don't want that'—and the Force 2030. It seems that we've chosen, at least in principle, to side with the US—or, at the very least, to retain the option to do so.

### 3 Funding Defence in the Asia-Pacific century

**Mark Thomson**

When the government started work on a new Defence White Paper back in early 2008, it faced a problem as simple as it was serious: despite eight years of ever more generous funding (and notwithstanding several attempts to ‘balance the books’), Defence still didn’t have nearly enough funding to deliver what it had promised. Not only was the program of new equipment in the Defence Capability Plan unaffordable, but too little allowance had been made for the cost of crewing and operating a range of new equipment due to enter service over the next decade. Something had to give.

Rather than await the completion of the White Paper, the government acted early to try to close the gap between means and ends in the Defence portfolio. It began by initiating an independent audit of the Defence budget, and followed up by demanding \$10 billion worth of efficiencies from the organisation over the forthcoming decade. Whatever else might happen, Defence had been put on notice.

Expectations of how much fiscal stringency might be imposed on Defence varied through 2008, as did expectations of additional funding. The zenith of optimism (from Defence’s point of view) was probably the Prime Minister’s speech on 9 September to the RSL National Congress wherein he announced the need for ‘an enhanced naval capability’. Five days later, however, everything changed. Lehman Brothers filed for chapter 11 bankruptcy protection in the US, and the global financial crisis began.

Looking back now, it’s hard to apprehend the pessimism that prevailed in the last quarter of 2008 and the first half of 2009. At the time, it seemed as though the world teetered

on the edge of an abyss the likes of which hadn’t been seen since the Great Depression. And it was amid that atmosphere of looming cataclysm that the 2009 Defence White Paper was finalised.

#### 2009 White Paper and Budget

To the surprise of many, the government didn’t just hold the line on defence spending in the White Paper, but promised substantial extra money. Specifically, to the already committed nine years of 3% real budget growth it added another twelve years of 2.2% real growth, and then overlaid a new indexation regime for the entire twenty-one years (worth around \$14 billion over the next decade alone).

As the then Defence Minister observed at the time, ‘The government has demonstrated the premium it puts on our national security by not allowing the financial impact of the global recession on its Budget to affect its commitment to our Defence needs.’ But not everything went Defence’s way; the \$10 billion decade-long efficiency program was ratcheted up in value to \$20 billion and incorporated into the broader Strategic Reform Program. Even so, given the circumstances, the White Paper was a very good outcome for Defence from a funding perspective.

Too good, it seems. When the government tabled its 2009 Budget a mere ten days later, it reneged and deferred around \$8.8 billion of promised Defence funding from the next six years. We don’t know where the money has been taken from (although it appears likely that capital investment has borne the brunt of the cuts), and we don’t know when the money will be reinstated. A lot of information was missing from the 2009 Defence budget papers—information that’s been routinely made public in the past. Even the basic question of how much money Defence will

get in the years ahead was impossible to answer. While the government promised twenty-one years of funding, only four years worth of figures were disclosed.

Fortunately, the government's recently released 2010 Intergenerational Report provided a revealing (though probably inadvertent) insight into planned defence spending via a chart of defence spending as a share of gross domestic product (GDP). With a little work, it's possible to discover how much the government plans to spend on defence in the years ahead. The results appear in Figure 1, along with recent historical data.

In 2009–10, Defence will receive just over \$24 billion of baseline funding plus \$1.7 billion of supplementation for overseas operations. Compared with the prior year, this amounts to an increase in underlying funding of 7.7% above indexation. But the impact of the cuts imposed in the 2009 Budget bites hard: across the three years of the forward estimates, baseline funding will fall by 6%. As a share

