

The Institute
for Regional
Security

The Struggle for Power and Influence in the Indo-Pacific

Report of the Proceedings
of the 2019 Track 1.5
Strategic Dialogue

November 2019
Peter Nicholson AO

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About The Institute for Regional Security

The Institute for Regional Security is a not-for-profit research organisation with two objectives. The first is to improve the quality of policy advice going to Government, particularly in the domain of national and regional security. The second is to nurture and mentor the next generation of Australian strategic thinkers.

Acknowledgements

The Institute for Regional Security wishes to thank the sponsors of the 2019 Strategic Dialogue:

The Australian Department of Defence and our Australian Government Members, the Departments of Prime Minister and Cabinet, Foreign Affairs and Trade, and Home Affairs, and the Australian Security Intelligence Organisation.

The Ministry of Foreign Affairs of Japan and the Embassy of Japan in Australia.

Our Gold Sponsor Lockheed Martin.

Our Silver Sponsor L3Harris.

Our Bronze Sponsor Leidos.

We would also like to thank the good offices of the Office of National Intelligence in facilitating the workshops that formed the basis of the strategic scan of the environment of the Indo-Pacific in 2035.

Finally, the Institute for Regional Security thanks the rapporteurs drawn from our Future Strategic Leaders Program who took notes during all the sessions of the 2019 Strategic Dialogue. They materially contributed to the capture of the wide variety of views on very complex policy subjects expressed over three days.

They are Alyssa Waters, Kirby Campbell, Thomas Patterson, David Ballante, Chelsea Benac and Luke Webb.

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Executive Summary

The struggle for power and influence in the Indo-Pacific in the 15 years until 2035 will be a contest between the United States and its allies and partners on the one hand, and China and, to a lesser extent, Russia on the other. The outcome will be primarily decided by geo-economic circumstances but because China is an assertive, newly arrived power with expansionist and revisionist ambitions while the liberal democracies are an essentially status quo power group, a number of measures will be necessary to constrain China while these geo-economic factors play out.

While one can never be absolutely sure of the direction of future strategic affairs, there is a reasonable level of confidence in the shape of the geo-economic environment of the Indo-Pacific in 2035. The main pointer to this is the (western) economic theory of the efficacy of free markets versus centrally controlled command economies. Hence, the struggle is between the Chinese economic model of 'State Capitalism' or 'Socialism with Chinese Characteristics', and the more-or-less free market capitalist philosophy of the West.

The expansive and unprecedented economic growth of China since the introduction by Deng Xiaoping in 1978 of the policy of 'free market reforms and opening up' is over. The rate of growth has slowed even on the highly suspect official Chinese statistics and there are fundamental structural deficiencies in the Chinese economy including growing internal debt that will be exacerbated by the aging population, and unstable hard currency reserves.

China's domestic market has been held hostage to export-driven growth, despite continued promises to increase domestic consumption, which now means further expansion of external markets is required to maintain the growth trajectory. This is one of the objectives of the Belt and Road Initiative (BRI) to expand markets for Chinese goods and services. There is some question about China's ability to fund all of the BRI projects. The need for external funds also means that US trade sanctions have a powerful effect. Most importantly, survival of the regime is affected by continued economic performance. As this deteriorates, there will be greater social discontent and political pressure on the Chinese Communist Party as well as a greater crackdown on dissent of any form.

The objective of the Chinese Communist Party is to subvert rather than replace the present global rules-based economic order with alternative arrangements that favour China and disadvantage the free market economies. China benefits from this order because it has been permitted to cheat on its commitments and so is picking and choosing a la carte from it. If China is not constrained in its pursuit of this objective to subvert the rules-based order, there is the potential that the global economy could bi-furcate into two opposing systems of free markets and state capitalism. With the onset of the third industrial revolution and globalisation, this would likely result in severe and deleterious effects on the economies, prosperity and stability of both camps. Because there is sufficient uncertainty in this prognosis, the West should put in place strategies to deal with this situation in the event that it transpires.

Any loss of political control in China will have an impact on the outcome of this struggle. The timing could be dependent on the longevity of Xi Jinping as Paramount Leader. Alternatively, the tighter central control and intervention needed to slow the downward spiral of the economy as the structural defects take effect could increase social disorder. Tighter controls are misguided and counterproductive.

But in the meantime, the western allies and partners will need to counter the insidious effects of the aggressive political warfare campaign being waged by China in the Indo-Pacific. The three allies of Australia, Japan and the United States are at a disadvantage in this campaign in not recognising the difference between the Chinese and western concept of war. For China, when seeking greater power and influence, the 'war' starts well in advance of armed conflict. Desirably, if this phase of 'political warfare' is successful, the struggle will never proceed to actual conflict. The objective of political warfare is to influence and persuade the adversary to submit through intimidation, coercion and subversion of the will to resist.

Nations conducting a political warfare campaign coordinate and employ all the instruments of national power to achieve their strategic objective. In the Indo-Pacific, China conducts intensive information campaigns aimed at our publics to undermine confidence and resolve; geo-strategic manoeuvres to create illegal and artificial footholds; non-commercial financial deals with vulnerable nations to create a debt trap; and paramilitary operations to demonstrate capability and resolve. These operations are well-orchestrated and directed from the leadership of the Chinese Communist Party.

To counter this aggressive campaign our policy responses must include all national and allied means available, and be similarly coordinated across the whole of government and between allies and friends. The highest priority is to educate our publics of the nature and extent of the threat, and to protect the sectors in our societies that are most vulnerable in order to increase the resilience of our national will. Our policy responses should not be entirely defensive but move to a more offensive posture to counter the egregious aspects of the adversary's information campaign. In contrast, our information campaign should emphasise the values, strengths and benefits of our democratic societies compared with the authoritarian and unjust treatment of the people of China.

To resist and prevail in the political warfare waged against us we urgently need a grand strategy and an accompanying narrative to describe our objectives in this endeavour. This will enable us to identify the instruments of national and regional power that form a coordinated response to the threat facing us. This response will require persistent engagement in all domains, most of which have not been deployed in the recent past. We can expect that opportunistic destabilising by China will continue in the Indo-Pacific with little prospect of a grand bargain so we must win the political warfare campaign.

If the aggressor believes that the target's will to resist has been sufficiently diminished, the political warfare campaign can be extended into hybrid warfare. The only difference between the two categories is that the use of armed force, or the threat of the use of force, is introduced in hybrid warfare. This is a deliberate escalation with the expectation that armed force will be used if resistance is encountered. Evidence suggests that all instances of hybrid warfare have been preceded by a political warfare campaign which continues throughout the hybrid warfare campaign. This is particularly evident in the information domain in which disinformation is employed to paint the target as the aggressor and the party that has escalated the dispute, or to present a bogus reason for escalation such as to protect an ethnic minority.

Countering a hybrid warfare campaign has three components, the first of which is the political will to resist and to bear the cost of resisting. This stems back to the continuing political warfare campaign. Secondly, there must be a credible conventional joint warfare capability deployed into the area of operations and maintaining a persistent presence to deter and if necessary, defeat hostile actions. Finally, we should deter and reverse escalation through action in a different domain and/or a different geographical area. For example, information operations to attack the legitimacy of the hostile action and economic sanctions to raise the cost.

As developing nations with unviable or barely viable economies the island nations of the South West Pacific are particularly vulnerable to economic leverage and other forms of political warfare. Their need for external investment to fund infrastructure and community services makes them an attractive target for Chinese investment which at first glance seems very attractive. While respecting their sovereignty, independence and different cultures, their governments and people must be informed of the danger posed by non-commercial Chinese loans and alternatives must be available.

The Australian 'Pacific Step-Up' program is aimed at providing alternative means of assistance and Japan also provides aid designed to build capacity in many South Pacific nations but a more coordinated approach is needed to prevent or limit China gaining access to dual use facilities in these islands. The liberal democracies should work to become the partner of choice in all facets of their development.

The emerging and developing nations of South East Asia are less vulnerable than those of the South West Pacific because for the most part they have viable economies. Furthermore, the Association of South East Asian Nations provides a vehicle for coordinated action to resist interference by China. They have lived with China for centuries but fear this new exertion of Chinese power so welcome engagement by the US and its allies. This engagement must be part of the broader prosperity agenda that is respectful of sovereignty where disputes are resolved peacefully without coercion. They want free, open and inclusive engagement that is conscious of the history of individual nations when we talk about values.

Nevertheless, ASEAN is also susceptible to a strategy of division and we should partner with specific countries.

To deter and if necessary, defeat authoritarian regimes in the Indo-Pacific we must recognise that we are deeply engaged in a political warfare campaign and adapt our institutions and processes to deal with all facets of this attack on our values and systems. The first step is strategic communication to inform our publics of the danger we face and to build support for Government action and the costs involved to protect ourselves.

