

The Strategic Outlook: New Zealand

Speech by John McKinnon, executive director of the Asia New Zealand Foundation, at the Second International Defence and Security Dialogue, organised by the Royal United Services Institute of New South Wales.

Sydney, 26 February 2013

Thank you for the invitation to attend this dialogue. It is a privilege to speak to an organisation with such a distinguished lineage, and in such a splendid museum. I thank you also for the opportunity to share with you some thoughts on the strategic outlook as it is seen from New Zealand. I commend the organisers of the forum in giving voice to Australia's neighbours in this way. While every country necessarily has its own perspectives on these matters, those perspectives are likely to be better grounded if they are informed by those who live nearby.

As with my distinguished colleagues who have just spoken, New Zealand's outlook is shaped by our geography and by the nature of our society. We are a distant country, with the east coast of Australia, New Caledonia and Fiji being closest to us, but even they are three hours flying time away, and the nearest non-Pacific country, Indonesia, is considerably further. Equally as important is the character of our relations with our nearest neighbours. In the words of the 2010 defence white paper, we have no better friend and no closer ally than Australia. The same document also expresses the intimacy of our relations with the island countries of the Pacific Forum. While those relations with the Pacific have not been without challenges – and the previous speaker reminded us of some of them – they are an integral part of the way in which New Zealand places itself in the world, reinforced by the very significant populations of Pacific descent who live in New Zealand.

But geographical distance does not now, if it ever did, confer insulation from the effects of what is happening elsewhere in the world. The impacts of globalisation, as the previous speakers have mentioned, are felt as much in New Zealand as they are in this country. Cyber attacks know no borders. People traffickers and drug peddlers do everything they can to circumvent frontiers. But beyond that, turmoil in the Middle East or standoffs in the South China Sea generate ripples which – like their physical equivalents, earthquakes or tsunamis – can be felt far from their place of origin.

Our awareness of these realities is reinforced by our economy and society. We are a developed country, and we recognise that our ability to earn and maintain our livelihood depends heavily on a well-ordered world. When that world is threatened, as it was many times in the 20th century, we made our contribution, both on the battlefield and at the conference table. New Zealand may be isolated but we have never been isolationist.

Having set down those markers, let me turn to how we see the world now, and how we see it evolving over the next few decades.

I begin with the Asia-Pacific region. This is the terminology we prefer to use. Others may use different words but the reality is the same. In recent decades, this region has generated increasingly large proportion of global wealth and that trend is set to continue. There are many different ways of measuring this change, but if I can use some from last year's *Australia in the Asian Century* white paper:

- The combination of a robust outlook and the sheer size of their economies mean that China and India will make the largest contribution to global and economic growth to 2025. In that year, Asia is likely to account for almost half the world's economic output, with China in turn accounting for about half of that, and India, Japan and Indonesia weighing in, in that order to, the other half.
- The combined output of China and India will likely exceed that of the whole Group of Seven (G7) by early next decade. Asia is set to overtake the combined economic output of Europe and North America within the decade to 2020.
- Importantly, even if developing Asian economies (ie. other than Japan, Korea, Singapore, Brunei) were to reach a long-term productivity level of only 50 percent of what they would achieve under a medium scenario, Asia would still be the fastest-growing region in the world.

The economic transformation in India and China is happening at a scale and pace unprecedented in history. Average incomes are growing at ten times the pace and on more than 200 times the scale of their increase during Britain's industrial revolution. That revolution is not confined to those two giants. For example, the proportion of Indonesians living in urban areas, a proxy for industrialisation, could reach 71 percent in 2030, up from 53 percent today.

For New Zealand, this change has been very significant, as it has been for all the countries whose nationals have been speaking to you today. During the time when I was assigned to China, 2001 to 2004, China was our fourth or fifth-largest trading partner (the others being Japan, the US and Australia). In 2012, China is our second-largest trading partner (Australia is still first) and amongst our other leading partners, six of eight are in Asia, and all are in APEC except the UK. This is a seismic change and on current projections those patterns which are now set are likely to continue for the foreseeable future. This pattern is reflected in tourists, students and immigrants, although not in investment, the stock of which is still dominated by what we call our traditional partners.