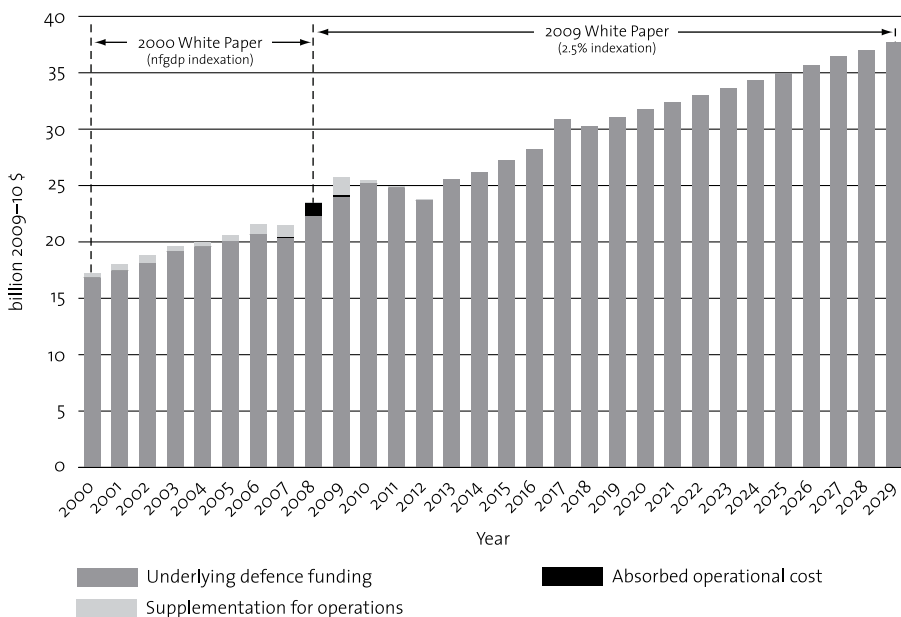
of GDP, the planned reduction will hit hard. Because the economy is projected to grow solidly over the next three years, underlying defence spending will fall from 1.9% of GDP to 1.7%. After that, a period of catch-up ensues, during which spending regains momentum through a 31% real increase over the five years to 2017–18.

Several questions arise about defence spending in the years ahead: Is there enough money to deliver the ambitious plans set out in the 2009 White Paper? Can Defence really find \$20 billion in savings? Are the plans achievable in any case? And, most importantly, will the government deliver the promised funds? These questions are explored below.

### Is there enough money to deliver Force 2030?

When the 2009 Defence White Paper was delivered, we were assured that it was fully costed and affordable. Yet, in late 2009, media

Figure 1: Defence funding 2000–01 to 2029–30



Source: ASPI analysis of data from the 2010 Intergenerational Report and past Defence annual reports and budget papers. The acronym nfgdp refers to the implicit non-farm GDP deflator which was used to maintain the buying power of the Defence budget until 2009.

reports emerged of a \$3 billion hole in defence funding for the period from 2011 to 2013, forcing delays to major acquisition projects. However, in February this year, the Secretary of the Department, Dr Ian Watt, told a Senate committee point blank that ‘there is no \$3 billion hole in the defence budget’.

The most likely explanation is that the revision of the Defence Capability Plan in late 2009 saw projects deferred—perhaps due to higher than anticipated spending in existing approved projects, or because the originally planned package of projects couldn’t be accommodated for some other reason. Regrettably, the extent of any such deferral is impossible to ascertain. The White Paper contains very few concrete milestones against which progress can be measured, and the subsequent 2009 public Defence Capability Plan used vague multi-year targets for project milestones. As a result, even substantial financial shortfalls can be covertly accommodated by delaying projects within the multi-year brackets.

Further delays to the investment program would be disappointing, given that it was the investment program that absorbed the cuts imposed in the last budget. Specifically, the capital investment program is set to fall in real terms by 22% over the forward estimates to accommodate an overall funding reduction of 6%. For better or worse, delaying defence projects is the managerial line of least resistance. It’s always easier to defer an acquisition project than, for example, to trim the rapidly growing number of civilian executives and senior managers in Defence (something the Strategic Reform Program leaves unaddressed).

So what about the longer term? For the years following 2017–18 when real defence funding growth falls from 3% to 2.2% per year, the situation is much clearer. There won’t be enough money to maintain the defence

force, let alone to pursue the ambitious programs outlined in the White Paper. Not only do historical trends in the cost of defence inputs such as equipment, labour and maintenance show that 2.2% is inadequate to maintain modern defence capabilities, but the long-term trend in Australian defence spending since World War II of 2.7% has proven inadequate to expand the force significantly. To plan a major expansion on 2.2% real growth is optimistic, to say the least.

### **Can Defence really find \$20 billion in savings?**

As part of the Strategic Reform Program, Defence has to find \$20.6 billion in gross savings over the decade to help fund new capability and remediate existing systems and infrastructure. While this might seem a sizable impost, it’s not as onerous a burden as is sometimes implied.

To start with, \$3.9 billion of the claimed savings come from an internal contingency reserve that Defence accumulated over the preceding several years from funding provided by the government, including for price indexation and real budget growth. Following a so-called ‘zero-based budget review’, it was decided that the reserve could be allocated rather than held centrally because the funds ‘were no longer required’. To describe this as a saving is simply disingenuous. Similarly for the \$740 million of cuts to the major capital facilities and minor capital programs that are claimed as savings—deciding to defer or cancel planned investment is neither a saving nor an efficiency measure. In the case of capital facilities, the claim is especially egregious: a total of \$150 million of cuts to capital facilities investment is claimed as savings over the first four years of the program, while, over the same period, \$190 million of additional capital facilities investment is being touted as reinvested savings.