China is actively promoting the authoritarian model so we must change our narrative to emphasise the strengths of our liberal democracies and weakness of the ideology and values of the Chinese Communist Party. Human development and security are intrinsic to our narrative and our success and this is a major weakness of authoritarian regimes that should be exposed and exploited in our information campaign.

Finally, the geo-economic environment favours our free market system and is yet another major weakness of socialism with Chinese characteristics. We must do everything possible to ensure it prevails for the well-being of all people of the world.

Introduction

The 2019 Strategic Dialogue of The Institute for Regional Security was held in Bowral over the weekend of 13 to 15 September 2019. This was the thirteenth occasion of this annual 1.5 track dialogue which was conducted under Chatham House rules.

The participants were senior officials and military officers of the Governments of Australia, Japan and the United States; researchers from a variety of think tanks from all three nations; together with a range of policy experts. India declined to participate officially but was represented by an experienced former diplomat.

The objective of the 2019 Strategic Dialogue was to identify and discuss the salient features of the rapidly changing strategic circumstances in the Indo-Pacific with a view to develop policy options to deal with this environment both nationally and together. The intention is that each participant will take these recommendations back to their individual organisations to inform the policy decisions of their governments.

The subject of the dialogue was the struggle for power and influence in the Indo-Pacific. The term ‘struggle’ was chosen instead of the more usual ‘competition’ in recognition that competition connotes activities conducted with rules and a referee whereas this does not seem to apply to the strategic environment of the Indo-Pacific today.

The first activity of the dialogue was small group workshops to consider the possible and likely strategic environment of the Indo-Pacific in 2035. The aim of this strategic scan was to provide all participants with a shared understanding of the range of options to prepare them for the more detailed discussions that followed.

These sessions covered the following topics:

- The geo-economic environment of the Indo-Pacific in 2035.
- Political warfare in the Indo-Pacific.
- Hybrid warfare in the Indo-Pacific.
- Protecting the South West Pacific and South East Asia.
- Deterring and defeating authoritarian regimes.

This report of proceedings is intended to capture the general theme and tone of the conversations and does not represent the official view of any of the Governments of Australia, Japan or the United States. The aim is to share the views and opinions of a well-informed group to contribute to public discussion of the emerging strategic environment of the Indo-Pacific. Any mistakes by omission or inclusion are entirely the responsibility of the author.

Strategic Scan

A scan of the strategic environment of the Indo-Pacific region was performed using the well-known methodology of structured analytical techniques in facilitated small group workshops. The participants formed three workshop groups which each examined one of the three scenarios of the best, worst and most-likely case envisaged for the strategic circumstances in 2035 i.e. about fifteen years in the future. In some cases, the workshop groups attempted to define the impact of a particular aspect of the strategic environment by estimating the likelihood of it occurring and the confidence the group had in this estimate.

A summary of the outcomes of each workshop was then presented to all the participants in plenary session. The aim of this discussion was to enable a shared understanding of the range of strategic circumstances facing our three nations in the next fifteen years before taking a more detailed look at specific issues to be addressed in the following sessions. The main features of this strategic scan from the workshops and the subsequent discussion are presented below.

The Worst-Case Scenario

The worst-case scenario revealed six features of the strategic environment:

- The condition of the United States-China relationship with raised tensions potentially leading to clashes over Taiwan and in the South China Sea. This event was considered entirely possible, indeed probable, in the next 15 years.
- China's internal trajectory was uncertain, i.e. evenly balanced between a good and bad outcome. The worst case was characterised by internal instability, a potential succession crisis and potential economic failure.
- There was a high likelihood of a breakdown of the prevailing Rules-Based Order with a failure of the World Trade Organisation and poor trade relations including growing protectionism becoming the norm.
- Disruptive technologies were seen as a severe threat to nation states from non-state actors or groups sponsored by nation states because of the ease of acquisition and employment, uneven distribution and inability to regulate them.
- Climate change was taken as a given with deleterious consequences due to the low capability of some nations to adapt and the unregulated movement of people to escape the effects.
- Although resource security was assessed as having a low probability, the consequences could be severe resulting in competition over energy supplies and a scarcity of food and water.

The challenge of China will not be solved without cooperation from other states. Moreover, it can only be solved with the presence of the United States. The United States should be backed with partnership and alliance from countries such as Australia, Japan, Indonesia and Vietnam.

Among the drivers, we must distinguish between two categories – one requiring a restructuring of the multilateral system, and one which requires the strong presence of the US, backed by its allies. International cooperation can only go so far in preventing a “black sky” scenario.

Multilateral approaches still have a highly significant role to play in preventing the worst case, but US leadership and military presence in our region remains fundamentally important. The two different categories of challenges will require different types of solution appropriate to their specific circumstances.

The Best-Case Scenario

The best-case scenario envisaged was characterised by:

- Strong alliances and partnerships.
- Maintaining military and technological dominance.
- Robust legal and political systems.
- Upholding the rule of law in every jurisdiction.

Several actions were identified which would enhance the conditions for the best case to eventuate:

- Most important was the need to recognise the problems we will face and prepare to deal with them as soon as possible.
- Chinese demographics will work in our favour with an aging population and the decreasing size of the work force to support them while maintaining a positive rate of growth.
- On the other hand, the demographics of the largest partner of the alliance, the United States with a young and becoming younger population will strengthen our hand in the struggle with China despite the adverse demographics of Japan.
- The evidence is that innovation in technology, political and social processes, and ability to adapt is stronger in democratic societies than in authoritarian regimes. As strategic, political and social conditions deteriorate, the Chinese leadership may take a firmer line in these domains with the likely result of further inhibiting the innovation that could slow or even reverse this deterioration.

- Recognition by the Chinese leadership of these factors unfavourable to them may lead to over-reach and actions that will serve to harden the resolve of the allies and draw uncommitted nations into our fold.
- Finally, a sustained commitment to modernise on the part of our three nations will enable us to adjust to rapidly changing strategic, social and technological factors.

Unfortunately, of course, there are some circumstances which could decrease our ability to create the conditions that lead to the best case for our cause:

- Considerable concern was expressed about the trend toward cynicism in our societies and a lack of trust in our democracies, institutions and political leadership.
- Our ability to work toward a favourable outcome will be diminished if the present low economic growth continues into the future.
- A diminishing belief in universal human values and norms of behaviour might lead to a failure of our leadership to respond to transgressions by adversarial nations or groups.
- A failure of our education systems to produce acceptable outcomes will result in a decrease in the rate of growth, or even a decline, in our collective and national human capital which is essential to create the conditions for the best case.
- Misalignment of the public and private sectors with different or conflicting views of the national interest and organisational objectives. This situation is aggravated by the growing number and power of trans-national companies.
- Hubris on our part was a concern in the light of the failure in some quarters, particularly the private sector, to recognise that a problem existed.

A number of optional policy responses to achieving the best outcome for the allies emerged from considerations of these ‘boosters’ and ‘blockers’:

- Expand the pool of friendly partner nations who will work with us.
- Value and consolidate existing alliances.
- Coordinate policy responses, strategies and action across allied and partner nations.
- Build and maintain consensual approaches using bi-, tri- and mini-lateral arrangements.
- Identify specific areas for coordination between government and civil society.

- Adopt a pro-active and coordinated approach to setting international standards.
- Encourage the United States to more positively engage in multi-lateralism.
- Develop strategies to deal with the possibility of a decoupling or bifurcation of the economic systems of the free market western world and authoritarian regimes.

The best-case scenario was still a dour and unforgiving world and many of the strategies discussed in this group were reactive. In particular, there was insufficient consideration of the strengths of the western model, including free market economies and democratic principles.

It is axiomatic that China is central to our thinking, but no consensus emerged about what kind of China we will see in 2035, either internally or internationally. At present, we control the tipping points in the trajectories of the liberal democracies and authoritarian regimes but there is concern that the latter, especially China, may gain control of these in the future. We must question and critique the assumptions we hold about China in order to produce the most effective long-term strategic outlook. We cannot afford to base our thinking on false assumptions.

The Most-Likely Case Scenario

The salient features of the most likely scenario in 2035 were identified as follows:

- There was high confidence that the present Chinese regime will be preserved until 2035 although this could be dependent on the longevity of Xi Jinping in power and is highly dependent on his presence.
- China's economic growth rate is high likely to decline whereas there was moderate confidence that the economies of the United States, Japan and Australia would continue to grow.
- Technological development was considered virtually certain with examples cited including artificial intelligence, robotics, autonomous systems and advanced manufacturing.
- Information superiority will be an important area of competition and there was some concern of China's ability to intercept and manipulate big data.

