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Australian Defense in the Era of Austerity: Mind the Expectation Gap

By Andrew Shearer

Like many other Western states, following the Cold War, Australia cut its defense budget, resulting in significant shortfalls in key military capabilities. Since the mid-1990s, successive Australian governments have outlined plans intended to boost the capabilities of Australia's armed forces. However, these strategic ambitions have in recent years been undercut by changes in government spending priorities and shortfalls in the national budget, jeopardizing the long-standing technological advantage Australian forces have enjoyed over other states in the region. As major Asian states such as China continue to grow their economies and modernize their armed forces, Australia must commit sufficient resources to its modernization agenda or risk losing its ability to help shape the Asia-Pacific security environment and risk fulfilling its role as a key US partner in America's pivot to Asia.

This is the fourth National Security Outlook *in a series about the defense capabilities of America's allies and security partners.*[1]

Like many Western countries, Australia looked for a peace dividend when the Cold War ended. Defense spending fell, ground forces in particular were cut, and key capabilities such as strategic lift were allowed to wither. By the mid-1990s, Australia had only four undergunned and understrength infantry battalions. It made a token contribution (two frigates, a supply ship, and a handful of medical and other support personnel) to the First Gulf War in 1991 and provided peacekeeping forces, most notably in Cambodia. But the military participated in no major combat operations for more than two decades after the Vietnam War. High-end defense capabilities such as antisubmarine warfare were starved of funds and training opportunities and were allowed to atrophy.

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Before coming to office in 1996, former prime minister John Howard had been a strong critic of the preceding government's underfunding of defense. At the start of the Howard government's tenure, it made extensive spending cuts to restore the national budget to a surplus, but deliberately quarantined defense. The real watershed for defense, however, came with Australia's leadership

Key points in this *Outlook*:

- After sustaining a 10 percent cut in 2012, Australia's defense budget is unlikely to exceed 1.7 percent of gross domestic product (GDP) over the next five years.
- As China and other regional powers procure advanced weapons systems, Australia risks losing its long-standing capability edge in key categories such as naval warfare and air combat, a risk that will only be exacerbated by future shortfalls in planned spending.
- Australia must make a commitment to boosting its military capabilities to ensure that it can make a credible contribution in the unilateral and multilateral defense roles it has signed up for.

of the International Force for East Timor, the regional coalition that in 1999 intervened to restore order in East Timor.

According to the Australian government's own estimates, defense spending will be capped as a share of GDP at 1.66 percent through at least 2017–18.

The East Timor operation was a major military, diplomatic, and political risk for an Australian government that was relatively inexperienced in international affairs. Notwithstanding a United Nations mandate for the operation, opposition by rogue Indonesian military units or even inadvertent conflict with Indonesia could not be ruled out. These outcomes were avoided, and the operation was judged a success. But the Australian government was alarmed by the capability gaps revealed by the operation—in particular, the shortcomings in what was needed to deploy and sustain a modest expeditionary force even a short distance from Australia.

The result was the 2000 Australian defense white paper that committed to grow the defense budget by an average of 3 percent per year, in real terms, over the following decade.[2] It outlined a 10-year plan to boost air, maritime, and strike capabilities and to ensure that Australia could sustain a brigade-sized force on operations for an extended period while still having a smaller reserve available for other contingencies. During the Howard government's years in office, Australian defense spending increased by 47 percent in real terms and approached 2 percent as a proportion of gross domestic product (GDP).

The 2000 white paper highlighted the importance of the United States to Asia-Pacific security while also flagging that China was likely to pose challenges for the US strategic role in the future. It likewise emphasized that through the alliance, Australia gained invaluable access to US military technology, intelligence, and training opportunities. As a result, the Howard government placed a premium on interoperability with the United States when the government made major defense acquisition decisions. However, the 9/11 attacks and the Australian government's response—which included invoking the Australia, New Zealand, United States Security Treaty (ANZUS) for the first time and committing air, naval, and special forces to coalition military operations against al Qaeda and the Taliban—took Australia–US military and intelligence cooperation to a new level.

Australian Defence Force (ADF) participation in US-led coalition operations in the global war on terror saw Australian air, naval, and special forces operate more closely with their US counterparts than at any time since Vietnam and across a much larger and vastly more complex area of operations. The sharing of intelligence and access to battlefield information systems between the two countries reached unprecedented levels.[3] There were, however, limits to the ADF's contribution. Australia lacked the full range of capabilities, particularly those enablers necessary to deploy and sustain conventional ground forces at (or above) battalion strength in major combat or stabilization operations in Afghanistan or Iraq.

In 2007, Kevin Rudd's government sought to differentiate itself from Howard's by opposing Australia's military involvement in Iraq; however, it offset this by sustaining Australia's troop contribution in Afghanistan and by reaffirming its strong support for the US alliance. The Rudd government's 2009 defense white paper extended Howard's 3 percent real growth spending target to 2017–18.[4] It also called for a "more potent and heavier" maritime force by 2030, including a fleet of 12 larger and more capable submarines. It also emphasized the need for the ADF to strengthen its offensive strike capabilities; modernize its intelligence, surveillance, and reconnaissance (ISR) systems; and expand its cyber warfare capacity.

In the white paper and the accompanying media briefing, the government clarified that the major driver of these decisions was the regional uncertainty caused by China's rapid military modernization. It went further than previous Australian governments in publicly querying the strategic intentions underlying Beijing's rapid acquisition of blue-water naval capabilities and in calling for greater transparency regarding China's defense plans.[5]

However, the 2009 white paper was undermined from the outset by a mismatch between strategic aspirations and capacity to pay for them. The document provided a credible analysis of the regional security environment and a force structure to match, but the funding commitments were weakly rooted.[6] The document's strong association with Kevin Rudd became a further vulnerability when the Labor Party peremptorily replaced him as prime minister with Julia Gillard in June 2010.

