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**STEERING A SECURE PATH IN THE ASIAN CENTURY**

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**BLAVATNIK SCHOOL OF GOVERNMENT  
UNIVERSITY OF OXFORD**

**\*\*\*CHECK AGAINST DELIVERY\*\*\***

**“[T]he magic of snow falling by the light of a single street lamp”**

It's a pleasure to be here at the Blavatnik School, and a pleasure to be back at Oxford.

This is a town with a particular place in my heart. My father spent the better part of two years here in the 1950s teaching maths at St Edwards School. Following in his footsteps I spent a gap year here working around the corner at the Dragon School in 1985.

For an 18 year old antipodean it was a charmed experience.

Here in the seat of Western learning I discovered the magic of snow falling by the light of a single street lamp in Charlbury Road which felt like the precise vision of CS Lewis' description of Lucy having pushed her way through the coats in the wardrobe to enter Narnia. I participated in the urgent joy with which a sun starved people grab hold of those few temperate weeks in summer and hit a golf ball, play cricket or punt on the Cherwell, all with a Pimms in hand and all late into the evening. There is nothing quite like the way the English celebrate summer. And I learned that the apparent sin of drinking warm beer actually made sense in front of a warm fire at the Rose and Crown sheltering from the arctic temperatures outside.

These experiences also included an introduction into the particular eccentricities which characterise this country. In the performance of my duties at the Dragon I was required to teach a Viscount how to throw a boomerang. I played tennis with a ten year old Tim Henman for an entire tennis season because they had no idea what to do with his prodigious talent. I also saddled up in an invitational Wall Game team at Eton and in the process discovered the single most stupid activity ever conceived.

But at the end of the day if beauty is the inspiration for creativity and genius, then it is little wonder that Oxford is the most renowned place of learning in the world.

Being here is special. Cherish it.

**“[I]t’s the East Asian time zone that will be the fulcrum of ... the world’s strategic contest”**

Coming to a place like Oxford is a no-brainer when you’re a young person. But as a politician in a Westminster system it’s not so obvious. It can be a challenge to find time to spend away from your constituency, even to visit a place at the epicentre of new thinking like this one. There’s lots of learning to be found here, but not a lot of votes, and the last 12 months has seared on to the consciousness of everyone in my profession just which one of those wins out in the end.

Living in a world where information is largely global it’s easy to feel like world-views are globally knowable, too – but that is not true. Because the world looks different depending on where you stand, and it’s only really when you stand in other places that you can appreciate the aspect.

It’s no great insight to say the UK looms fairly large in many Australians view of the world. There’s a lot of legacy, after all. There’s a lot of currency, too: in our most recent figures to date (2016), the second-greatest stock of foreign investment in Australia is from the UK.

In fact, if you look at the stock of foreign investment in Australia, there’s the US, then the UK, then daylight. The US makes up a shade less than 27 per cent of investment in Australia, the UK a little more than 16 per cent. The stock of investment from both places is growing, too: investment from the US has grown by 10 per cent from 2014 to 2016, and by almost 8 per cent over the same period from the UK - and this flow is well reciprocated.

So, the country who gave us our modern form and the country that has been the largest economy in the world for most of our existence, are the two largest investment features in our economy. So far, so normal. That’s a view Australia’s been looking at for some time.

But the story is a little different when we look at trade and even more so when we think about what the world is going to look like in a few decades time.

China has been Australia’s largest trading partner for some time now. South Korea and Japan are both in our top five. And this makes us very normal for we are one of many countries which has China as its number one trading partner: a list which includes South Korea and Japan, the ASEAN countries, India, and the United States.

There’s very little doubt that the economic gravity of the world is moving to the East this century – and that military gravity is following.

For instance, the OECD predicts that the Euro area countries will see their share of global GDP fall by a third by 2060 and the UK will be a part of that change.

China, on the other hand, will see its share rise by almost 20 percent and Indonesia, albeit from a much smaller base, will see its share almost double.

Of course, there's no guarantee that an increase in GDP share will see an increase in the share of military spending. It's obviously possible for countries to grow their military spending more slowly than their economy.

It's possible, but not probable.

While the past is never a perfect guide for predicting the future, it nevertheless gives you a pretty good steer. Over the decade 2006 to 2016, Indonesia's economy grew around 63 per cent, according to the World Bank. Australia's Defence Intelligence Organisation reports that over the same period, their defence spending grew almost 76 per cent.

The proportion of the Indonesian budget devoted to defence grew from 4 to 5 per cent, even as the economy grew. Rather than easing their defence spending effort, they increased it.