The pace of technological and system change may make predictions out to (only) 2035 difficult. Discussion around the most likely case was highly state focussed and centred on traditional forms of power. Terrorism, trans-national crime and climate

change received little attention and issues such as pandemics and unregulated human movement, none.

The transformative economic and strategic effects of new technologies was recognised but with considerable uncertainty around the standards setting in this domain.

Finally, the participants considered there was too great a focus on China to the detriment of assessing the measures already being taken by western nations.

The Strategic Environment of the Indo-Pacific in 2035

The plenary discussion that tied together the outcomes of the three workshops settled on six main features of the strategic environment of the Indo-Pacific envisaged in 2035.

- **China's Future.** While there was considerable uncertainty about China's future there was no doubt that China would be at the centre of problems in the Indo-Pacific probably well before 2035. Although there was a 'Midas' touch for China's economic performance in the period 1979 to 2009, the economy is expected to falter in the next three decades with slower growth and the likelihood that this will provoke more centralised control, and the potential for mistakes by the regime. We should not fall into the trap of over-estimating Chinese economic strength in the future because time is not on its side. The downside for the allies is that a whole-of-government approach to problems, economic and otherwise, is easier for an authoritarian regime than for liberal democratic states who also have to work together.
- **Global Partnerships.** The struggle for power and influence in the Indo-Pacific is not between China and the United States but between China and the United States and its allies and friends. For example, the combined GDP of the United States, Japan and Australia will likely exceed that of China in 2035. Furthermore, there are other global partnerships to balance China including in South America and Africa. And partnerships need not be multi or mini-lateral because there are several other important bi-lateral partnerships that bring in other free market economies such as South Korea and the ASEAN countries. The difficulty will be in creating better working relationships among all our allies, friends and other potential partners in a milieu of changing strategic circumstances. This suggests that we must clearly identify our goals, share them with all like-minded nations and produce a well-rounded strategy to implement them.

- **Values and Interests.** Australia, Japan and the United States share the same values and should base policy on these principles. Many of the nations with which we would seek to form partnerships do not share all of our democratic values. Rather than using the values of the liberal democracies as a criterion for the basis of partnerships, perhaps we should use the rule of law to ensure our economic, commercial and political interests are protected. This emphasises a convergence of interests rather than of values.
- **Public Engagement, Education and the Role of Government.** There is a serious need to involve our publics in the debate over policy options available to governments in the struggle for power and influence in the Indo-Pacific. This requires the use of clearer language to communicate with the general public together with providing incentives for the media and academia to improve the quality and content in sharing their information and expertise.
- **Transformative Effects of Technology and Transnational Issues.** Emerging technologies may require a geo-technical rather than a geo-political approach and it may be that these technologies mean that limiting or containing a competitor may not be possible. The geo-technical challenge could be data-enabled oligopolies dominating the marketplace and a bifurcation (or decoupling) of the global economy. Such economic trends could alter the nature of the social contract between the state and its citizens in democratic societies. We should at least consider strategies to future-proof our economies to prepare for global economic bifurcation. Finally, there may be some challenges such as pandemics and climate-induced crises that are largely beyond human control.
- **Strategic End State.** We have not formulated a grand strategic end state in relation to China and without this we cannot properly manage problems. We need to more fully understand the nature of future problems, particularly in the technological domain, and how they will affect our strategic planning. We should think about a balance in our strategic plans between a defensive and reactionary approach, and a more assertive and offensive posture, including a deeper analysis of our risk and pain thresholds. A pressure strategy in the economic, security and political domains could slow present trends. A China-centric future could be diminished under sustained pressure.

The Geo-Economic Environment of the Indo-Pacific in 2035

The discussion about the Geo-Economic Environment expected in the Indo-Pacific in 2035 was informed by presentations by five eminent economists and researchers with strong economic backgrounds. There were many similarities in their conclusions but also some different points of emphasis and the subsequent suggested policy responses.

One view is that by 2035 the Chinese economy will have stagnated. Internal debt will have become overwhelming, requiring significant debt shifting. Unwillingness to move away from a State-Owned Enterprise (SOE) centric command-and-control economy will persist and foreign currency reserves will have been depleted. Capital flight will have increasingly damaged the Chinese economy and the pension burden will increase as the Chinese population ages. Combined with the decrease in productivity that will result from fewer workers, adverse demographics will increasingly cause budgetary problems for the Chinese government. Technological advancement will have gone some way to offsetting these problems, but it will not have been a 'silver bullet' for the Chinese Communist Party.

Technological investment and the development of indigenous Intellectual Property will have paid off, as China will have cornered the market on standard setting in telecommunications, allowing it to dominate 6G networks and production of associated equipment. The export of surveillance technology will have also increased China's reach and influence overseas - a monopoly on data being a key-enabling factor. Information and control will have been increased through smart city technology - the result of advantages in new materials generation, biotechnology, nanotechnology, artificial intelligence, and quantum computing. These dual use technologies will have increased military capabilities as well as Belt and Road Initiative investments. The People's Liberation Army (PLA) will have much greater access to overseas ports and have a series of new overseas bases.

However, China's economic slowdown will highlight wage stagnation and inequality, and there is no return to unfettered trade. In the Indo-Pacific, countries like Indonesia and India will not have grown at the predicted rate and instead will be much more affected by climate change and severe weather events. Pacific states will be increasingly ravaged by climate change, necessitating increased humanitarian assistance. India will have run out of water and will be completely reliant on upstream sources - namely Chinese controlled dams. These factors will fuel competition for productive land and increased migration flows will be an increasingly destabilising international consideration. Finally, the US will not have joined or re-joined multilateral organisations further weakening international institutions.

The policy options for this point-of-view include:

- Technological cooperation between like-minded partners and allies, including on production; setting 'boundaries' for critical parts such as semiconductors; the pooling of talent and resources; and increased R&D cooperation.
- Cooperation to further mitigate climate change.
- Cooperation in order to nullify China's ability and willingness to take advantage of these weaknesses and leverage them strategically.

Another view is that the essence of the struggle the Chinese are engaging in is economic. The book by Johnathan Ward, 'China's Vision of Victory', has four conclusions: China is a dominant superpower; at the core of Chinese strategy is economic and industrial power; economic and industrial power leads to military power; the US and its allies can and must win this struggle. To meet its objectives, China is pursuing several goals, including:

- Focusing on the South China Sea to commandeer resources.
- Establishing information dominance ('informationalised warfare' to use a Chinese term).
- Dominating rulemaking (e.g., UNCLOS).
- Speeding up US power withdrawal.

Much of this can be seen in China's program of island building. China is filling a vacuum and using island building to reinforce the perception of US withdrawal. It is about 'information power'. The primary purpose is not about generating kinetic power, but information superiority and keeping informational warfare advantage. China is not just building runways but putting in place infrastructure for high-end warfare. Furthermore, the psychological effect of them is undeniable.

Worryingly, this psychological effect does seem to be pronounced. For example, an annual survey among ten ASEAN states on perceptions of the US makes for unpleasant reading (except the perceptions of Vietnam). There is a growing belief of a US withdrawal from region, and that Japan and Australia, whilst liked, are not seen as strong as the United States. This is also reflected in the comment that "BRI is a better brand than a free and open Indo-Pacific".

Another view was that this struggle should not be all about China; it is also about our relations with others. US and allied policies need a positive vision that is not anti-China (or at least not just viewed through the prism of a bilateral US/China struggle). But our slow response means we are not handling it effectively, and China is taking advantage of this; e.g., co-opting South East Asian elites by making offers to Duterte for exploration rights in return for dropping successful UNCLOS claims. We also must be highly aware of what drives shifting allegiances - if we put a 'security tax' on South East Asian countries (e.g., blocking Huawei), but do not bring tangible benefits, we should not be surprised if allegiances change to China. The economic development that BRI investments offer can be a deciding factor in to whom small and middle states show their allegiances.

However, if we respond well, by 2035 we are looking at a contested South East Asia, but not a dominated or controlled one. It would still be multipolar.

Policy options for this approach include:

- Trade grouping and forming a global deterrent base.
- Supporting healthy competition and transparency.
- Fund projects together and demonstrate and showcase the success of programs already in operation. But these will need funding (which is becoming more difficult in the US with concerns about federal government debt).

Further comments corroborated that present trends do not favour China. Demographic trends will result in positive balance in India, Indonesia, US, Vietnam, Australia and the Philippines to name only a few. In particular, there will be significant population increases in Indonesia and India by 2035. Conversely, China is growing old especially in the crucial working age bracket of 20 to 65 years.