The extent of the 2009 white paper's overreach became obvious in the 2012 budget, when the politically and fiscally embattled minority Gillard government

slashed defense spending by 10 percent—the largest reduction since the end of the Korean War. This followed a 5 percent cut the year before.[7]

A total of AUD5.5 billion was stripped from the budget over four years, including AUD3 billion in reductions for new military equipment and AUD1.2 billion in facilities construction. And equipment procurement was further reduced by AUD2.9 billion as a result of government reallocations. Consequently, Australia's defense spending fell to 1.56 percent of GDP—the lowest level since 1938. Faced with this obvious gap in strategic vision and available resources, the Gillard government moved up the scheduled five-yearly defense review from 2014 to 2013.

2013: Papering over the Chasm

The defense planners who drafted the 2013 white paper faced the unenviable task of repairing the view that the government was not serious about the country's defenses. However, the paper's proximity to the forthcoming Australian election on September 7 means it has inevitably been interpreted as a political as much as strategic document.

The 2013 white paper's greatest distinguishing factor is its tone regarding China's growing regional influence. In contrast to its 2009 predecessor, the newest paper proclaims that "Australia welcomes China's rise" and, rather defensively, that "the Government does not approach China as an adversary."[8] While acknowledging that "China's defence budget continues to record significant year-on-year increases," it describes China's ensuing rapid military modernization as "a natural and legitimate outcome of its economic growth."[9] It highlights the China–US relationship as the single most important determinant of Australia's strategic environment in coming decades and forecasts that a degree of Sino-American competition is inevitable.

But the 2013 paper concludes (without much compelling evidence) that "Australia sees the most likely future as one in which the United States and China are able to maintain a constructive relationship encompassing both competition and cooperation."[10] It also emphasizes Australia's commitment to pursue "strong and positive" defense relations with China, including annual defense talks, ministerial-level strategic discussions, working-level exchanges, and humanitarian and disaster-relief exercises.[11]

The message was not lost on Beijing: a Chinese foreign ministry spokeswoman said the white paper shows "respect" for Australia's relationship with China and expressed hope that it marked a "turning point" in Australian attitudes.[12] China's continued maritime assertiveness in the South China Sea and in waters disputed with Japan as well as the Australian public's deep-seated ambivalence about aspects of China's rise mean that this is unlikely.[13] But the fact that Australia has toned down its official public position on China's military modernization represents a not insignificant tactical victory for Beijing in the Western Pacific.

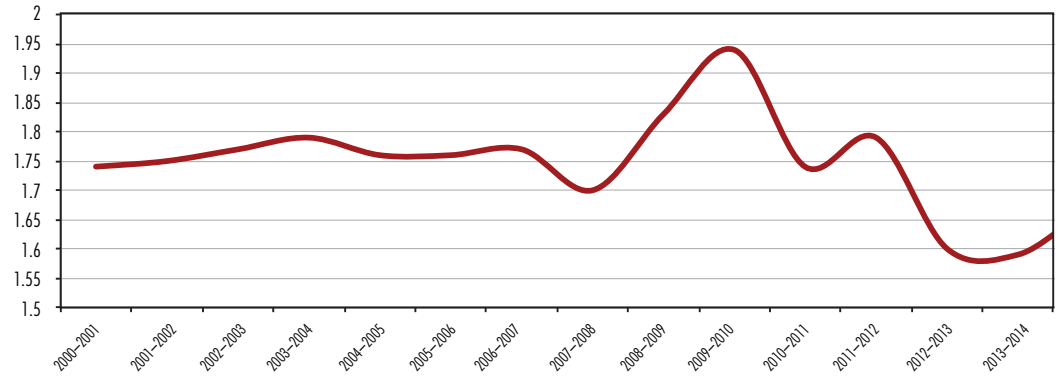
The second prominent theme of the 2013 white paper is its fin de siècle emphasis on the drawdown of long-standing ADF contributions in East Timor (withdrawn in March 2013), the Solomon Islands (withdrawn in mid-2013), and Afghanistan (withdrawn by the end of 2013). Former prime minister Gillard emphasized this drawdown when she declared the end of the 9/11 era.[14]

The white paper anticipates that the drawdowns will allow the ADF to refocus its efforts on stabilization and humanitarian assistance operations in Australia's immediate region and on enhancing the ADF's presence in northern and northwestern Australia, where much of Australia's natural resources wealth is located.[15] This echoes Barack Obama's Middle East drawdown and "pivot" to Asia, with perhaps similar wishful thinking that Australia's national interests can be circumscribed to its immediate neighborhood and that tomorrow's threats to Australia's security can be divined today.

The third change in emphasis in the 2013 white paper was the adoption of the Indo-Pacific as an organizing principle for Australian strategic policy. It confirms that "The Indian Ocean will increasingly feature in Australian defense and national security planning and maritime strategy" and that the ADF needs to be prepared to play a part in securing these sea lanes.[16] This is consistent with Australia's Indian Ocean littoral status and the increased prominence of the Indian Ocean in developing US strategic policy. And while the emphasis given to the Indo-Pacific region is in some respects a continuation of previous defense thinking, the increased focus is significant nonetheless.

The final noteworthy thematic departure of the 2013 white paper is the emphasis on fiscal uncertainty. The chapter on finances commits the government to a defense budget that delivers the capabilities to meet preparedness requirements and to protect Australia's national security interests. But it flags that the Australian fiscal environment "remains challenging" and stipulates that this commitment is subordinate to the priority the government places on improving the overall budget situation.[17] Many

FIGURE 1
DEFENSE EXPENDITURE AS A PERCENTAGE OF GDP, 2000–14



Australian Strategic Policy Institute, "The Cost of Defence: ASPI Defence Budget Brief 2013–2014," May 30, 2013. www.aspi.org.au/publications/publications_all.aspx.