With increasing wealth goes increasing power and with that the ability to exercise greater influence in regional and world affairs. That in turn is changing the balance of power in the region. All commentaries pay close attention to what that means for the respective positions of China and the United States and, while that is hugely significant, it is not the only way in which these changes are manifest. The respective positions of Japan, the countries of Southeast Asia and India are also parts of the equation, and thus part of the mix to which New Zealand and others are responding.

Without putting risky prognostications on the table, let me offer some observations on these trends

1. Economic growth has enabled substantial military modernisation programmes in Asia. This is especially the case with China but it is also a feature of most of the other countries of the region. One result is that growth in defence spending in Asia is outpacing that in Europe. The global financial crisis did not dent these trends. Indeed, given the effects of the global financial crisis on defence spending elsewhere, it may even have enhanced them.
2. Countries everywhere are sensitive to matters which impinge on national sovereignty. The Asia-Pacific region is no exception. As we have recently seen, the possession of islands and even rocks can become a matter of national pride as well as national security, and almost regardless of what economic assets are attached to them. It is a natural tendency that countries define and pursue their interests in a more forthright way as their wealth increases.

From an outside perspective, the issues in question may seem insignificant, but it would be a mistake to think that arguments over them cannot have serious repercussions

3. The situation is dynamic. An action by one country in the South China Sea elicits another action. The rapidity of China's growth is now being followed in Southeast Asia and South Asia. Whatever distribution of power exists at any one time will change.
4. The economic nexus in the region, between all countries, is strong and likely growing. All countries have significant economic stakes in each other's prosperity, and that includes their respective partnerships with China. For most countries in the region, including of course Australia, China is the first or second most important trade partner.
5. The dynamism of the region exerts a centripetal force not only on the countries of the region, but also on all parts of the global economy, including Europe and the United States. Leaving the question of the 'pivot' to one side for the moment, any outlook which presupposes that the United States would not have an active presence in the region would in my view be wide of the mark.

What does this mean for the strategic outlook?

1. Scenarios which are premised on a containment of China (whether explicit or not) are very unlikely to come to pass. We are not living in a Cold War mark II, in which the Soviet economic system existed in many respects separately from that of the West. Quite the reverse. China is an almost indispensable component of the prosperity of most countries of the region.
2. But it is in my view equally the case that scenarios premised on the US not being present in the region are also flawed. The United States has significant security, political and economic interests in the region. These have been reaffirmed very recently.
3. A consequence of 1 and 2 is that we must recognise and accept that the relationship between China and the United States will be a major factor in the strategic shape of the region for the foreseeable future. It contains elements of both cooperation and competition.
4. We also have to recognise that there will be tensions between other pairs (and some groups) of countries, whether in highly militarised theatres (Korean Peninsula, Taiwan straits) or more localised (as in the East and South China Seas). This is not a world of weak states, but a world of states which are strong and wish to be stronger.
5. Military expenditures, different views of the 'rules of the road', appeals to nationalism and trigger-happy local actors may aggravate not to say inflame those tensions.

On the other side of the ledger...

6. There is a dense network of trade and investment.
7. Regional organisations and arrangements have proliferated in recent decades. We cannot ask too much of them, but nor should we expect too little. The emergence of the ASEAN Defence Ministers Meeting Plus is a very positive development.

8. Let us not forget that we also have assets in, for example, the charter of the United Nations, the United Nations Convention on the Law of the Sea, and associated tribunals and processes, all of which provide mechanisms for dealing with international disputes, and which were established precisely to avoid a recurrence of the conflicts which troubled the first half of the 20th century.
9. And we can learn from history. The merits of pondering fifth century Greece or 20th century Europe does not lie in seeing ourselves trapped in some automatic cycle of history, but to prompt us to use our wit and our skill to avoid repeating the mistakes of the past.

That means dialogue, diplomacy and debate are at a premium, as we all work out how to live in a world which does not quite resemble any of our pasts. It means recognising that there are conflicting national security interests in play, while not despairing that these cannot be managed (even if they elude resolution).