We also need to look closely at the mechanics of finance, not just 'economics.' China's geo-economic expansion enterprise relies mostly upon hard currency funding. Except for a few exceptions like Venezuela where China has tied loans with essentially a barter mechanism, most debtors want development investment and loans in US dollars, Euros or Yen.

Despite its vaunted US\$3 trillion of official foreign currency reserves, China is actually now quite stretched in meeting its dollar needs. For example, China's aggregate current account surplus is around \$400 billion, of which \$500 billion (or more than 100%) is its bilateral surplus with the U.S. Its net Foreign Direct Investment (FDI) receipts are now only \$200-\$300 billion. But fugitive capital outflows are at least several hundred billion US dollars annually, which is partly revealed by the "errors and omissions" line item in the capital account. So, China is struggling to keep reserves stable. On the opposite side of the ledger, is tourism. Beijing could turn off the tap on outbound tourism and spending overseas, which are very considerable and equivalent to an import of services.

In any case, here is an obvious Chinese vulnerability and a point of leverage for western countries. It is constrained in hard currency and there is no basis on which China can realistically develop its own reserve currency. It would need sustainability to run a consistent structural trade deficit, it would need a predictable rule of law and stable political system, a welcoming environment for foreign businesses, liquid capital markets and free convertibility, none of which exist.

These factors will see a shift of investment and resources away from China to lower cost, lower risk countries like Vietnam, Malaysia and the Philippines. The net result is that China's GDP as a percentage of that of the United States is estimated to shrink from 65% today to 55% by 2035.

Finally, with regard to the present impasse, Hong Kong plays a crucial role as essentially China's money changer. It is the main portal through which the great \$30 trillion ocean of Chinese money can escape into the larger dollar world. And increasingly it is the only place through which Chinese enterprises and governments access banking, legal and information services outside the Great Fire Wall. Hong Kong is an interface between two great colliding systems.

For a long time, perceptions have been that China's rise is inevitable, but trends paint a different picture. This is not a silver bullet and we must still be agile and implement good policy, but these geo-economic trends are strong.

Some reservations were expressed about the view that the Chinese economy would be significantly weaker by 2035. Long term economic forecasting is inherently inaccurate and is based on projecting current trends forward and economic changes will drive new policy choices to adapt to the new circumstances. Furthermore, policies do not always have the anticipated impact and sometimes work in ways we cannot predict. Predictions of China's challenges does not always take into account the choices it might make, hence the adage in conflict that "the enemy gets a vote".

Examples of unknown factors were that China's centralised command makes it easier to artificially stimulate the economy. National debt will depend on the (unknown) returns, or lack thereof, on their investments. Although demographics will drive dependency on pensions, the social contract of the Chinese Communist Party (CCP) with the public does not necessarily guarantee full adherence to funding these programs which raises the prospect of social unrest.

China's struggle is for the Chinese Communist Party to continue economic growth, but it cannot achieve this through the domestic market which is not sufficiently large or dynamic. Hence it must look externally which means that US trade sanctions have a powerful effect. This also explains the importance of the Belt and Road Initiative.

China needs technology and Intellectual property to enable it to address its internal problems, but these cannot be addressed through policy change because the changes required would weaken the control of the CCP. Hence, controlling the flow of technology and IP from the advanced developed countries, including from Europe, is a vital tool.

Why India Matters

Although much of the preceding discussion centred on the Western Pacific and East Asia, it is logical to extend this to include India as has been recognised by all three Governments in designating the region the Indo-Pacific. Asia is home to 60% of the world's population with India and China each with about the same population at 18% of the global total.

Until now, Chinese southern focus has been South East Asia but with growing power and reach, it no longer needs this region as an intermediary for trade and political influence. Instead China is extending its interests westward into the Indian Ocean rim which has become a key recipient of Chinese investment in foreign commercial ports.

This means South East Asia will continue to be caught in an economic 'cleft stick', despite being, with Australia, the strategic pivot of the Indo-Pacific.

The fundamentals of the Indian economy are strong with 7% growth in 2019 and it is expected to grow by 5% or more per annum until 2050. It is expected to be a US\$5 trillion economy and exceed Japan by 2024. The introduction of a Goods and Services Tax (GST) in 2017 and the de-monetisation policy has slowed growth but the Indian economy is robust. Foreign Direct Investment remained high in 2018 at US\$42 billion with Japan alone investing US\$3.5 billion that year.

Indian demographics are strong and the population is expected to exceed that of China in the next decade. India's population is expected to continue to grow until mid-century, reaching an estimated 1.68 billion in the 2050s. However, the number of children in India peaked more than a decade ago and is now falling, so population growth will come to an end.

However, many problems remain. Of the 550 million people in the labour force, 275 million are still in the rural sector which contributes only about 16% to the GDP. This means that the manufacturing sector must grow significantly to absorb excess labour and this could lead to greater urbanisation with associated social and political problems. A further problem is environmental challenges which could inhibit growth.

Nevertheless, India offers the opportunity to realise a multipolar region and not one singularly dominated by China. India could become an alternative economic powerhouse to offset China's stranglehold.

Economic Bifurcation

The question of economic bifurcation of the global economy into a free market group and another of 'socialism with Chinese characteristics' or 'state capitalism' was examined in some detail. The existing Rules Based Order as it applies to economic affairs (e.g. World Trade Organisation guidelines) is becoming less effective and China is showing no inclination to engage with the free market economies to come to a mutually acceptable solution. This is the path to bifurcation because the Chinese objective is to replace the present order with alternative arrangements that favour China and disadvantage the free market economies.

China uses a whole-of-government approach to these questions and intervenes in the market when necessary to protect important industries. This is particularly true of the advanced technology sector. For example, China kept foreign companies out of its domestic market until Alibaba and Huawei had grown strong enough to dominate the market. The 'Made in China 2025' initiative aims to propel it to the forefront of the global high-technology industry. The stated aim is to dominate technology and intellectual property as a way of making China prosperous and accomplishing this through a variety of industrial policies, many of which are anathema to a free market global trading system. This unwinding of the deep economic interdependence of the Chinese and American (or perhaps western) economies, known as decoupling, is a deliberate policy.

The situation has been aggravated by poor decisions on the part of US and other advanced nation companies that have allowed China to get ahead in certain technology areas. Quantum computing and its application in artificial intelligence are shaping to be a significant threat to free market economies by creating an advantage for a Chinese-led alternative. This substantiates the need for the advanced western democracies to control the flow of high technology and intellectual property to China.

All (western) economic theory points to the free market as the mechanism for growth and prosperity, and the principle that the market will choose the most efficient (less wasteful) outcome. Belief in this premise boosts confidence that the free market system of the liberal democracies will eventually prevail and there will not be a permanent bifurcation of global economic systems. This is reinforced by the predicted decline in the relative economic power of China vis-à-vis the United States and its allies and friends. However, there is sufficient uncertainty in this outcome that we should develop strategies to deal with a decoupled economic global environment. Of particular concern is decoupling of supply chains and preventing or minimising this needs to be a high priority.

The principle of the free market automatically determining the most efficient result is also the reason that protectionism is a double-edged sword for China as it means it can be wasteful. But entities in the free market, such as private sector companies, also make choices that are influenced by external events and can inhibit this auto-stabilisation process. There is a strong case for government intervention in the free market to prevent poor choices, at the very least for governments to provide information of threats and dangers posed by Chinese economic and commercial behaviour. This appears to be the objective of the present reciprocal tariffs on imports and bans on technology firms by the US.

Western governments and firms need to work together more closely when it comes to information sharing, so that companies can be better enabled to make well informed risk-based decisions. These decisions need to be in the national interest not just in the company's commercial interest. This is particularly true when it comes to critical infrastructure, critical enabling technologies and strategic resources such as rare minerals.

Political Warfare in the Indo-Pacific

For the purpose of starting the conversation, political warfare was defined as the use of a wide range of instruments of national and international power in efforts to persuade, intimidate, coerce, undermine, and weaken opponents, and hence achieve desired political goals¹. There was a general understanding among the participants that China was actively conducting political warfare in the Indo-Pacific but that the allied nations did not comprehend the nature and extent of the threat, the degree of success already enjoyed, or how to deal with and counter the danger.

The presentations and discussion revealed that notion of political warfare is deeply embedded in Chinese strategic culture and is based on traditions and ideas espoused by early communist writers and leaders as modified by Mao Tse-tung. Political warfare is not new and has been practiced by nation-states for centuries. The West was adept at political warfare in the past, most recently during World War II and the Cold War, but appears to have lost the capability more recently. The objective of recent Chinese political warfare in the Indo-Pacific is to subvert the cohesion of the Western allies and their partners; erode our economic, political, and social resilience; and undermine our strategic positions in the region. Of note is that political warfare is not only being waged by China in the Indo-Pacific. Rather, it is a global phenomenon and case studies have shown that Russia is also a very experienced and successful protagonist.