Australian defense commentators expressed skepticism about the likelihood of the force structure outlined in the white paper being adequately funded and about the likelihood that defense spending would return to the aspirational target of 2 percent of GDP.[18]

Australia's Defense Budget: Not Keeping Up with the Joneses

After the 10 percent 2012–13 defense budget cut, the 2013–14 budget represented something of a return to normalcy. The government allocated AUD25.3 billion for defense, an increase of AUD1.2 billion (2.25 percent) over the previous year. This modest increase will nudge defense spending from 1.56 percent of GDP to 1.6 percent (see figure 1). The planned allocation will grow to AUD30.7 billion in 2016–17, with AUD 8.3 billion budgeted for new projects across the next four years—representing real growth of 10 percent annually in capital investment.[19]

Overall, however, the budget does not redress the cuts of the previous two years.[20] The budget documents reaffirm the government's intention to attain the 2 percent of GDP target, but this will not happen soon: "This is a long-term objective that will be implemented in an economically responsible manner as and when fiscal circumstances allow."[21] According to the government's own estimates, defense spending will be capped as a share of GDP at 1.66 percent through at least 2017–18.[22]

This leisurely return to a credible level of defense spending is difficult to reconcile with a regional security environment that, if anything, has deteriorated since the 2009 white paper was published. As the 2013 paper makes clear: "we are witnessing the evolution of a more complex and competitive order" and "Australia's relative strategic weight will be challenged as the major Asian states continue to grow their economies and modernize their military forces."[23]

The paper notes that neighboring countries are introducing advanced weapons systems including beyond-visual-range air-to-air missiles, air-to-air refueling, modern surveillance radars, digital data links, highly capable airborne early-warning and control platforms, and electronic warfare (EW) systems, which together can provide a significant increase in combat capability.[24]

For Australia—a country with a small population that occupies a vast island continent with an extensive coastline and massive territorial waters—maintaining sophisticated forces with a technological edge over neighboring countries has long been a keystone of its defense policy. Recent regional defense acquisition trends are reducing the strategic depth that has long benefited Australian security and are making it more expensive to maintain that capability edge.

As noted previously, the 2013–14 budget does commit additional funds for procuring equipment, including AUD2.94 billion to acquire 12 EA-18G Growler aircraft, which will complement the existing 24 F/A-18E/F Super Hornets, purchased in 2006 as a hedge against late delivery of the F-35 Lightning II aircraft.[25] Australia has allocated up to AUD16 billion for the F-35 program, with plans to buy up to 72 F-35s initially and potentially another 28 later on. The budget also allows for:

- Fast-tracking replacement vessels for the existing fleet of Armidale-class patrol boats;
- Replacing two fleet replenishment ships;
- Installing Australian-designed phased-array radar on the navy's future frigates;
- Establishing a joint US–Australia-operated C-band radar space surveillance installation in Western Australia; and
- Acquiring P-8 Poseidon maritime surveillance aircraft.[26]

Funding for operations is down, ostensibly reflecting the drawdown of ADF operations in Australia's immediate region and the departure of 1,000 of Australia's 1,650 troops in Afghanistan by the end of 2013. Spending on operations will drop from AUD1.5 billion in 2012–13 to less than AUD1.0 billion in 2013–14.

Australia has made a clear commitment to support the US rebalance to the Asia-Pacific, yet it remains to be seen whether the Australian defense budget will be able to meet its side of the capability, readiness, and operational bargain.

Australia's two largest political parties—Labor and Liberal—agree that current levels of defense funding are inadequate. As noted earlier, the current Labor government has set 2 percent of GDP as a long-term goal for defense spending, conditioned on the fiscal situation. The Liberal Party, which leads the Coalition of opposition parties, has said it will "restore sensible defense spending to 3 per cent real growth per year subject to improvements in the Budget."[27] In both cases, the devil will be in the details. And the outlook is far from promising, owing to rapid expansion in government spending by successive Labor governments, ballooning health care costs, and deteriorating national revenues tied to a variety of factors, including a slowdown in commodity exports to China.

As a result, economic forecasters are warning that Australia could face annual budget deficits for the next decade.[28] Add in the costs of new entitlement programs and it is difficult to be optimistic about Australia returning to a credible level of defense spending anytime soon.

This funding crunch comes at a time when the United States faces its own fiscal pressures and deep defense budget cuts. Consequently, Washington's expectations for its allies are rising. The Obama administration is demanding US partners make credible contributions to defense and security by maintaining modernized and ready forces and by taking the lead in regional security and stabilization operations. Senator McCain's pointed criticism of the Gillard government's defense cuts likewise suggests that a future Republican administration is unlikely to have lower expectations.[29] Australia has made a clear commitment to support the US rebalance to the Asia-Pacific, yet it remains to be seen whether the Australian defense budget will be able to meet its side of the capability, readiness, and operational bargain.

Procurement Programs: Seeking an Edge

Australia has introduced a number of significant new military capabilities in the past decade, many of them as a result of decisions made by the Howard government. These include E-7A Wedgetail airborne early-warning aircraft, C-17 Globemaster III transport aircraft, KC-30 air-to-air refuelers, M1 Abrams tanks, F/A-18E/F Super Hornet combat aircraft, and Tiger ARH attack helicopters. The regular army and special forces have expanded since 2000. Nevertheless, Australia faces a number of major capability challenges over the next decade and beyond.

