

**Speech by Mr Peter Varghese AO, Chancellor of The
University of Queensland, to the AIIA National
Conference, Canberra, 21 November 2016**

For the last three decades our official analysis of Australia's strategic environment has emphasised its fluidity. That trend is rising sharply. Indeed, today we face more uncertainty in our strategic environment than at any time since the Second World War. The election of Donald Trump has just added another significant element.

Today I wish to focus on some of these larger uncertainties. The key point I want to emphasise is that we are heading into uncharted waters and should be prepared for a wide range of outcomes. This puts a premium on being clear eyed about our national interests, getting the first principles right and building the capacity to be able to respond nimbly to whatever comes our way.

Let me begin with the US because it remains the single most

important shaper of our strategic environment.

There are many views of where the US is likely to be positioned in the global power gradient over the next ten or fifteen years.

Some see the US as locked into a spiral of inevitable decline. Others recognise that US power is well anchored but argue that the margin of its primacy is likely to narrow considerably, as China gains more economic and strategic weight and other countries such as India exert greater influence in a more multipolar world. Still others contend that while the margin of primacy will indeed narrow the US will still remain the strongest strategic power globally, not only because of its massive investment in military firepower but also because it will remain the global leader in the industries of the future.

Prior to Mr Trump's election all these scenarios took it as a given that, whatever trajectory the US were to take, there would be continuity in the core elements of US foreign

policy, including support for the liberal international order which is largely a US creation, advocacy of trade liberalisation and a commitment to the unique network of alliances that the US had constructed globally.

Can we still assume these foundational elements of US policy, all of which are squarely in Australia's interests, will continue under a Trump Presidency? The truth is no one knows.

Mr Trump appears to be a bundle of strong instincts but what we do not yet know is if he is also a man of strong policy views which, taken together, form a coherent view of America's place in the world. And if he is such a man, how open will he be in office to changing his view? There is a lot which hang off the answers to these two questions.

Many have rushed to give us the answers in the short period since Mr Trump's election but the reality is we will simply have to wait to find out. We can easily scare ourselves in the meantime but that does not achieve much.

What a Trump presidency will mean for US strategic policy is likely to be revealed step by step and will have to be dealt with accordingly.

So item number one in a basket of uncertainties facing Australia's strategic outlook is the approach President Trump will take in office. There is a lesson here for strategic planners: there is no protection against black swan events. Who would have foreseen, when we were putting together the most recent Defence white paper, that we would be asking ourselves has the US elected as President someone who may dislodge the foundation stones of US strategic policy?

Uncertainty number two is the political and strategic settling point of China.

China is a country and a civilisation which understands power and its sense of place has been shaped by the many centuries in which it was the Middle Kingdom. That pull of

history is likely to play an important role in the way in which China relates to regional states.

China's leaders are acutely conscious of the many challenges they face. They are currently at the start of a profound transition in their economic model towards more market based and consumption driven growth with less emphasis on exports and fixed investment.

The challenges posed by this transition are huge and we underestimate them at our peril. It is a high wire act which seeks both to preserve the monopoly of power of the Chinese communist party while simultaneously allowing the market to determine the allocation of resources. There is no certainty about how this will end.

We all however have a stake in the success of that transition. Abrupt shifts in China's strategic policies, especially flowing from an economic crisis, would be highly destabilising. No one gains if China fails.

China will ultimately define its own strategic settling point. It will not be forced into someone else's view of what it should do or become. Nor is it realistic to expect that the US and China can negotiate some grand bargain to share power in Asia. The process of adjusting to shifting power balances in a multipolar Asia will be incremental and organic.

China's behaviour is likely to be a mix of many elements. It will be a responsible stakeholder where its interests are served. It will not be a classic revisionist power because China has been too much a beneficiary of the existing system to want to completely overturn it. But it will also look to play a greater role in existing institutions and to craft new institutions and arrangements which place it at the centre in a pattern perhaps reminiscent of the Middle Kingdom.