The planning and execution of political warfare campaigns by China is a whole-of-government enterprise. It is controlled at the highest level and employs well-trained and experienced people. A feature of successful political warfare is that it starts in an innocuous manner and operates for a long period below the threshold of response by nations under attack in a series of seemingly unrelated incidents of no real consequence. By the time the victim is alerted to the threat, the campaign is well-advanced. The transition to overt action does not take place until the Chinese leadership believes that there is unlikely to be a response to military or paramilitary action. There are no known instances of hybrid warfare or actual conflict involving China or Russia that have not been preceded by an extended political warfare campaign. Hence, recognising that a political warfare campaign has been mounted against us, and is a precursor to a direct military threat, is critical in responding to and defeating it.

¹ Many of the definitions and explanations of political warfare were drawn from https://csbaonline.org/uploads/documents/Winning_Without_Fighting_Final.pdf accessed on 25 September 2019, and which were the basis of the main presentation.

Political warfare is an asymmetric approach to aggression, i.e. seeking advantage in unexpected ways or in areas where the adversary is weak. Hence, the methods employed in political warfare embrace a wide range of the instruments of national power and fall into five categories:

- Information campaigns including cyber operations; manipulation of all forms of media; deliberate dissemination of misinformation and disinformation; propaganda to justify actions; mobilisation and demonstration by nationals living or studying abroad; and espionage.
- Geo-strategic action such as occupation and militarisation of disputed territory; incursions into exclusive economic zones; overflight of sensitive areas or assets; harassment of fishing fleets; and other forms of coercion by paramilitary forces.
- Economic means including inducements; non-commercial financing and establishing 'debt traps'; corruption of foreign political leaders and officials; theft of technology and intellectual property; and, artificial trade barriers and embargoes to name only a few.
- Military and paramilitary operations such as demonstrating capability in or close to sensitive and disputed areas; testing offensive weapons; training exercises in proximity to sensitive areas or deployed forces; and, 'buzzing' military assets in international waters or airspace.
- Legal/paralegal means such as rewriting history; disputing or ignoring international law; unwarranted claims for international rights; and, false claims to territory.

Australia's programmatic response

Political warfare operations need to be messaged appropriately and terminology on national security issues has been sublimated to be palatable to the broader public.

Australia's Department of Home Affairs leads a citizenship and social cohesion program. This involves engaging with local schools and community groups to increase access to Government services and draw out concerns about terror, Chinese/Australian allegiance, political donations and other foreign interference activities. Language is important to prevent the perceived persecution or targeting of specific communities.

The Chinese community is of particular concern in this regard because post 1949 there has been large scale migration to Australia from China, Hong Kong, Taiwan and the Chinese diaspora from South East Asia. Australia now has 1.4 million people of Chinese ethnicity or about 5% of the total population.

A countering foreign interference team was established between The Department of Home Affairs and ASIO to deliver an effective, efficient and consistent national response to foreign interference. The team provides a focal point for coordinating policy and program development and leading engagement with private sector areas. A review was undertaken of Australia's electoral process to ensure its security and protection from foreign interference.

It is important to remove barriers between Government and communities and recognise non-Defence ways to manage the issues at hand. Although a whole of Government approach is beneficial, it is equally important to ensure individual departments understand their role in managing competing interests in the region and assume individual responsibility to remain accountable to Government and to the people. The solution is not always a Defence-centric lead.

Policy Options

Several policy options were identified to counter political warfare campaigns directed at the allies and partners. These must be coordinated and coherent whole-of-government responses that are developed with wide community consultation and put in place with the expectation of long duration.

The highest priority is to educate and convince our publics of the nature and extent of the threat. Our liberal democratic societies are more vulnerable to mis- and disinformation campaigns than authoritarian states and we can expect a prompt and aggressive response by China to our efforts. Electoral understanding of the problem and support for government action is vital to our success.

Special measures are needed to protect the sectors in our society that are most vulnerable to political warfare operations and as with all other policy this will need bipartisan support. In particular, stricter rules around diplomatic activities of China in Australia around academia are necessary. A red line for penetration of universities and suppression of free speech must be drawn by our governments. The policy of dual citizenship should be re-examined. A utilitarian view of citizenship is disruptive to social cohesion despite the benefits of dual citizenship for travel and business.

We should adopt both an offensive and a defensive posture in our policy response. Until now we have primarily chosen to protect ourselves but we should carry the fight to our opponent using all the instruments employed against us and reverse the present circumstance of ceding the initiative. Ways to do this include exposing China's human rights abuses both domestically and overseas; publicly criticising China's transgressions against the global rules-based order; undermining regime legitimacy; and there are many more.

Our policy responses should not be entirely directed against China but emphasise the values, strengths and benefits of our democratic societies. This will require active measures to restore trust in our political, social, cultural and economic processes and institutions.

The structure of our public sector may need modification to deal effectively with the ambiguous and uncertain nature of the challenges political warfare poses. We will also need to develop and expand our human and intellectual capital to conduct both offensive and defensive political warfare.

We must put in place mechanisms to share information and coordinate the responses of the allies and friends in this environment of relentless, persistent and long duration political warfare.

Finally, political warfare is only one aspect of the struggle for power and influence in the Indo-Pacific and we lack a grand strategy and an accompanying narrative to describe our objectives in this endeavour. There is a strategic and operational mismatch between the authoritarian regimes and the West that is clearly evident in political warfare, and this will not be resolved in the absence of a grand strategy.

The Strategy Mix

Four different strategies were identified to implement political warfare policies. The first and instinctive reaction is to protect our national interests by denying access to and influence on our people and our political, economic and social institutions. This denial strategy is unlikely to deter or defeat an agile and innovative adversary and is unlikely to be successful in protection across multiple domains in the longer term. Nevertheless, some level of protective measures will be required.

A second possible strategy is to impose costs on the adversary in as many fields as possible to the extent that it modifies and reduces its political objectives. This cost-imposition strategy will have a more powerful and possibly longer-term effect than a denial strategy but is essentially defensive and may be difficult to sustain. Exploiting the economic weaknesses described in the preceding section is an obvious area to achieve an asymmetric effect.

The third approach is to attack the adversary's strategy by aggressively exploiting weaknesses in its instruments of national power. This is an extension of the cost-imposition strategy that rather than only imposing costs causes the adversary to question the viability of its strategy. This requires a highly coordinated use of our capabilities across several different domains and will need the active participation of all our allies and friends so that the pressure on the adversary is strong, diverse and unrelenting.

The fourth and final strategy is to undermine the opposing regime to reduce its ability to plan and direct political warfare operations. This objective could be accomplished by an information operations campaign to discredit the regime leadership or by inducing a spectacular collapse of some national enterprise, for example the Belt and Road Initiative. These actions are aimed at reducing the legitimacy of the regime to provoke an adverse domestic reaction and rejection. This strategy will require a very high level of national and international coordination and political will because a strong response from the CCP must be expected.

In reality, political warfare policies are probably best implemented by a combination of all four strategies starting with denial and then progressively ramping up the pressure by adding elements of the other strategies until the adversary loses all initiative and the will to continue.

Hybrid Warfare in the Indo-Pacific

Hybrid warfare carries political warfare to the next level by adding the use of force, or the threat of force, to the equation. This force could be military or paramilitary, and both combatants and non-combatants are involved to deliver 'soft strikes' that combine diplomatic, economic and political campaigns alongside military activities. These soft strikes tap into the tradition of people-centric efforts. Paramilitary forces are always backed-up by the threat or presence of direct military action and a clear intention to escalate if challenged. In most recent instances in the Indo-Pacific, China has in fact backed down when challenged and this provides a salutary lesson for us.

Hybrid warfare is not a new phenomenon and it is crucial to recognise that it is part of an offensive continuum that is always preceded by a political warfare campaign. Hybrid warfare will not begin until the adversary considers that the range of political warfare measures has succeeded in reducing the victim's will and capacity to respond. And, of course, in a further step on this offensive spectrum, hybrid warfare could lead to direct military confrontation and conflict if it results in a military response by the target. However, the strategic objective of the aggressor will be to avoid armed conflict if possible and will more likely resile from continuing with a hybrid warfare campaign if there is a strong reaction to it.