Foremost among these is replacing Australia's increasingly unreliable fleet of six conventional Collins-class submarines. These boats have been plagued with problems since they were delivered between 1996 and 2003, including propulsion system issues, poor availability, a shortage in skilled operators, and significant limitations in combat capability.[30] Efforts to address some of these problems with a new combat system and the acquisition of new heavyweight torpedoes began in 2002. But based on current plans, it will not be until 2016 that all of the submarines will have the new combat system installed.[31] Moreover, retirement of the Collins-class fleet is expected between 2022 and 2031, resulting in a potential submarine capability gap in the late 2020s.[32]

The 2009 white paper committed the government to acquiring 12 larger, more capable conventional submarines to replace the Collins class—all of which were to be built in South Australia. Despite many commentators' views that this commitment was financially unsustainable and technologically beyond Australia's reach,

the 2013 white paper reaffirmed both the need for 12 conventionally powered submarines and the plan to have them built in Australia.[33]

Australia's long coastline and distances from key operating areas necessitate a submarine force with extensive range and endurance, capabilities that go well beyond those provided by most conventional designs. These characteristics can only be incorporated in a very large hull. Indeed, a number of Australian and US analysts have argued that Australia's needs could best be met by acquiring nuclear-powered submarines, most likely from the United States.[34]

Despite arguments in favor of this option, it remains politically controversial and the Labor Party has expressly ruled it out. Officials have, however, confirmed that the submarines will be equipped with US heavyweight torpedoes and a US-supplied combat system.[35] Defense technological cooperation with Japan on this front is also a possibility.[36] But in the meantime, the looming submarine capability gap is becoming a matter of increasing urgency for Australia's defense planners.

The other major potential gap is in air-combat capability. Australian governments are typically sensitive to any suggestion of a gap in air capabilities. Faced with an aging F/A-18A/B fleet, the earlier-than-anticipated withdrawal from service of its fleet of F-111 Aardvark strike aircraft, and delays in the development of the fifth-generation F-35, the Howard government decided to purchase 24 Super Hornets as a hedge against this eventuality.

The 2013 white paper continues this prudential approach. It takes note of the emerging advanced air-combat and air-defense systems in the region, the proliferation of modern EW systems, and the growing risk EW systems pose to Australia's ability to control the air, conduct strikes, and support land and naval forces.[37] Against this challenging backdrop, the white paper is unequivocal that "The Government will not allow a gap in our air-combat capability to occur."[38] It reaffirms Australia's commitment to the F-35 program, with an expectation that three operational squadrons of up to 72 aircraft will enter service around 2020. In response to the proliferation of sophisticated EW systems, it also commits to acquiring 12 new Growler electronic attack aircraft, which will make Australia the only country outside the United States with this capability.

Together with the six E-7 Wedgetail early-warning and control aircraft, these new systems will provide Australia with significantly enhanced networking capability among its forces, interoperability with US forces, and the ability to operate in a more "contested" regional environment. After delays in development, the Wedgetail is now meeting or exceeding performance parameters and will have the capability to detect and identify potential enemy electronic emissions at great ranges.[39] The Royal Australian Air Force's future dependence on the F-35, however, means that Canberra will remain acutely sensitive to any further delays and capability issues affecting the program and to future reductions in the overall size of the program that would drive up the F-35's unit cost.

The middle of this decade will also see the transformation of Australia's amphibious capabilities with the introduction into service of two Spanish-designed Landing Helicopter Docks (LHDs) which, at 27,000 tons, will be the largest-ever ships to serve with the Royal Australian Navy. They will improve interoperability with the United States and regional partners and increase Australia's ability to respond to a range of contingencies. The rotation of US Marines in Northern Australia will provide extensive training opportunities to build on Australia's increased amphibious capabilities.

Under Plan BEERSHEBA, the Australian Army is being restructured into three multirole combat brigades, including a battalion designated as the core of a future amphibious force.[40] It remains unclear, however, how much ground combat power Australia will be able to deploy and sustain. A combination of capability and political considerations has constrained the situations in which the Australian government has been prepared to use land forces.

In 2006, for example, Canberra deployed an amphibious task force to waters off of Fiji in response to an anticipated military coup. However, a major factor in the government's ultimate decision to not intervene was the concern that the ADF lacked the firepower to overcome the well-trained Fijian military at an acceptable cost to Australian forces. In Iraq and Afghanistan, the government preferred to commit special forces to initial combat operations rather than commit larger ground forces, again in part because of perceived capability limitations in firepower, force protection, and combat enablers and the resulting political risks such a deployment would entail.

In both cases, Australia did subsequently take on larger stabilization responsibilities—in Iraq's Al Muthanna Province and in Afghanistan's Uruzgan Province. It is unclear, however, whether the ADF could have on its own held down a "hotter" province in either country

for a prolonged period if the Australian government had made a decision to do so—as the Australian Army did in Vietnam, for example.

Support for the US alliance is strong, with more than 80 percent of Australians regarding the alliance as either "very important" or "fairly important" for Australia's security.

As Australian force planners examine the lessons learned from recent operations, they should advise Australia's current and future political leaders on whether the ADF has the capabilities they assume it has and, if not, whether the ADF should develop them. Coalition planners in the Pentagon likewise need to know what the ADF's actual capabilities are.

The 2013 white paper left two other key capability decisions unresolved. The first of these is whether to equip Australia's three new air-warfare destroyers with SM-3s (Standard Missile 3s) so Australia can be involved in missile defense operations. The ships will be actively outfitted with the US Aegis Combat System, capable of detecting and tracking a variety of missiles including ballistic missiles, and will operate with American, Japanese, and South Korean naval forces. And while the white paper recognizes the increasing threat posed by ballistic missiles, it rather vaguely commits the government to "continue to examine potential Australian capability responses."[41]

The second unresolved matter is cruise missiles. Currently, Australia's main weapon for strike missions is the Joint Air-to-Surface Standoff Missile, launched from the air force's F/A-18 aircraft and with a range of over 200 nautical miles. This capability will be augmented when the F-35 is introduced, with its stealth characteristics and suite of precision weapons and ISR systems. The 2009 white paper, however, went further, committing the government—in a major departure for Australia and for the Southeast Asian region—to acquiring maritime-based land-attack cruise missiles to be fitted to the new air-warfare destroyers, future frigates, and to the successors to the Collins-class submarine fleet.[42]

With no explanation, however, the 2013 white paper seems to have stepped back from this commitment, stating only that it would look into "options for the Government to expand strategic strike capabilities if required."[43] This development presumably owes as much to the government's current fiscal problems as it does to any alteration in the regional security environment outlined in the 2009 white paper.