The Chinese story is similar: an economy that grew 121 per cent from 2006 to 2016, drove a defence spend that grew 123 per cent.

This is a story that is playing out in India and across the ASEAN countries. And while the more mature economies of South Korea, Japan and Taiwan are not growing at the same rate their defence spend is on the march. In 2018 South Korea will increase spending by 7 per cent to US\$38.2 billion which is 2.3 percent of GDP. In March Prime Minister Abe announced he would abandon the 1 per cent of GDP cap on Japanese defence spending. Accordingly its spending will increase for the fifth straight year to ¥5.1 trillion. And in 2018 Taiwan plans to increase spending by nearly 50 per cent to 3 per cent of GDP.

All this shows a fundamental truth about what's going to happen over the next few decades: increasingly, if it isn't already, it's the East Asian time zone that will be the fulcrum of the world's economy, and the world's strategic contest.

That's not to say there won't be others. But it is to say that this is where the biggest change in balance will happen.

**“The rise of China's middle class ... will be the defining feature of the global economy for the rest of my life time”**

It's a change in balance that has already come a long way, and it's important credit is given where it's due. The single greatest reduction in poverty in history has happened in China over the last four decades. According to the World Bank, 800 million people in China have been lifted out of poverty in a single lifetime. That's an achievement by China that is both fundamental and astounding.

And the predictions of Chinese growth over the next four decades show that it's a change which is not done yet. The rise of China's middle class, the transition of the Chinese economy to one driven by the growth in services and domestic consumption, will be the defining feature of the global economy for the rest of my life time.

So this is one of those times when the view from Australia looks very different to the view from here.

Depending on which statistics you take, in 2016 the United Kingdom has either the fourth or fifth largest trade deficit with China, at somewhere between USD \$37 billion and USD \$41.4 billion. According to your Office of National Statistics, they are your fifth biggest two-way trading partner, but they sell you more than twice as much as they buy from you. There's plenty who wouldn't be fans of that prospect.

The view from Australia couldn't be more different. Even though your GDP is about double ours, we do around \$141 billion in trade with China – and, crucially, we are one of the few countries in the world to run a trade surplus with them of around \$22 billion.

From here, the growth of the Chinese market has a matching trade shadow. From Australia, it looks like an expanding opportunity – one we are always working hard to cement.

That difference in view is not entirely about the luck of position and resources, although there's certainly a bit of that. The benefits we've seen from our growth in trade with China has been the result of sustained effort, too. We have a free trade agreement with China that was the result of an effort that spanned many years, including two changes of government. It was my highest priority as I visited Beijing when I was Trade Minister, and I handed it on to my Conservative successor when we lost power in 2013 as it had been handed to us when we won power in 2007.

How that economic growth story translates political and strategic power will in large measure define the coming decades. The same growth that meant China changed the history of human poverty also means a change in politics. With the growth comes assertiveness, a sense of finding a new (or perhaps restoring an old) place in the world.

There are islands in the South China Sea that did not exist when I was at school. The Belt Road Initiative is a clearer expression of a vision of foreign influence than any other made during my adult life. At the 19th Communist Party Congress just over a fortnight ago, a Chinese President happy to talk about Chinese nationalism was written into the constitution.

Where does all this point? What does China want?

To be the clear regional leader? Certainly. Given their size, it would be hard for them not to be.

To be a global superpower that shares the stage with the United States? Very probably.

This can be a disconcerting reality to face. One of the views that is pretty much the same from Australia as it is from here is that a unipolar world led by the United States is a comfortable one for us. It has been for a couple of decades now – and even prior to that it was very easy to know which side to pick.

But the rise of China, and Asia more broadly, is going to force us all to move out of that settled place. It needn't be worrying, necessarily. China is not the Soviet Union. It does not seek to export an ideology; to supplant our political system and replace it with their own. While Australia may lie within a region China sees as being its domain there is no fear that China would ever imagine forcing upon us an abandoning of our liberal democracy.

From where Australia sits the peaceful rise of China is just fine. In fact, it's not just fine – it's something that can underpin our national prosperity for decades to come.

But that only happens if the rise of China occurs within a global, rules-based order, with China as a contributor to that order. That order must allow Australia to deal with China with a sense of predictability, knowing that the rule of law as opposed to the rule of power will prevail.

Yet China's actions in the South China Sea are a cause for anxiety. The building of artificial islands at Fiery Cross Reef, Subi Reef and Mischief Reef have been found by the Court of Arbitration in July last year to be in breach of the UN Convention on the Law of the Sea. The attempt to grow sovereignty over the South China Sea by changing the facts on the ground does suggest a reliance on the power of occupation rather than the rule of law.