Of the remaining \$16 billion that can credibly be called savings, roughly \$1.9 billion comes from adjustments to the mix of civilian, contractor and military personnel employed by Defence, and around a further \$1.4 billion comes from workforce efficiencies related to the delivery of shared services. But because the size of both the civilian and military workforce will grow due to White Paper initiatives over the decade, these adjustments should be achievable. Most of the remaining savings are planned from reducing the quantity and price of goods and services purchased from the private sector (exclusive of capital investment) from what's usually referred to as operating costs.

While making \$10 billion of savings from operating costs over the decade can't be taken lightly, it needs to be seen in context. To start with, in the halcyon years preceding the current downturn, operating costs grew quickly in the absence of effective budget discipline. By exactly how much is difficult to say given the limited information at hand. Moreover, as best we can tell, the vast bulk of savings don't actually require spending to be cut. Instead, the savings come from constraining cost growth relative to a hypothetical business-as-usual baseline. Even for the period out to 2012–13, when overall funding is set to decline, operating costs are shielded by the large reduction in capital investment.

In the final analysis, the achievability of the savings program is much like the adequacy of funding overall: in the absence of measurable performance targets, we'll never know whether savings have actually been achieved or whether military capability has been sacrificed to accommodate cost pressures.

## **Are the plans achievable in any case?**

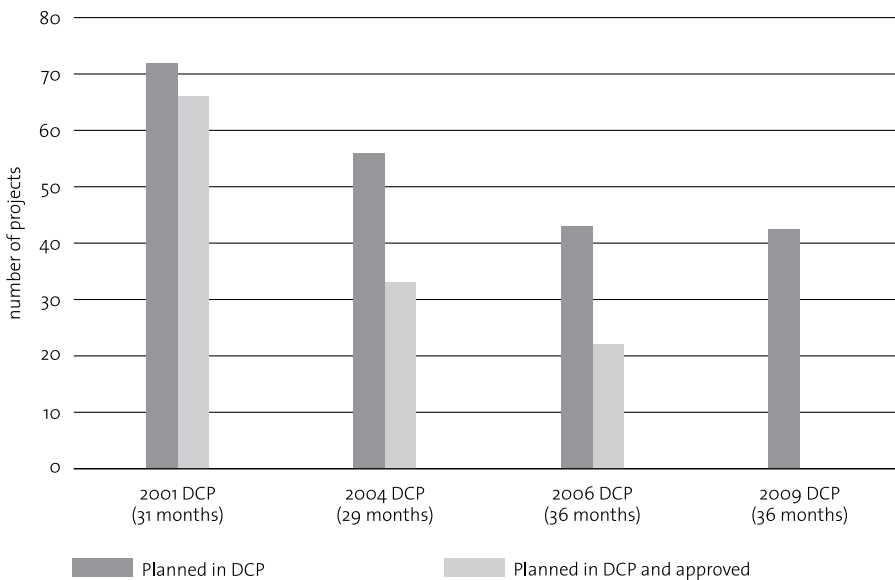
On past experience, the rapid growth planned from 2012 to 2017—amounting to 31% over five years—is likely to be unachievable. Attempts to aggressively ramp up defence spending earlier this decade saw billions of dollars handed back because of the failure of industry to deliver equipment on schedule (usually referred to euphemistically as being the result of capacity constraints) and lengthy bureaucratic delays in Defence. Even over the next couple of years, the prospects aren't that good. As Figure 2 shows, the number of projects planned for approval over the next three years in the Defence Capability Plan is clearly ambitious when compared with past performance.

Nonetheless, progress is being made. So far this financial year, the government has granted second-pass approval to ten projects (including partial approval for the F-35 Joint Strike Fighter) and first-pass approval for two projects. Compared with plans set out in May last year, two projects planned for second-pass approval this year have been cancelled and a third deferred, leaving only three projects awaiting second-pass approval before July. Somewhat less progress has been made on first-pass approvals—only two projects have been approved and thirteen are outstanding.

## **Will the government keep its promise?**

Given the economic and fiscal situation prevailing in early 2009, it's not surprising that the government chose to defer a substantial slice of defence spending to beyond the then anticipated return to surplus in 2015–16. But circumstances have changed since then, and it's worth examining the situation the government currently finds itself in to see what that might portend for defence funding.



**Figure 2: Planned-for-approval and approved projects 2001–2012**

The near-term economic and fiscal situation is looking much better than expected. Real GDP growth for 2010 has been revised up from  $-0.5\%$  to  $+1.5\%$ , and for 2011 from  $2.25\%$  to  $2.75\%$ . At the same time, unemployment has been revised down from  $8.25\%$  to  $6.75\%$  for this year, and from  $8.5\%$  to  $6.5\%$  for next year. As a result, the projected cumulative fiscal deficit for the next three years has fallen from \$128 billion to less than \$92 billion, an improvement of more than \$35 billion.