Sustainability, Readiness, and Posture in Northern Australia

Sustainment has been a major challenge for the ADF since the late 1990s. Multiple operations abroad have placed significant strain on personnel, equipment, and support systems. ADF recruitment and retention have generally held up well, with Australia's military forces enjoying public support and with enhanced pay and housing conditions boosting the attractiveness of military service. With the acquisition of C-17 and C-130J Super Hercules transport aircraft and the LHDs, the ADF will enjoy enhanced strategic lift capabilities and an increased capacity to support deployed forces.

Although the defense budget has come under pressure in the last few years, the 2013 white paper avoided declaring a post-drawdown "peace dividend," stating that despite the more fiscally constrained environment, there would be no reduction in overall ADF personnel numbers.[44] Significant pressures and deficiencies remain, however. Shortages of specialist skills in some areas have been exacerbated by the Australian minerals boom, with the demand for engineering and related trades in particular draining individuals from the military.

This has resulted in reduced operational availability in some arms of the ADF such as the submarine fleet. The navy's amphibious fleet has suffered a series of major mechanical failures owing to systemic sustainment and maintenance failures, forcing the government to make the rushed purchase of a former British vessel to make up the shortfall.[45] As noted earlier, the army's fleet of light armored vehicles has experienced unanticipated wear and tear as a result of sustained deployments and will require significant rehabilitation as troops deploy back to home bases.

Maintaining readiness during a period of reduced operational tempo will be another major challenge for the ADF. One possible consequence of the reduction in the operational budget noted above will be fewer funds for training.[46] This is likely to affect the active-duty army in particular, but will also impact the training for reserve forces.

A more uncertain regional security environment, the growing strategic importance of the Indian Ocean, and community concerns about the potential vulnerability of Australia's vital natural resources led the government to commission a review of the ADF's force posture in 2011.[47] The review found that the ADF needs to be postured to

support high-tempo military operations in Australia's northern and western approaches and recommended a number of steps to strengthen the ADF's presence and ability to sustain such operations, including:

- Upgrading airbases in Northern and North Western Australia to handle larger aircraft types (necessary to implement the agreement reached during President Obama's November 2011 visit to Australia for increased rotations of US aircraft);
- Increasing ADF aircraft and ship deployments to the area;
- Upgrading airfield facilities at Cocos Island (an offshore Australian territory proximate to the Bay of Bengal and the western approaches to the strategically vital Strait of Malacca) to support future operations by P-8A maritime surveillance aircraft and unmanned aerial vehicles (UAVs);
- Expanding facilities at HMAS Stirling, the Royal Australian Navy's major west-coast base near Perth, to support deployments by major surface combatants of the US Navy;
- Giving consideration to hardening forward-operating bases; and
- Enhancing facilities and opportunities for training with US and other partner militaries.

The government has accepted the thrust of the force posture review and is already implementing some of its more straightforward recommendations.[48] The government also announced that it would seek opportunities with the United States to jointly fund improvements to bases, facilities, and training infrastructure as part of the enhanced practical defense cooperation measures announced in 2011.

The US-Australia Alliance: Southern Hinge of the US Pivot?

US-Australia security cooperation deepened and broadened significantly during the post-9/11 decade. This included closer operational, intelligence, and counterterrorism collaboration; greater Australian access to US defense information and systems; and the 2007 signing of the Australia–US Defence Trade Cooperation Treaty to streamline defense industrial cooperation. The treaty, which came into force in May 2013, is intended to facilitate exports of defense goods, services, and technology and to improve delivery times and sustainment. It complements the ADF's acquisition of a range of weapons systems that are able to operate seamlessly with US forces.

Initial talks on enhanced US military access to Australia preceded the Obama administration's pivot, or rebalance, to Asia, and should be seen in the context of intensifying strategic links. The talks were quietly initiated by the Howard government in 2007 with the George W. Bush administration, building not only on the post-9/11 alliance relationship but also with an eye toward shifting power dynamics in the Asia-Pacific region.[49]

By 2011, governments around the region were becoming concerned with China's increasingly assertive behavior and looking for reassurance about America's staying power in the Western Pacific following the 2008 global financial crisis. Washington, for its part, was seeking options to facilitate a more distributed military footprint in Asia, closer engagement with Southeast Asia, and enhanced access to vital Indian Ocean sea lanes of communication.

The result was President Obama's speech to the Australian parliament in November 2011 in which he laid out Washington's rebalancing strategy. During his visit, the two governments announced that Australia was the first country in the region to agree to an enhanced US military presence. This would include both a rotational Marine Corps presence in Darwin—which by 2016–17 would build to a 2,500-strong Marine Air-Ground Task Force—and increased use by US Air Force aircraft of airbases in Northern Australia.

The current marine rotation numbers around 200 and an assessment has just been released to prepare for rotations of up to 1,100 personnel.[50] And while there has been some concern that the Labor Party's support for these initiatives may be ebbing, Defense Minister Stephen Smith is on record as stating that the government's current fiscal difficulties will not have an adverse impact on enhanced cooperation with the United States.[51]

What could have an impact over time, however, is an increasingly vocal strand of elite opinion in Australia that sees the country's growing economic interdependence with China as incompatible with its security ties to the United States.[52] Beijing exploits this anxiety in an increasingly sophisticated public diplomacy effort in Australia.[53]

US officials, however, have grounds for cautious optimism on this score. First, neither major political

FIGURE 2
AUSTRALIA'S STRATEGIC NEIGHBORHOOD

party shows any sign of a weakened commitment to the US alliance. The Labor Party went out of its way to state in the 2013 white paper that "The Government does not believe that Australia must choose between its long-standing Alliance with the United States and its expanding relationship with China."[54] The Liberal-led Coalition took this view under Howard and maintains that position.