And make no mistake this matters deeply to Australia. By some estimates as much as 60 percent of our trade goes through the South China Sea. Any diminution of our ability to enjoy freedom of navigation in the South China Sea would have a significant impact on our economy. And in this we are not alone.

Events in the South China Sea in some ways will come to a head with the future of Scarborough Shoal. It is important that China not proceed here in the same way as it has at Fiery Cross, Subi and Mischief Reefs.

But ultimately what is really at stake is the respect for the current generation of Bretton Woods institutions. While China may feel they were not at the original negotiating table for these bodies they have nevertheless served China well and underpinned China's remarkable story of prosperity.

### **“America is very present”**

The rise of China is obviously not happening in a void. Amidst all the other nations of the region America is very present.

The United States first became an actor in East Asia with the expedition led by Commodore Matthew Perry to Japan in 1853. In 1898 the Treaty of Paris ceded the Philippines and Guam to the United States as part of the peace settlement of the Spanish-American War. Later President Theodore Roosevelt earned his Nobel Peace Prize by mediating the end of the Russo-Japanese War in 1905 which involved the Korean Peninsula and parts of contemporary China.

But the US presence in the region became permanent and large with the ending of World War II. As an occupying force in Japan: a nation that began afresh on terms of not having a military of its own, the United States has, since 1945, been the effective

guarantor of Japanese security. The US military presence required to achieve this has been at least as profound as its presence in Germany. Added to this the US acquired territories from Japan within Micronesia which once again included Guam.

Shortly after the end of the Second World War the Korean War broke out and its conclusion – the armistice still in place to this day – necessitated another significant US presence in order to underwrite this peace.

Together all of this means that in 2017 54,000 US defence force personnel across 21 major bases are in Japan and a further 28,500 personnel across 12 bases are in South Korea. And these soldiers, sailors and aviators are backed up by a formidable array of military hardware. The Seventh Fleet is based in Japan. Additionally 12 US Joint Strike Fighters are destined to be based at Kadena Air Base which is also in Japan.

The sum of this is that since the Second World War the US has been the dominant military presence in East Asia. And their presence has underwritten the rules based order which has provided the stability that has enabled the phenomenal economic growth of East Asia.

Yet it is precisely this regional dominance that China seeks to challenge. And even with the same American commitment to East Asia the growth in the Chinese military necessarily means some shift in power.

But perhaps more significantly there are many analysts asking the question as to whether the United States itself is in retreat in East Asia.

These questions did not start with the current administration. Its predecessor certainly did not always present a clear vision for the United States in East Asia in its the final two years. When Secretary of State John Kerry said in respect of the South China Sea that it was time to “*move away from public tensions and turn the page over*”, China could have been forgiven for believing that its actions in the South China Sea were being tolerated.

At the same time candidate Trump emerged with a call for allies to pay their way with a focus on the significant cost of the US presence in Japan and South Korea. Any prospect of a withdrawal of the United States from these countries presented the potential for a radical shift in regional power.

However, the most significant act which has been used by those suggesting a US retreat has been the US withdrawal from the Trans Pacific Partnership. The TPP promised to be the highest quality trade agreement in the region involving 12 countries including the United States and Australia but not including China. It had the potential to economically shape relationships for the better in a way that would have enshrined the United States’ presence in the region.

But President Trump’s first act as President was to end the US involvement in the TPP. Negotiations continue with the Regional Comprehensive Economic Partnership, a trade agreement which will involve many countries in the region including China and Australia but not the United States. China’s Belt Road Initiative is now a big part of the regional economic and strategic agenda. While Labor is open

to the opportunities presented by the Belt Road Initiative it is critical Australia proceed only on a case by case basis and in our national interest.

But it would be a mistake to see the US withdrawal from the TPP as being only about President Trump. Candidate Clinton opposed the TPP as well. And this speaks to a concerning phenomenon within the US polity. From Bernie Sanders to Donald Trump it is hard not to deduce a popularity in messages that argue for a more inward looking United States. This of course echoes events on this side of the Atlantic with Brexit. And moreover with the United States also experiencing a declining share of global GDP (in 1960 it was 40 percent and now it is less than 25 percent) it is understandable that its citizens ask why they must continue to bear the major burden of the world's police force.

In truth, President Trump's call for allies to pay their way is fair.