The main protagonist of hybrid warfare in the Indo-Pacific is China although Russia also engages in similar actions in the northern waters of Japan, and North Korea employs these tactics on a lesser scale against Japan. Chinese analysts do not normally use the term hybrid warfare unless paraphrasing Western texts. They more commonly use the term *Hùnhé zhàn* (blended or mixed warfare), which captures the integrated use of all national power to achieve objectives.

For the Chinese, hybrid warfare is aimed at demoralising the enemy's will to resist. The term 'coercive posture' captures both ends and means. Coercive posturing is the layering of Chinese military and non-military power to achieve control over a contested asset. China deploys ships on a regular basis and for longer durations to establish control and normalise Chinese presence in the region.

The physical creation of military assets positions China closer to the scene of the action and gives an aura of legitimacy to jurisdictional claims. Chinese coast guard ships have enacted an unprecedented number of intrusions into Senkaku territorial waters, contiguous zones and other territorial seas in the region.

Information warfare is used to shape perceptions of outside audiences about Chinese presence in the region and to contest the activities of the Japanese and other state actors. Propaganda is leveraged by empowering retired and well-respected military figures to invigorate national sentiment and de-legitimise foreign positions. China's information campaign seeks to test Japanese resolve, induce operational fatigue, reduce the relevance of Japan's strategic posturing and create a loss of confidence

in Japanese activities in the region. China's coercive posturing deprives Japan the political capital necessary to derive support for military activities in the region. China seeks full administrative control of assets in the region and is potentially hoping for an overreaction from Japan to justify their own actions and presence in the region.

The 1974 Battle of the Paracel Islands set the precedence for kinetic warfare in the region and resulted in China establishing de facto control over these islands. The detention of fisherman from the Philippines is an example of the broader issue of trying to contain allies and challenge our access in the region. China's strategy in the region can be likened to a noose that can be tightened and loosened at will to strengthen or reduce control.

Of note is that every People's Liberation Army (PLA) officer is a political agent and the PLA undertakes political work to maintain the morale and loyalty of officers and destabilise groups that threaten the integrity of the CCP. Politics constitute the establishment and intended purpose of the PLA, which was designed from the beginning to disintegrate the will of the enemy without fighting and to act as a political tool domestically.

Japan has responded to Chinese hybrid warfare in a number of ways. It regularly deploys units in the East China Sea and has invested increased funding into expansions and improvements across the Japanese military, including new intelligence, surveillance and anti-ship warfare capabilities. In addition, Japan has increased its Coast Guard budget.

Japan has conducted bilateral engagement on issues in the Indo-Pacific and continues to enhance operations in the East China Sea to maintain Japanese military presence, demonstrate Japanese military capability and demonstrate superiority in the region.

Japan is developing capabilities which can be executed across domains, leveraging different elements of hybrid warfare. However, Japan has adopted a defensive posture and will never escalate conflict in the region.

Recommendations and Policy Options

Alliance cohesion is required to contest Chinese manoeuvres and maintain conventional superiority. We must look at the role of conventional military strategy through the lens of China. Conventional military presence is key to countering Chinese dominance in the region. The People's Liberation Army is the coercive backdrop for the Chinese Communist Party campaign of intimidation. To comprehend Chinese hybrid warfare operations, we need to collectively re-define our understanding of what hybrid warfare is as part of an allied discussion and ultimate collective strategy.

We need to compete in conventional military capability to demonstrate we can climb the escalation ladder. Conventional superiority requires interoperability with our partners and an effective combined command and control structure is required to detect and intercept breaches of sanctions in the region. Information sharing will need to be the focal point of intelligence agencies and persistent forward engagement is critical.

To counter Chinese hybrid warfare, we need to think and act like the adversary. In addition to thinking vertically, i.e. on an escalatory scale, we need to think horizontally to engage the full spectrum of risk. That means a strategy of horizontal escalation is required to effect an outcome without vertically escalating the situation. For example, rather than responding directly to a Chinese incursion, independently demonstrating controlled responses in different areas in the region would present a united and controlled front. Developing this strategy would be facilitated by capturing individual case studies and examining them carefully to develop a coherent understanding of risks and opportunities. This should lead to thinking about our risk appetite and how much provocation we are willing to tolerate.

The timing of our response to provocation is crucial to success in a counter-hybrid warfare campaign. The longer the timeline between unsanctioned actions taken by China and any response the more the risk is transferred to the respondent, who then begins to look more like the aggressive party as they mount their belated response. Timing is critical to prevent this perceived and perverse transfer of responsibility. The cost of inaction is strategic complacency and loss of initiative. Reactive behaviour is problematic and gives China more control around timing, location and the type of action taken, so we need to be more agile and timely in our response to provocative actions.

Joint planning needs to include non-kinetic means of conflict and the integration of economic, political and cyber warfare tools. Greater investment in cyber defence tools and collaboration in the space domain is necessary. Although there is often little tolerance in expanding budgets, the issue requires additional funding. This will be forthcoming when the Government and public perception of the threat is sufficiently strong.

In addition to prompt and agile response to provocative action, we should blur our own red lines to create strategic and operational ambiguity and ensure that China does not know the level of our risk tolerance. We need to occasionally overact and demonstrate the ability to respond aggressively. If China knows that we will not escalate, it will assume control of the region. We must transfer our present risk aversion and strategic ambiguity to China.

Strategic communication should be incorporated as part of Government planning. Policy is important but it needs to be communicated appropriately to obviate the risk of losing public support. Defence is not always the best messenger on these issues and diplomacy is key so we must look at non-Defence outlets in shaping the messaging around the struggle for power and influence in the region. Language is key and should be tailored to take into account that China's understanding of the rule of law is not aligned with international interests.

The links between hybrid and political warfare must be recognised and political and economic warfare should be ramped up to signal a continuing cost to China rather than reactive one-off responses to individual actions. Offensive information operations are critical in this regard.

Protecting the South West Pacific and Southeast Asia

The Australian Perspective

The Australian Government is focused on the security and prosperity of the region as expressed in the 'Step-Up' policy in the South West Pacific and South East Asia and the Prime Minister has a personal interest in the former.

Defence is focussed on supporting whole-of-government strategy and building "thick networks" of relationships, local capability and resilience to make their own choices free from coercion. This means building sovereign local capacity and partnerships and looks different in the two geographic areas.

The Step-Up policy is focussed on working with neighbours and supporting their development through their priorities to get the trusted partnerships we need for effective outcomes. Although these partnerships have a geopolitical dimension for Australia, the focus must be the preoccupations of each island nation not those of Australia. This requires building genuine capacity in each nation, cognisant of their specific priorities and sensitivities.

The Prime Minister believes that Australia should be prepared to assert an appropriate leadership role in the South West Pacific while working in a cooperative fashion with the nations of South East Asia. Australia is strengthening the engagement with South East Asia through ASEAN centric regionalism using fora such as the East Asia Summit. Arrangements which include the United States are particularly useful in addressing the political and security issues facing the region.

Australian View of the South West Pacific

The emphasis on the South West Pacific is not new with the first Australian military deployment to the region in 1918 and constant involvement since then to assist in civil unrest, law and order, and humanitarian aid and disaster relief operations. Today there is a renewed focus on support to fragile countries in the region to ensure they have the capability to deal with their own interests and prosperity.

The creation of the environment for stability and prosperity requires deterring, denying and defeating hostile actors in the broader region. This is accomplished by more efforts on maritime domain awareness, policing Exclusive Economic Zones, countering narcotic trafficking, aerial surveillance, and the provision of patrol boats together with other measures to build military and police forces. In addition, there is a near persistent maritime presence with naval and air force elements. The aim is to reinforce Australia as the partner of choice for these nations when there are many other choices they could make.

South West Pacific countries are conscious of increasing strategic competition in the region and deeply resent any assumptions from outside nations that they are not capable of making their own strategic and defence choices. They particularly resent implications that China has everyone in their pockets and that they are weak, fragile and prone to corruption, and are very sensitive to patronising visits from outside powers. Nonetheless, they may be overconfident in their ability to manage their international relations.

To coordinate its Pacific Step-Up policy with the activities of other nations, Australia is working with Japan, France and the United States as well as the larger and more developed countries of the region. The aid programs provided by Japan are considered first rate as best practice and highlight ‘what good looks like’.

Australian View of South East Asia

Australian influence in South East Asia is not as consequential as in the South West Pacific. Australia does not seek to be the security partner of choice for all of the ASEAN nations. Its focus is to work with Indonesia, Malaysia, Singapore, Brunei, and, increasingly, the Philippines. The aim is to build partner capacity to enable these countries to feel secure in that they have strategic space.