Second, public opinion is unequivocal. Support for the US alliance is strong, with more than 80 percent of Australians regarding the alliance as either "very important" or "fairly important" for Australia's security.[55] Nearly three-quarters believe the United States will be Australia's most important security partner over the next decade and a similar proportion are in favor of "up to 2,500 U.S. soldiers being based in Darwin."[56] Third, China's behavior in disputed waters in the Western Pacific shows few signs of moderating and is likely to sustain support for the alliance as a hedge against future uncertainty and as a counterweight to China's economic influence in Australia.

Assuming that the base of support for the alliance in Australia remains strong, enhanced defense cooperation is likely to deepen and to continue extending into newer areas. During World War II, Australia was vital to the US Pacific War effort because Australia offered strategic depth and access to crucial sea lanes of communication. And the joint Australia–US intelligence facilities have made a vital contribution to the security of both nations for the past several decades. While circumstances are obviously different today, those strategic considerations remain important.

In addition to the aforementioned increased deployments of American sea and air assets to Australia, the ramped-up program of amphibious training exercises with the ADF, and the potential creation of a genuinely joint expeditionary capability, discussions have started about the use of the enhanced airfield on Cocos Island to support operations by maritime surveillance aircraft and UAVs. Australia and the United States have also stepped up defense cooperation in the realms of cyberspace and space, including the establishment of the new joint space surveillance installation in Western Australia.

Close defense industrial, intelligence, and operational cooperation will also remain vitally important, particularly for Australia. US technical support was essential to rehabilitating the Collins-class submarines, and the 2013

white paper makes explicit that Canberra will look to Washington for assistance to deliver its ambitious submarine replacement program.[57] Integrating the sophisticated F-35 into the ADF and networking it with a suite of other interoperable capabilities will likewise require unprecedented levels of Australia–US collaboration.

The ADF can make an important operational contribution to the evolving Air-Sea Battle (ASB) concept, not only by facilitating a more distributed American force posture in the Asia-Pacific region, but also by participating in "distant blockade" operations around Southeast Asian maritime chokepoints and by augmenting US enabling capabilities such as tanker aircraft, EW assets, and strategic lift in contingencies.[58]

But deepening cooperation will require greater effort on Washington's part to more fully articulate its vision for ASB and the roles allies are expected to play. At the same time, deepened defense and strategic ties will require more maturity in Australia about the need for closer involvement in a range of detailed US military contingency planning and the attendant diplomatic challenges that will inevitably arise as a result.

Conclusion

As global power shifts increasingly toward Asia, Australia, the United States, and their alliance face major strategic challenges. China's rise and its rapid military modernization are transforming the regional security environment. The People's Liberation Army's development of anti-access and area denial capabilities is challenging the US military's ability to operate in the Western Pacific and is reshaping the regional military balance. Moves by other Asian powers to acquire sophisticated weapons are contributing to a more complex and contested region and eroding Australia's long-standing military capability edge.

Against this backdrop, it seems imperative that Australia's own military modernization agenda proceed apace. As a result of the Gillard government's defense cuts and predicted revenue pressures for the next decade, however, Australia's modernization plans are now at risk. The funding shortfalls outlined in the 2009 and 2013 white papers may be as much as AUD33 billion for the period 2009–22.[59] The consequence, according to a leading expert on the Australian defense budget, is an inevitably slow modernization of the defense force.[60]

A related alliance-based challenge will be managing US expectations. Reasonably enough, the United States is looking to its Asia-Pacific allies, including Australia, to shoulder a greater share of the burden of maintaining a favorable balance of power in the region. Continuing support for enhanced defense cooperation in Australia is part of this expectation, as is an increased Australian contribution to maintaining deterrence through stepped-up operational cooperation. Australia is doing this unobtrusively in the realms of space and cyber warfare, intelligence collection, and ballistic missile early warning, but it must accept a more public and upfront role in other areas such as missile defense and participation in ASB.

Australia will also need to continue efforts to step up its own defense engagement with other US regional partners such as Japan, Indonesia, India, and South Korea, utilizing mechanisms such as the Australia–Japan–US Trilateral Strategic Dialogue and establishing new, informal "minilateral" security groupings that incorporate India and Indonesia.

It is unclear how the forthcoming Australian election will affect the nation's defense policy. The center-right Coalition traditionally places importance on defense, and the opposition has committed itself to producing a new, properly priced defense white paper within 18 months of taking office and to making the necessary decisions within that timeframe to avoid any submarine capability gap.[61]

The opposition has also signaled a less constrained approach to supporting US military forces in Australia should it win office. Ultimately, however, the Liberal Party-led Coalition's ability to deliver on defense would depend on its success in restoring the budget to a sustainable trajectory and the priority it places on defense and maintaining a strong US alliance.

The defense implications of a Rudd election victory are even less clear. Judging by the 2009 white paper, Rudd's instincts on defense are hawkish, and he may seek to restore its ambitious force structure goals. His ability to deliver on them, however, would be significantly constrained by Australia's difficult fiscal outlook and his own party's appetite for increased domestic spending.

The jury will remain out until Australia's new government confronts its own inevitable first national security test and delivers its first defense budget.

The views expressed in this Outlook *are my own and in no way reflect the position of the State Government of Victoria.*

Notes

1. To read the other three *Outlooks* in this series, see Gary J. Schmitt, "Italian Hard Power: Ambitions and Fiscal Realities," AEI,

October 2012, www.aei.org/outlook/foreign-and-defense-policy/regional/europe/italian-hard-power-ambitions-and-fiscal-realities/; Patrick Keller, "Challenged for European Defense Budgets after the Economic Crisis," AEI, July 11, 2011, www.aei.org/outlook/foreign-and-defense-policy/regional/europe/challenges-for-european-defense-budgets-after-the-economic-crisis-outlook/; and Marcial Hernandez, "Dutch Hard Power: Choosing Decline," AEI, April 3, 2013, www.aei.org/outlook/foreign-and-defense-policy/regional/europe/dutch-hard-power-choosing-decline/.