For all of us, including New Zealand, this is a world full of opportunity, but also of challenges and risks. These may not directly impinge on our national security – although some of the threats I mentioned in my opening remarks, cyber attacks for example, would encroach on that. It is much more about the benefits we gain from a peaceful and stable world, and the obligations we, as a country in this region, have to support that.

How does this affect our more immediate neighbourhood? The preceding speakers have touched on this, and I will not repeat much of what they have said. The largest change is that the South Pacific or the Pacific Ocean will become more complex. There will be more international actors, there will be more issues which will cross national boundaries and which will require collaborative responses, there will be more linkages between the region and the world beyond. At the same time, the national challenges of building infrastructure, finding employment for youthful populations and managing limited resources will not get any less.

Will the South Pacific become an arena of external competition, as it was for instance in the 19th century? My own judgement is that the increased presence by external powers that we have seen in recent years will continue, but that is less likely to translate into strategic competition, or to have strongly military dimensions. I repeat, this is not the Cold War mark II. It is also the case that the Pacific governments are not merely passive actors in a game played by others.

But to put it another way, developments over the next 20 years may well undermine what could be the unstated premise of this dialogue – that Australia's immediate neighbourhood exists compartmentalised from the rest of the world, and in particular from the Asia-Pacific region. If this were ever true (and as the son of a Pacific war veteran I'm not sure it ever was) it is certainly no longer so. The 'Asian impact' on Australia and New Zealand has its counterpart throughout the South Pacific. Trade and investment from China, but not only China, has increased by leaps and bounds. Chinese diplomatic activities in the region are significant, but so also are those of other countries. Most of the Asian diplomats stationed in Wellington, and no doubt many of those in Canberra, are accredited to one or a number of South Pacific governments and they are very assiduous in their duties. The dialogue partners of the Pacific Forum now include all the major Asian countries (China, India, Indonesia, Malaysia, Japan, Philippines, Thailand, South Korea).

The countries of the South Pacific have proved themselves adept at managing these relationships. New Zealand has stood by them through good times and bad, and will continue to do so. As we made clear in our 2010 defence white paper, our defence assets are always available if needed, whether as result of natural disasters or civil strife. Indeed much of the very shape of those assets is dictated by the requirement for our forces to be able to operate effectively in the South Pacific – hence the emphasis on command and control, strategic lift, surveillance and deployable ground forces. Our development assistance and other modes of cooperation will continue to be heavily focussed on the Pacific. It is not for me to say how New Zealand is viewed by the countries of the South Pacific. What I can say is that New Zealand remains committed as a friend and neighbour to cooperating with them regionally and bilaterally, and with all other countries who wish to do likewise.

There is also the world beyond the Asia-Pacific region. For the last 10 years New Zealand has had forces deployed to Afghanistan, in a variety of roles. That mission is about to come to an end. It is part of a thread of operations which take us back to the early years of the 20th century and for the most part have seen our men and women in uniform fighting and serving alongside their Australian kin. Forces from Fiji and Tonga have had similar experiences. Will that pattern continue? Or, to put it another way, will the Middle East continue to generate security challenges for us? Sadly, the answer is yes. The intractable relationship between Israel and Palestine, Iran's nuclear aspirations, the downside of the Arab spring and the intensity of Islamic fundamentalists together make a strong mixture and it would be a brave person indeed who would rule out the need for international intervention over the next 20 years.

One aspect of this, which Australia is probably more aware of than my own country, is the increasing interrelationship between the Pacific and Indian oceans, between the Middle East and other parts of Asia. The strategic geography of the world is changing very rapidly, in part as a consequence of technology, but also because shifts in relative power throw up new alignments. The presence of Chinese businesses and workforces through Asia and Africa is just one example of this.

The world of the 21st century is very different from the world of the 20th. For our two countries much of that difference is positive. If we were sometimes said to be outsiders looking in, we are now insiders looking out. But let us also remember that a dynamic region of the world is of interest to everybody, and not just us, and that as part of this region, we have a responsibility, with our allies and partners, to contribute to its peaceful and stable evolution as much as we can, and however difficult that at times may be.