One of the factors contributing to the improved fiscal situation is the appreciation of the Australian dollar against other currencies. As a result, Defence will need \$3.6 billion less than previously planned over the next four years and fully \$11.5 billion less over the forthcoming decade.

The longer term fiscal outlook also continues to improve. The 2003 Intergenerational Report projected that the government would experience a structural fiscal deficit in 2016 due to health and aged care costs exceeding revenues. By 2007, the onset of the fiscal crunch had been pushed back to 2023, and the latest Intergenerational Report projects

a date of 2031–32. With improved near- and long-term fiscal outlooks, the government can certainly afford to maintain its present plans for defence funding. In fact, there's enough extra money to reinstate the funds cut in the last budget four times over. Of course, the likelihood of that occurring depends on how the government weighs competing demands, and there are three factors likely to place downward pressure on defence funding over the next few years.

First, there are a great many spending options apart from defence that the government might choose to pursue—some of which were deferred or curtailed due to the global financial crisis. Additional spending in areas like health, education, the environment and social security, for example, is likely to be popular with the electorate. And with the long-awaited Henry tax review due to be publicly released soon, the government will need money to smooth the transition to the simpler and more efficient tax/transfer regime that it's promised. Constraining defence spending to allow higher social spending or tax reform would be unlikely to meet public resistance. It's been almost a

decade since the shock of 9/11, and defence is simply not the pressing issue it once was. The 2010 election will not be khaki.

Second, there is a macroeconomic argument for constraining government spending over the next few years. As Reserve Bank Governor Glenn Stevens recently observed, ‘There may well be attractions for fiscal authorities in committing to a path of relatively rapid fiscal consolidation, thereby allowing monetary policy to be more accommodative than otherwise.’ Put simply, a quick return to surplus would put less pressure on interest rates, reduce the cost of servicing government debt and allow more room for private investment.

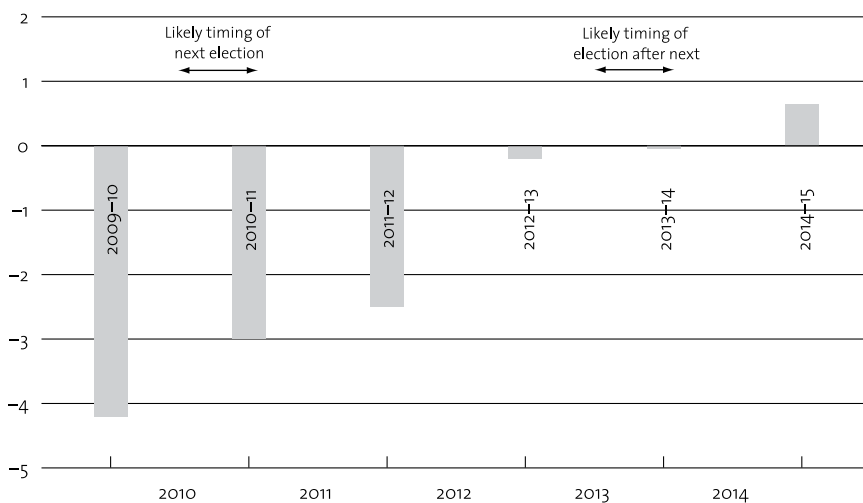
Third, irrespective of economic considerations, there’ll be a political imperative to return the budget to surplus as a tangible sign of responsible economic management. At the time of the 2009 Budget, it was expected that the government would return to surplus in 2015–16, but improved economic circumstances have brought that date forward to 2014–15. Better still, the projected

deficits in 2012–13 and 2013–14 are decidedly shallow, as shown in Figure 3. But what’s good news for the government is not necessarily good news for Defence.

The risk (for defence spending) is that the government will limit expenditure so as to bring the budget into surplus in time for the election after next in late 2013 or early 2014. This would require reducing spending enough to move from deficit to surplus two years earlier than currently projected. Past experience shows that this is far from a remote possibility. In the recessions of the early 1980s and 1990s, the most aggressive cuts to defence funding occurred not during the actual downturn but during the recovery, around the point when the budget returned to surplus.

So, while it’s possible that the government will reinstate all or some of the funding it took from Defence last year, there are powerful countervailing factors working against that possibility. In fact, it’s entirely conceivable that Defence will be told to tighten its belt yet again, come budget night in May.

**Figure 3: Projected fiscal balance to 2014–15**



Source: ASPI analysis of data from the 2010 Intergenerational Report

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