2. Australian Government, *White Paper: Defence 2000* (Canberra, Australia, 2000), xvii.

3. See, for example, Greg Sheridan, *The Partnership: The Inside Story of the US-Australian Alliance under Bush and Howard* (Sydney, Australia: University of New South Wales, 2006).

4. Australian Government, *Defence White Paper 2009: Defending Australia in the Asia Pacific Century: Force 2030* (Canberra, Australia, 2000).

5. WikiLeaks cables subsequently revealed that earlier in 2009, Rudd told incoming US secretary of state Hillary Clinton that Australia's intelligence agencies were closely monitoring China's military expansion and that Australia's planned naval build-up was in direct response to China's growing power-projection capabilities. See Dan Flitton, "Rudd the Butt of WikiLeaks Expose," *The Age*, December 6, 2010, www.theage.com.au/technology/security/rudd-the-butt-of-wikileaks-expos-20101205-18lf2.html.

6. Andrew Shearer, "Australia Bulks Up," *Wall Street Journal Asia*, May 6, 2009, 15.

7. Australian Strategic Policy Institute, *The Cost of Defence: ASPI Defence Budget Brief 2012–13* (Canberra, Australia, 2012), vi.

8. Australian Government, Department of Defence, *Defence White Paper 2013* (Canberra, Australia, 2013), 11.

9. Ibid., 9; 11.

10. Ibid., 9.

11. Ibid., 61–62.

12. John Garnaut, "Why the World is Reading Gillard's Defence Paper," *The Age*, May 10, 2013, www.theage.com.au/federal-politics/political-opinion/why-the-world-is-reading-gillards-defence-paper-20130509-2jak2.html.

13. On the latter point, see Andrew Shearer, *Sweet and Sour: Australian Public Attitudes toward China* (Sydney, Australia: Lowy Institute for International Policy, August 1, 2010), www.lowyinstitute.org/publications/sweet-and-sour-australian-public-attitudes-towards-china.

14. Julia Gillard, "Australia's National Security Beyond the 9/11 Decade" (speech, Canberra, Australia: Crawford School of Public Policy, Australian National University College of Asia & the Pacific, January 23, 2013), https://crawford.anu.edu.au/news/132/prime-minister-julia-gillards-speech-national-security-college. The 2013 white paper acknowledged that, in the period following the East Timor intervention and 9/11, the Australian military has experienced a high operating tempo, with the ADF having undertaken some 100 operations since 1999. And it also correctly highlights the importance of learning the right lessons from the current period and avoiding the pitfalls that followed the ADF's withdrawal from Vietnam in the 1970s, such as the loss of hard-won counterinsurgency capabilities.

15. Australian Government, Department of Defence, *Defence White Paper 2013*.

16. Ibid., 25–26.

17. Ibid., 71.

18. See, for example, Paul Dibb, "Show Us the Money for Defence Spending," *The Australian*, May 6, 2013, www.theaustralian.com.au/national-affairs/opinion/show-us-the-money-for-defence-spending/story-e6frgd0x-1226635611440.

19. Mark Thomson, "Second Chance: Will They Deliver?" *Defence Special Report*, May 25–26, 2013, 1, www.aspi.org.au/pdf/Second_chance-will_they_deliver.pdf.

20. Ibid.

21. See John Kerin, "Cuts Halted Despite Troop Drawdown," *Australian Financial Review*, May 15, 2013, www.afr.com/p/national/budget/cuts_halted_despite_troop_drawdown_8bYul1vRFZka5t7GJYN6jI.

22. See Christopher Joye, "The Lowest Military Spending Since 1938," *Australian Financial Review*, May 15, 2013, www.afr.com/p/national/budget/the_lowest_defence_spending_since_aaGRxTIKT1YZFOZzYfneBK.

23. Australian Government, Department of Defence, *Defence White Paper 2013*, 8; 15.

24. Ibid., 14.

25. Australian Government, Department of Defence, *Budget: Portfolio Budget Statements 2013–14: Budget Related Paper No. 1.4A: Defence Portfolio: Budget Initiatives and Explanations of Appropriations Specified by Outcomes and Programs by Agency* (Canberra, Australia, 2013).

26. Stephen Smith, "Minister for Defence — Budget 2013–14: Defence Budget Overview," May 14, 2013, www.minister.defence.gov.au/2013/05/14/minister-for-defence-budget-2013-14-defence-budget-overview/.

27. Liberal Party of Australia, *Our Plan — Real Solutions for All Australians: The Direction, Values and Policy Priorities of the Next Coalition Government* (Canberra, Australia, 2013), 48.

28. See David Crowe and David Uren, "Treasury Rings Alarm on Surplus As Budget Hole Means Decade of Deficits," *The Australian*, May 23, 2013, www.theaustralian.com.au/national-affairs/treasury/treasury-rings-alarm-on-surplus-as-budget-hole-means-decade-of-deficits/story-fnhi8df6-1226648770308.

29. See Greg Sheridan, "McCain Slams Labor for 'Imprudent' Cuts," *The Australian*, April 27, 2013, www.theaustralian.com.au

/national-affairs/defence/mccain-slams-labor-for-imprudent-cuts/story-e6frg8yo-1226630344660.

30. See Andrew Davies and Mark Thomson, *Mind the Gap: Getting Serious about Submarines* (Canberra, Australia: Australian Strategic Policy Institute, Strategic Insight No. 57, April 2012), 2–6.

31. Ibid., 6.

32. The white paper suggests (perhaps optimistically) that it might be possible to close this gap by extending the retirement window by seven years. See Australian Government, Department of Defence, *Defence White Paper 2013*, 83.