Many of the ASEAN nations have lived with China for centuries, but they are worried about how Chinese power may be asserted. Hence, ASEAN wants the US and Australia deeply engaged in Asia and they appreciate a greater military presence. But this engagement must be part of the broader prosperity agenda that is respectful of sovereignty where disputes are resolved peacefully without coercion. They want free, open and inclusive engagement that is conscious of the history of individual nations when we talk about values. There are some nations in which the western traditions of free press and democracy have a different approach. Therefore, we need to be careful about our language.

A powerful tool to build trust with our regional partners has been counter-terrorism cooperation which has served as a base from which to build out towards more sensitive and global security challenges. This builds up political and institutional capital to move into other security priorities and challenges.

Japan's View of South East Asia

Japan's strategic commitment is for a free and open Indo-Pacific which includes promotion of bilateral and multilateral cooperation with ASEAN nations.

The emphasis is on three points:

- Securing stability of the Pacific Island region and improvement of maritime safety capability.
- Realisation of self-sustainment by establishing strong sustainable bases for development.
- Strengthening Japan's relationship with these regional nations through personnel exchanges.

India's View of the South West Pacific

India of course is looking primarily at the western side of the South Pacific but has interests throughout the region especially in Fiji where there is a large ethnic Indian population.

India established the Forum for India-Pacific Islands Cooperation (FIPIC) in 2014 and holds regular meetings with some or all of the island nations.

The Indian view is that Australia should be more active in the South West Pacific and have a more focussed approach than at present.

Vulnerabilities in the South West Pacific

China understands its strategic weakness in the South West Pacific and South East Asia of having only limited basing and access to facilities and is seeking to emulate the United States by constructing dual use militarily capable infrastructure and facilities. This trend will increase and begin to focus more on the South West Pacific with visits and offers of development support. Our objective should be to make this intrusion to gain footholds as challenging as possible for China. This should also include ensuring that the Pacific Islands are aware of the risks of receiving Chinese support and most importantly of understanding that there are alternative sources of finance and other support.

If a Chinese presence is established in the South West Pacific, we must work to make it as limited as possible in consensus with others in the region. However, it is not inevitable that such a 'place not base' will be established if we work now to put obstacles in place and provide credible alternative solutions to the problems these nations face.

Australia, Japan and the United States providing for the security needs of the South West Pacific removes one of the vulnerabilities for these nations to seek assistance elsewhere. As the nation closest to the region, Australia should be forward leaning and supportive of reasonable requests from South West Pacific partners. The recently announced Pacific Step-Up policy by the Australian Government provides assurance that Australian interest will not wane.

Most South West Pacific states are not economically viable, which creates a reliance on aid as a fundamental part of their economies. The single most effective thing Australia can do is offer a large measure of economic integration of local economies into that of Australia such as labour mobility programs, linked telecommunications networks and professional services.

An impediment to providing alternative development finance to the South West Pacific is that the Belt and Road Initiative has a better brand than the Free and Open Indo-Pacific strategy. Acting together, the four nations of Australia, India, Japan and the United States should easily be able to outbid China in providing finance for infrastructure developments while at the same time offering significantly safer and more reliable commercial, employment and environmental standards.

However, the budget cycles of our countries and the processes to commit resources are not well-aligned. Furthermore, the more countries that are involved in responding to an issue, the more difficult becomes timely coordination. We need to be able to respond with agility to challenges and therefore the priority should be the speed of the response. We need to put in place a mechanism to coordinate and direct quadrilateral cooperation to compete commercially with China and to emphasise the prosperity agenda. An important outcome of a successful engagement on our part would be setting the standards for commercial and other transactions and reinforcing the prevailing rules-based order.

General Discussion on South East Asia

The challenges posed by China in South East Asia are different to those that confront the island nations of the South West Pacific. While most are emerging or developing nations, their individual economies are essentially viable, and most would welcome investment by the advanced countries, particularly the United States and Japan. This investment needs to be directed at the private sector to ensure that their digital infrastructure is fit for purpose as their economies transition into the third industrial revolution. Assistance from the advanced nations need not be solely by governments but also by the private sector including global corporates and sovereign wealth funds. These sources would bring transactional standards to improve the quality of capacity building in each nation and reinforce the global rules-based order.

A further factor is the geography of the region on the periphery of China. China can more readily extend its influence to the south through South East Asia than to the north where it must contend with Russia; to the east where it is blocked by Japan and the United States; to the west where the Central Asian republics are resistant; or to the south west where the Himalayas and India stand in its way. In addition, most of the countries of South East Asia have a sizable ethnic Chinese component in their population who may be more likely to be more receptive on a number of grounds to Chinese influence.

Another important difference is the Association of South East Asian Nations (ASEAN) which provides an existing vehicle for cooperation. The question of the centrality of ASEAN to South East Asian affairs remains but there is at least a forum for the discussion of the problems confronting the whole group. The de facto leader of ASEAN is of course Indonesia and ASEAN will not take a strong position without a strong and focussed Indonesia. Indonesia has the potential to be a convening power and the Indonesian military could assist in building capacity in the region.

But Indonesia has non-aligned preferences deep in its national psyche and some other ASEAN members will also be wary of becoming entangled in what they see as great power competition. They will support the allies on some matters but the general view is likely to be that this bi-polar competition is destabilising. Hence, the issue of countering the imperious influence of China on South East Asian affairs should be couched in terms of prosperity and stability not as a security competition or as a covert external influence on our part directed against China. In short, we need to be modest about what we can achieve with ASEAN and Indonesia. The point is that we need to be seen as a coherent group of advanced nations acting in the interests of South East Asia, not as the United States acting alone to resist China.

Freedom of Navigation

Freedom of Navigation operations (FONOPS) in general but in the South China Sea in particular, have become a defining symbol of political and hybrid warfare in the Indo-Pacific. On the one hand they demonstrate the resolve of the United States to uphold the long-established dictum of freedom of the seas now expressed and ratified by the United Nations Convention on the Law of the Sea (UNCLOS), one of many elements of the global rules-based order. On the other, the refusal by China to recognise the legitimacy of FONOPS is yet another manifestation of its rejection of the western-initiated system of international rules and norms.

But in the case of the South China Sea, the US is conducting FONOPS near and through waters adjacent to land masses artificially constructed and occupied by China, some of which have been declared illegal in a judgement by the International Court of Arbitration. These false artefacts are in close proximity to the major sea lines-of-communication and pose a potential threat to international trade.

China has developed and promulgated three unhelpful interlocked narratives in relation to FONOPS as part of its information warfare campaign that should be countered:

- That the US is the regional aggressor when in fact China has illegally constructed artificial islands.
- This is a bilateral competition although freedom of navigation affects all trading nations.
- There only two partners of choice for regional nations – one for security and one for prosperity, attempting to force a choice on their part.

Although the artificial islands are now probably irretrievable, if China is able to sustain its broader position on freedom of navigation, fundamental rights, some of which are part of the global rules-based order, will eventually be subsumed. Despite the short-term danger of miscalculation and local conflict in the exercise of freedom of navigation, this struggle will eventually escalate to large-scale conflict if the political warfare campaign on which it is based is not defeated.

There is a strong argument for other nations supporting the US in FONOPS on several grounds. The first is that by demonstrating that other nations agree with the principle of freedom of navigation, China will be forced to recognise that the US is not alone in its concern. And second, this is not part of a bi-lateral struggle but a wider issue around international rules and norms that govern the behaviour of nations. Finally, any conflict, i.e. a transition from political and hybrid warfare, will threaten and disrupt world trade and diminish the prospects for stability and prosperity in all of Asia.

Freedom of Navigation in the South China Sea could be the first arena to counter and defeat a political warfare campaign directed at the liberal democracies in the Indo-Pacific. This should be a high priority for combined strategic planning and execution by the allies using all the instruments of national and regional power discussed earlier in this report, perhaps applied in other domains and locations as well as the waters of the South China Sea.

Extended Deterrence

There is some nervousness and anxiety in South East Asia and to some extent in Australia of the commitment of the United States to the defence of the region in the event of a conflict with China. This stems from the recognition that the rapidly emerging security situation in the Indo-Pacific is quite different to the Cold War. There is a different calculus today than during the Cold War when the United States put its entire existence on the table to protect Western Europe. This resolve was understood by the Soviet Union and measures were put in place to ensure any dispute did not escalate to nuclear war.

As the security order in the Indo-Pacific is redefined, the question that arises is whether or not there is an effective security guarantee from the United States on which we can bank if the region were to be under strategic duress. What credit can we draw down on? Would US equities be sufficient to put themselves and their cities at risk? If the conversation is limited to the retail end of discussions, then we are not fully considering the value of the US guarantee.