Yet the question mark this leaves about the US presence in East Asia is for a country like Australia disconcerting.

Thankfully I believe that we are seeing that question being answered in terms of the United States maintaining its place in East Asia and throughout the Indo-Pacific.

### **“The recent rise in tensions around North Korea has frightened the globe”**

The recent rise in tensions around North Korea has frightened the globe. The prospect of North Korea acquiring the capability to miniaturise a thermo-nuclear device and launch it on an intercontinental ballistic missile that can survive long range re-entry changes the security calculus for many countries. It brings the North American continent within range, as it does Australia and the UK. This is a time when the change in view of our region looks equally bad to both of us.

Perhaps more significantly it puts an intolerable pressure on neighbours like South Korea and Japan and even Vietnam to think about walking the nuclear road themselves. It would also give a play book to any other rogue states in the future about how to defy the international community. The cause of nuclear nonproliferation – which has seen 80 percent of the former Soviet Union and US nuclear stockpiles decommissioned since then end of the Cold War – would be setback for decades to come.

Nuclear proliferation in East Asia does not suit China. And were a conflict to erupt on the Korean Peninsula the consequences would be of an appalling kind unlike any we've seen in generations and this would certainly impact China heavily.

Whichever way this story ends there are already key lessons that are manifest.

The relationship between China and the US matters deeply. It is hard to see how a positive ending is in prospect without a Sino-American meeting of minds. Equally were such a meeting of minds to happen a way forward looks possible and promising.

To achieve such a meeting of minds serious diplomacy is essential. The art of diplomacy is nuanced and complex, befitting the intricacies of human interaction. For

the life of me I do not understand how that can be reduced to 140 characters. Diplomacy by tweet is at best utterly ineffective and at worst highly dangerous.

Most of all North Korea is reminding the world and the United States of how important East Asia is and how critical it be that the United States remains a part of it.

While tweets may not be helpful, the instinctive American focus on North Korea does provide clarity about America's ongoing presence in East Asia.

**“I do not believe America is in retreat”**

And so I do not believe America is in retreat.

I acknowledge the argument surrounding an American retreat. It would certainly be foolish to dismiss it out of hand. But ultimately the depth of American military presence in East Asia makes it very hard for the US to just up and leave. And indeed it would seem the reverse is actually the case.

In 2011 President Obama announced an American pivot to the Indo-Pacific in a speech made at Australia's Parliament House in Canberra. I was in the chamber on that day. President Obama said: *“as a Pacific nation, the United States will play a larger and long term role in shaping this region and its future, by upholding core principles and in close partnership with allies and friends... The United States is a Pacific power, and we are here to stay.”*

As part of this pivot he announced a marine rotation that would be based in Darwin, the capital of Australia's Northern Territory. This is now happening and growing. And it is one example of how the American military pivot is ongoing from the Obama Administration to Trump. It means we can say with a high degree of probability that the US military footprint will be larger in East Asia at the end of this term of the Trump Administration than at the start.

President Trump's attitude to his alliances with South Korea and Japan are now strong and committed and very different to the statements of Candidate Trump.

And while the TPP lacks the Stars and Stripes, there is no doubting how important the economies of East Asia will remain to the ongoing prosperity of America.

As President Obama rightly stated, America has long been a Pacific nation and it will continue to be so.

It is often said that there is a large streak of isolationism in the US. What is not as often observed is that whenever this has come to the fore it has not lasted. America has never worked by looking inward. Every time it has tried it has also been eventually pulled back into global affairs.

So I am also sure that the United States will continue to play its global role.

**“Australia has critical choices to make”**

In the midst of these strategic contests Australia has critical choices to make which will affect its future through this century.

Traditionally a key element of Australia's foreign and security choices has been about the larger friends that we have.

From the time of European settlement in 1788 until the end of 1941 this meant that where went Britain so went Australia.

The Japanese bombing of Pearl Harbour, its march through South East Asia and the Fall of Singapore on 15 February 1942 changed all that. Faced with an imminent threat to the homeland Prime Minister John Curtin re-oriented Australia's war effort away from fighting Germany in North Africa and the Mediterranean and towards contesting Japan closer to home in the Pacific.

On 27 December 1941 he famously said: "*Without any inhibitions of any kind, I make it quite clear that Australia looks to America, free of any pangs as to our traditional links or kinship with the United Kingdom.*" These words have been cited as the beginning of our Alliance with the United States which has been the cornerstone of our foreign and security policy ever since.

The Alliance was formalised in the ANZUS Treaty which also involved New Zealand and which was signed on 1 September 1951.