33. Smith "Minister for Defence — Budget 2013–14."

34. See, for example, Ross Babbage, "Why Australia Needs Nuclear Subs," *The Diplomat*, November 8, 2011, http://thediplomat.com/2011/11/08/why-australia-needs-nuclear-subs/; and John Kerin and Christopher Joye, "Labor Split on Nuclear Submarines," *Australian Financial Review*, November 12, 2012, www.afr.com/p/national/labor_split_on_nuclear_submarines_Q5hmLHBo7pneF4K8LpZ4wN.

35. Brendan Nicholson, "Subs Need To Be Out There Doing the Damage," *The Weekend Australian*, May 25–26, 2013.

36. Japan is building its own advanced 4,000–4200 ton submarine. See, for example, Rex Patrick, "Japanese Flavoured Submarines for Sea 1000," *Asia-Pacific Defence Reporter*, October 31, 2012, www.asiapacificdefencereporter.com/articles/270/JAPANESE-FLAVOURED-SUBMARINES-FOR-SEA-1000.

37. Australian Government, Department of Defence, *Defence White Paper 2013*, 88.

38. Ibid.

39. Kym Bergmann, "Better Late Than Never: Wedgetails Overcome Obstacles to Become Envy of the World," *Defence Special Report*, May 25–26, 2013.

40. Australian Government, Department of Defence, *Defence White Paper 2013*, 85.

41. Ibid., 81–82.

42. Australian Government, Department of Defence, *Defence White Paper 2009*, 81.

43. Australian Government, Department of Defence, *Defence White Paper 2013*, 77.

44. Ibid., 71.

45. The vessel is the *HMAS Choules*, formerly *Royal Fleet Auxilary Largs Bay*. For details on sustainment and maintenance issues affecting the Royal Australian Navy's amphibious fleet, see Paul J. Rizzo, *Plan to Reform Support Ship Repair and Management Practices* (Canberra, Australia: Australian Government, Department of Defence, 2011).

46. See, for example, John Kerin, "Military Training To Be Chopped In Budget," *Australian Financial Review*, April 2, 2013, www.afr.com/p/national/military_training_to_get_chop_in_7MzwHhaTbNcIqMRacFRaTP.

47. Allan Hawke and Ric Smith, *Australian Defence Force Posture Review* (Canberra, Australia: Australian Government, Department of Defence, March 30, 2012).

48. Australian Government, Department of Defence, *Defence White Paper 2013*, 47–51. The paper announced, for example, that plans will continue to enhance *HMAS Stirling* to support major surface combatant and submarines operations and it also confirmed the upgrading of the Cocos Island airfield.

49. I was former prime minister Howard's international policy adviser at the time.

50. Brendan Nicholson, "US Alarm At 'Cooling' On Marines," *The Australian*, April 2, 2013, www.theaustralian.com.au/national-affairs/defence/us-alarm-at-cooling-on-marines/story-e6frg8yo-1226610490588; and Australian Associated Press, "200 More US Marines To Arrive in Darwin," April 20, 2013, www.news.com.au/breaking-news/national/more-us-marines-to-arrive-in-darwin/story-e6frfku9-1226624990044.

51. Smith, "Minister for Defence — Budget 2013–14."

52. Hugh White has been the leading academic advocate of this argument. See Hugh White, *Power Shift: Australia's Future between Washington and Beijing* (Melbourne, Australia: Black Inc., September 2010). Others expressing misgivings include former Labor prime minister Paul Keating, former Coalition prime minister Malcolm Fraser, former Coalition leader and current opposition front-bencher Malcolm Turnbull, and leading business figure Kerry Stokes, who said he was "physically repulsed" by the thought of US forces on Australian soil. See Phillip Hudson, "Stop Lecturing China, Says Stokes," *Herald Sun*, September 14, 2012, www.heraldsun.com.au/news/national/stop-lecturing-china-says-stokes/story-fndo48ca-1226474468140.

53. This reportedly includes efforts by Chinese intelligence to influence elite opinion. See, for example, John Garnaut, "Chinese Spies Woo Business Leaders," *The Age*, May 25, 2013, www.theage.com.au/business/world-business/chinese-spies-woo-business-leaders-20130524-2k717.html.

54. Australian Government, Department of Defence, *Defence White Paper 2013*, 11.

55. Fifty-four percent say "very important," 28 percent say "fairly important." See Alex Oliver, The Lowy Institute Poll 2013: *Australia in the World: Public Opinion and Foreign Policy* (Sydney, Australia: Lowy Institute for International Policy, June 24, 2013), 7. See also Fergus Hanson, The Lowy Institute Poll 2012: *Australia and New Zealand in the World: Public Opinion and Foreign Policy* (Sydney, Australia: Lowy Institute for International Policy, June 5, 2012), 9–10.

56. Support for basing US military forces in Australia has grown from 55 percent in 2011 to 61 percent in 2013, perhaps in response to increasing reports of China's military assertiveness during 2012. See Olivier, *The Lowy Institute Poll 2013*, 8.

57. Australian Government, Department of Defence, *Defence White Paper 2013*, 82.

58. See Ben Schreer, "Australia and Air-Sea Battle," *PacNet Newsletter*, no. 30, May 1, 2013.

59. John Kerin, "Arms Wish-List $33bn Short," *Australian Financial Review*, May 30, 2013. At least one senior Obama administration official has voiced clear criticism of the Gillard government's defense cuts. See Peter Hartcher, "US To Take Up Defence 'Freeloading' with Cabinet," *Sydney Morning Herald*, November 10, 2012, www.smh.com.au/federal-politics/political-news/us-to-take-up-defence-freeloading-with-cabinet-20121109-293dr.html.

60. Thomson, "Second Chance: Will They Deliver?"

61. Liberal Party of Australia, *Our Plan — Real Solutions for All Australians*, 48.