I had always thought that the tensions between an economy which was opening up and a polity which was tightly controlled could be managed in the Chinese context for a

very long time. That may well remain the case but it seems to me that it is becoming harder to achieve.

Much has been said of the challenges Australia will face as it manages its relationship with China and the US respectively. I do not subscribe to the view that Australia will have to make a binary choice between the US and China. But as strategic competition between the US and China sharpens, and if China continues to be dismissive of its international legal obligations in the South China Sea, it will inevitably become harder for Australia simultaneously to pursue our economic interests with China and our strategic interests with the US and in a rules based international system.

Australia has next to no capacity to influence the direction of Chinese politics. We must continue to pursue policies designed to avoid invidious choices. But we also need to have a clear eyed understanding of our core interests, both economic and strategic. We want to see China succeed in its economic reforms and to play a constructive role in the

region and the world. But we also want to see a strategic system in the Indo Pacific which is anchored in the rule of law and which recognises the stability which US strategic engagement brings to the region.

We will not know for some time whether these objectives can be achieved and it would be foolhardy to conclude now that they cannot. In the meantime we need to continue to build a close and comprehensive partnership with China which will not quickly lose its position as our largest trading partner.

Uncertainty number three is the political economy risk which confronts the broader Asia growth story: a risk exacerbated by the tepid outlook for global economic growth.

This risk is not dissimilar to what is happening in China, although the political systems in the rest of Asia are very different.

The last several decades have been decades of growth in Asia. But today virtually all the major Asian economies face deep structural economic challenges. And in almost all cases their political systems are struggling to embark on the reforms needed to address these challenges.

It is here, at the intersection of economics and politics, that the biggest risks to the Asian growth story lies. And while Asia will undoubtedly continue to play a big role in Australia's economic future the rising political economy risk in the region suggests that we should also be alert to the need better to spread our economic risk.

The interplay of politics and economics matters because our region is characterised by a tension between economic interdependence and strategic competition.

Economic space is infinitely flexible. Strategic space tends to be much less so. The challenge of state craft and leadership is to ensure that one does not derail the other.

I have focussed on three large uncertainties but there are many more around the corner. What kind of a strategic power will a Japan, freed from its constitutional constraints, choose to be? How quickly will India, now the fastest growing large economy, immerse itself in the geopolitics of Asia beyond its neighbourhood? Will we see a strategic fault line through the centre of South East Asia as strategic competition between the US and China sharpens and where will Indonesia position itself in this contest? Is democracy losing ground in South East Asia? Will Thailand find a way out of its political impasse? How will Malaysia manage the politics of Islam while holding on to its multiracial compact? Can PNG manage a rapidly rising population and slowing economy without radical improvements in governance?

I suppose it is the conceit of every generation that they face unique challenges. But we do seem to be on the cusp of some large shifts in our international environment which will test both our foreign policy and our capacity to navigate a more complicated world. Ultimately Australia has to make its own way: not by going it alone or turning inwards or

being distracted by a phony debate about whether we need an independent foreign policy, but by building the relationships, norms and institutions which can compensate for the loneliness of a long distance middle power.

We cannot afford to be too narrow in where we put our foreign policy focus. Australia is not a global power but we do have interests across the globe. Asia and the United States will always be central to our interests but we also need to spread our risks and seek out other opportunities.

Australia has been adept at navigating in the slipstream of power, as our pivoting from the UK to the US showed. But if the days of US primacy are drawing to a close, and I for one would not rush to a conclusion about that, we will need to adjust our policy settings. Navigating a multipolar Asia, joined by trade and investment but divided by strategic competition, will test us in ways we have not been tested before.

We cannot base policy on a punt on where the world is heading. In fluid times such as these the best policy response is anchored in a clear eyed view of our national interests, an unsentimental understanding of shifts in economic and strategic weight, a steady commitment to the core values which define our nation, and the diplomatic heft to advance our key relationships and to contribute to the strengthening of effective regional and global institutions.