The question is particularly acute for Australia as a close ally under the ANZUS Treaty, and to Japan, South Korea and Thailand, but it also applies to South East Asia more generally. The perception that South East Asia is slowly drifting into China's orbit suggests that ASEAN leaders may be making the same calculations and anticipating decreased interest by the United States.

Detering and Defeating Authoritarian Regimes in the Indo-Pacific

The objective of the final session was to bring together the main ideas from the initial strategic scan and the subsequent more detailed sessions from the perspective of each of Japan, the United States and Australia.

Policy Options from Japan

The struggle for power and influence in the Indo-Pacific is essentially political and should provide for long-term policies and political goals. The starting assumption is that the future struggle in the Indo-Pacific region will most likely involve the combination of political and hybrid warfare, where, unless active measures are taken, the adversary will seize the initiative at any point along this spectrum. Since our success will depend on collective action, we should aim to be bound by a common political goal.

The traditional instruments of national power are not suitable for all aspects of the political struggle in which we are engaged. A whole of government approach is necessary to integrate economic, information and social, geo-strategic, and legal/paralegal means, so that an optimum combination can be acquired and employed according to the specific future circumstances.

In particular, communication (i.e. the information domain) needs to be elevated to a higher level and we need to expand our strategic language to reflect this increasing importance and move beyond material capability. For example, the recent National Defense Program Guidelines issued by the Government of Japan uses words such as 'create' security environment and 'security cooperation' (akin to Western doctrinal concepts of 'shape' and 'engage') instead of 'winning' or 'defeating'. Furthermore, the allies need to standardise the language used and coordinate the narrative delivered to our domestic publics, the adversary, and to global opinion.

We should begin to engage with European states to establish a view beyond the Indo-Pacific region and widen the coalition of liberal democracies. Some nations such as France and the United Kingdom have long-standing connections to the Indo-Pacific but the essence of the Belt and Road Initiative is to establish trade routes and markets in Europe to enable growth in China's economy so Europe will eventually have to deal with the same problems confronting us at present. Agreement among all the liberal democracies on the shape of the future world order is necessary to, for example, decide on whether to work together to prevent bifurcation of the global economy.

United States Perspective

The set of assumptions around international affairs, domestic institutions and strategic concepts are being questioned in our new environment and many may prove to be false. The traditional clear Western liberal divide between peace and war has changed now that we recognise that we are confronted with political warfare and its extension into hybrid warfare using both conventional and non-traditional military capabilities. We now more fully comprehend the close link between economics, the military and politics, in addition to the importance underlying information domain.

There is a growing but uneven recognition of an increasingly aggressive China and this is having a ripple effect in the United States beyond national security circles to other parts of government, the private sector and civil society.

We are beginning to see efforts to adapt to these new circumstances in many areas of American society. Economic, industrial and commercial policies now consider the ramifications of decoupling/bifurcation of the global economy. Government is actively preparing measures to protect our population against malign foreign interference. An historically informed audit is needed to understand what policies and institutions are valuable, invaluable and what new things can be created. Our military planning paradigm is changing to adjust from conventional operations to meet a world dominated by political warfare and hybrid operations and requires new operational concepts. The geographic military command structure is outdated and not fit-for-purpose in these new conditions, as are the siloed nature of our government institutions which inhibit policy integration and agreement on priorities.

Traditional notions of deterrence also need to be updated to deal with the changed strategic circumstances. In particular, the information domain now plays a much greater role in deterrence than was previously the case. In an era of long-term competition, we need to think about how we portray our capabilities, and what we choose to hide and show other states. For example, a combined four nation maritime strike in the recent Exercise RIMPAC 19 demonstrated the degree of alliance cooperation that could be deployed in the Indo-Pacific.

Deterrence can also be accomplished through increased transparency by revealing and highlighting bad behaviour and actions by adversary nations particularly where 'shining a bright light' is directed on its domestic affairs such as human rights abuses and corruption. This method will always be most effective if an action is revealed and widely publicised as soon as possible after the event.

A final deterrent method is denial of adversary intentions and objectives. This can be achieved in the Indo-Pacific for status quo powers like the allies through persistent maritime pressure applied in archipelagic defence and taking advantage of our technological superiority and geography which favour defence. This frees land and air forces for manoeuvre and the ability to apply pressure in other domains. Denial of objectives in the South China Sea raises the cost of maritime expansion which then becomes less attractive in comparison with a focus on continental expansion in Asia.

Australian Perspective

The nature of the regime in China is strongly authoritarian but until recently Xi Jinping and the Chinese Communist Party were not comfortable with adverse world opinion and would attempt to deflect criticism. The approach has now changed, and China is actively promoting the authoritarian model externally which poses a danger for Australia because we live in a predominately developing region. In China, economic growth takes precedence over human dignity because it is vital for regime survival.

Deterring and defeating China are two separate concepts and the priority is to deter. This is not a defensive or passive posture but is aimed at restricting an assertive China which is expanding its region of influence and seeking to dictate events inside the first island chain. China's position is sufficiently strong that it is beginning to institutionalise the leverage it has created, for example by altering trade rules.

Australia must change its narrative to emphasise our strengths and China's weaknesses. China has major structural problems in its economy and demography; time may not favour its future and the next decade will be decisive. However, public opinion in the Indo-Pacific and especially in Australia's near region is that China owns the future. This leads to a strategic policy of hedging and creates the conditions for defection to the authoritarian model which our narrative must counter. Australia can afford to be assertive because China has more to lose.

We must understand 'the China dream' as being at the core of an ethno-nationalist project which is fundamentally at odds with all other non-Han nations and should be highlighted as such. Whereas Australia attempts to be an inclusive multi-cultural society (as do some Southeast Asian countries) and Japan is a liberal democracy (as are some Southeast Asian countries), China is proudly neither. The 'values gap' between the People's Republic of China and the rest of the region is something that Australia and its partners need to advertise. To put it plainly, we should try to continually drain China's soft power and standing within the region as a role model or leader.

Geo-economics

A recurring theme in the discussions was that geo-economics should be at the heart of our strategy to overcome authoritarian regimes. Incorrect measures are used in defining economic power and this distorts the way we view the competition between our two models of the free market economy and the command economy of Chinese socialism. Gross Domestic Product (GDP) is a flow measure rather than of national wealth and when all relevant parameters are included China's wealth is only 10% of the United States, let alone the combined wealth of the allies and friends. Technology as in 'Made in China 2025' is not a panacea for China because there are fundamental flaws in the Chinese economy such as the lack of property rights and protections for individuals, and the entrenched dominance of a relatively inefficient and corrupt party-state.

Authoritarian regimes have historically provided poor economic performance, and this is already evident for China. Hence, we should focus on the Chinese narrative of performance, shine a light on failures, reveal the cost of the Chinese development model, and question official statistics. The cost of the Chinese imperium will lead to an internal focus and economic correction eventually, and this will put great pressure on the regime and the legitimacy of Xi Jinping and the Chinese Communist Party. One view is that China's economy is directed at projecting power rather than improving the lot of its people and this is a strategic weakness that we should exploit. Another view is that the Chinese Communist Party is trying to do both. It made a deal with the Chinese people that they could have better material lives as long as they did not push for political reform. The imperative is to continue improving life for its people as it is projecting power.

Human Development

The values of our democratic societies were a constant thread throughout the discussions. The failure of the Chinese leadership to focus on human development and human dignity rather than economic development was seen as a major flaw in the model of 'Socialism with a Chinese Character' promoted by Xi Jinping. This would inevitably lead to unmanageable social problems and probably eventually threaten the existence of the present regime.

Nevertheless, China is actively exporting this model as part of its expansionist agenda of the Belt and Road Initiative. The pitfalls of this economic model should be made more obvious to the leaders and people of emerging and developing nations of the Indo-Pacific, particularly the South West Pacific and South East Asia. The alternative path offered by the liberal democracies needs to also be promoted more vigorously in the region but without imposing all of our values on local communities.

The issue of China is not only one for the Indo-Pacific - it is an attack on Western civilisation and our values as a whole. Moreover, China is a threat to a much broader international order beyond the Indo-Pacific. For example, European states are at risk of the influence of China.

Strategic Communications

Another persistent theme that emerged in the conversation was that of strategic communications. This had different dimensions and different target audiences. For the liberal democracies, the most important was our electorates to ensure that our people understood the danger we face and to build support for government action to protect our societies and of the consequent costs.

Emerging and developing societies with weak democracies and institutions are vulnerable to capture from Chinese influence. We should oversee a return to promoting democracies in our Indo-Pacific region. We can build resilience in other weaker states by championing democratic principles and supporting their institutions.

Strategic communication will require new democratic doctrines because other cultures might not embrace all of our values or belief systems. We must respect local culture and traditions when dealing with other countries.

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