The strength of the Alliance and our commitment to each other's defence was demonstrated when it was the basis for Australia's military assistance to the US on September 11, 2001.

But the Alliance does not commit Australia to automatically engage in conflict whenever the United States does. However, through a series of discrete decisions Australia has fought with the United States in every major conflict since World War I including the Vietnam War. These decisions speak to a deeper relationship with the US which today is reflected in as close a cooperative military relationship that the US enjoys with any country.

Notwithstanding our relationship with the US the rise of China clearly impacts our strategic choices. We have a deep economic relationship. While we have different political systems, China is, on balance, unquestionably a force for good. The economic transformation it has provided for the hundreds of millions of its own citizens makes that clear. But at the same time our respective interests in the region are not coincident.

And at the end of the day, whatever we think of it, the rise of China is happening. It is a reality we must deal with.

At the same time the election of Donald Trump as President has also brought into focus the contemporary meaning of the Alliance. It has sparked a debate in Australia about the relevance of the Alliance and asked us to go back to first principles about why we should look to America.

In the Australian polity I am a keen advocate for the Alliance. I have always been very pro US. And as a defender of the United States the last year has had its difficult moments.

One of the great benefits of the Alliance has been the predictability of the US as a partner. With the same democratic traditions the behaviour of Government was relatively easy to understand from across the Pacific.

Yet President Trump makes unpredictability a virtue. For those who are not America's friends there's no doubt it keeps them guessing and certainly makes their behaviour more cautious. The problem is that at times the same sense of caution and uncertainty is felt by America's allies.

In the long term it cannot be helpful for there to be any unpredictability in decision making on the part of the World's major super power.

There have also been decisions by President Trump which must demand criticism. An immigration system which overtly seeks to discriminate on the basis of religion is clearly repugnant. So pro American advocates like myself are now in a position where on certain issues we will need to be deeply critical of the US.

This is new and I don't mind saying ... uncomfortable.

Yet as we examine what has been at the heart of the relationship since 1941, the core rationale for the relationship remains clear irrespective of who is the current President of the US or for that matter who is the current Prime Minister of Australia.

Australia and the United States share critical values. We are both democracies of course. But we also adhere to the rule of law at home and seek to create a rule of law between nations. As I have said, this predictable rule of law, as distinct from an arbitrary rule of power, has underpinned East Asian prosperity and our prosperity with it. The United States has been and remains the principle guarantor of this.

Even with an unpredictable President there remains a fundamental predictability in this.

And to be sure for the likes of me the American instincts and reflexes which have guided us in the past will not be enough to steer us through the next few years. There will be issues where criticism is required. There will be tweets that need to be ignored.

But despite this I passionately believe the Alliance is as relevant and important today as it has ever been.

And so it is from the position of a steadfast Alliance with the United States that Australia can be open to growing its relationship with China.

We need to see China in terms beyond our economic relationship as important and beneficial as that is. We need to grow the political relationship and the defence relationship. In this respect we have done maritime military exercises with China in

the past. We engage in small land based exercises now. But there is room for us to do more and we should.

There are some who do not believe that friendship as we understand that concept between people is a useful way to view international relations. I disagree. A sterile analysis of the mediation of national interests I do not find intellectually satisfying. Friendship has a place in international relations. And through seeking to understand a different point of view Australia should seek to become a better friend of China.

A starting point in that is to acknowledge China's considerable humanitarian achievements.

### **“[T]he good news is that we are not alone”**

The balancing act that Australia must undertake is a delicate one. But the good news is that we are not alone.

Seeking to balance the economic benefit that comes with doing business with China against some of the security anxieties we face with China is a dilemma being faced by many nations. As I've said Japan, South Korea, India, the ASEAN countries and the US itself all have China as their number one trading partner. At the same time they feel security anxieties and they wrestle with reconciling the duality of the China relationship.

And it's here that lies one of the really important foreign and security policy opportunities for Australia.

As we grapple with the complexity of the rise of China in the most sophisticated way we can, comparing notes with those doing the same is vital. And the very act of comparing notes and working together in an approach to China affords the opportunity to build our relationship with these nations.

It is fair to say, for example, that for a country like India we have never shared so many common interests as we do now. And this is true with virtually all the countries of the Indo-Pacific.

So getting this right will not only see a successful balancing of our relationship with China, and an enduring Alliance with America as a regional player, but also a much deeper relationship with our Indo-Pacific neighbours with whom we share our region and in whom we must base our security and prosperity.

And it is this which offers a most exciting future for the Australian nation.