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Trends in  
Southeast Asia

THE INDO-PACIFIC AND ITS STRATEGIC  
CHALLENGES: AN AUSTRALIAN  
PERSPECTIVE

PETER VARGHESE

**ISEAS** YUSOF ISHAK  
INSTITUTE

# Trends in Southeast Asia

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## FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

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# The Indo-Pacific and Its Strategic Challenges: An Australian Perspective

By Peter Varghese

## EXECUTIVE SUMMARY

- The shift in the framework of Australia's strategic thinking from the Asia-Pacific to the Indo-Pacific reflects the primary focus on the maritime environment in the coming decades and the expectation that over time India will become more embedded in the strategic dynamics of the Asia-Pacific.
- India is in the midst of a major geopolitical repositioning, as it pursues a hard-headed national interests-based policy and builds stronger strategic ties with a wide range of countries including the United States and its allies in the region.
- The region is entering a potentially dangerous phase in U.S.–China relations. China's rise needs to be managed not frustrated; balanced not contained. Constructing that balance and anchoring China in a new multi-polar strategic equilibrium in the Indo-Pacific is the big challenge of our time.
- More and more individual Southeast Asian countries are being pulled into China's orbit: not with enthusiasm or conviction but because they see that the economic cost of opposing China's agenda is too high. The United States is so far doing little to change this.



# The Indo-Pacific and Its Strategic Challenges: An Australian Perspective

By Peter Varghese<sup>1</sup>

## INTRODUCTION

It is not often that a country changes the geographic definition of its primary strategic environment. But that is precisely what Australia has done in recent years by embracing the concept of the Indo-Pacific.

Below is a personal perspective on what lies behind this change from the Asia-Pacific to the Indo-Pacific and the key strategic challenge facing the Indo-Pacific: how to reach a new strategic equilibrium in the region as U.S. primacy is challenged by a China with ambitions to become the predominant power in the region.

The Asia-Pacific, with Northeast Asia and Southeast Asia at its strategic centre, has been the conceptual foundation of Australian strategic thinking for most of the post-World War II period. It was seen as a coherent strategic system bringing in the major powers and also reflecting a long period of trade and investment integration, best captured by the Asia-Pacific Economic Cooperation (APEC).

Australia saw this economic integration as giving the Asia-Pacific added coherence. The Asia-Pacific construct provided a framework for

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thinking about the management of major power relationships especially the vital U.S.–China relationship. It was Australia’s frame of reference for charting the strategic impact of shifting economic weight, most notably the extraordinary expansion of the Chinese economy.

In more recent years, however, Australia has moved from Asia-Pacific to Indo-Pacific to describe the crucible of its strategic environment. And a large part of that shift is driven by how we see India.

## **WHAT IS THE INDO-PACIFIC?**

The concept of the Indo-Pacific as a single strategic system is very much a work in progress. It is both an act of imagination and a recognition of an emerging structural shift in our strategic environment.

At its heart, the Indo-Pacific reflects two propositions. First, that the maritime environment is likely to be the primary focus of strategic planning and strategic competition over the next several decades. Secondly, that India’s strategic focus will over this period shift well beyond India’s immediate neighbourhood and embed India in the strategic dynamics of the broader region in a way it has not in the post-war period.

These two propositions do not, in themselves, create a coherent Indo-Pacific strategic system. But they do suggest that the idea of the Asia-Pacific needs to adapt to accommodate them. In this sense, the idea of the Indo-Pacific is best understood as an evolution and expansion of Australia’s Asia-Pacific bearings, not a rejection of the Asia-Pacific.

It is also important to understand what the Indo-Pacific is *not*. It does not, for example, treat the Indian and Pacific Oceans as a single strategic system. Nor does it seek to bring all of South Asia let alone the Indian Ocean littoral into the old Asia-Pacific strategic system. For now, the Indo side of the Indo-Pacific is really just India and it is more about bringing India to the Asia-Pacific than stretching the footprint of Australia’s primary strategic focus all the way to the western reaches of the Indian Ocean.

Over time, more structure and integration may evolve in the Indian Ocean such that it might become a coherent strategic system akin to its counterpart in the western Pacific. But that is a long way off and by

no means certain. So, for the foreseeable future when we think about the Indo-Pacific we are thinking of an Asia-Pacific which finds room to accommodate India as a key strategic player, and an India whose strategic and economic interests will increasingly draw her into acting as such a player.

India has always seen itself as an Indian Ocean power whereas Australia has traditionally placed a greater emphasis on the Pacific as the ultimate arbiter of its strategic stability. Now there is an opportunity to better align these perspectives and to build a partnership which bridges both oceans. It is a neat symmetry for an Australian continent which faces both the Pacific and Indian oceans and an India which has always been strategically anchored in its namesake ocean.

## **INDIA'S STRATEGIC DRIVERS**

Since the strategic posture of India is important to Australia's conceptualization of the Indo-Pacific, it is worth considering what type of strategic power India is likely to be.

India is today in the midst of a major geopolitical repositioning, as it discards its old non-aligned movement rhetoric, pursues a hard-headed national interests-based policy and builds stronger strategic ties with a wide range of countries including the United States and its allies in the region, especially Japan.

Indian strategic thinking is likely to be shaped by six key factors.

First, a firm attachment to strategic autonomy and to preserving maximum freedom of action. India is not about to become an ally of the United States or anyone else. It will be guided by its own interests as it builds strategic ties with a range of countries, including many with which Australia and other Western countries have limited strategic congruence.

Second, deep strategic competition with China, not just as a neighbouring state but also in relation to China's broader regional ambitions and influence.

Third, India is showing a growing level of comfort in increasing strategic cooperation with the United States and its allies in the region such as Japan and Australia.

Fourth, India is likely to continue to support a liberal international order, although that will not extend to support for U.S. exceptionalism. Also, India will want the international order to better reflect the power distribution of the contemporary world. India will not be bound by rules in which it has no say.

Fifth, India is committed to increase significantly its defence capability to buttress its strategic autonomy. This will add to its strategic weight.

And sixth, India is likely to be cautious about pressing a human rights agenda in its bilateral relations nor is it much interested in an international policy of promoting democracy. Moreover, it will hold to this caution notwithstanding its own considerable domestic credentials in relation to human rights and democracy.

## **AUSTRALIA, INDIA AND CHINA**

How will these drivers play into the agenda of strategic cooperation between Australia and India?

The Australia–India strategic relationship stands on its own merits. It is however closely linked to the broader security of the region and therefore inevitably also brings in China, if only because China, like the United States, looms large in the strategic calculations of both countries.

The India–China relationship will have elements of both economic cooperation and strategic competition, not unlike the way in which those two elements thread their way through China’s relationships with the United States, Japan and others. India will want to maximize its economic relationship with China. But it will also be opposed to any move by China to become the predominant power in the Indo-Pacific. And it will be particularly concerned to ensure that China’s expanding interest in the Indian Ocean is not given free rein.

While China is a factor in the strategic partnership between Australia and India, Australia and India do not approach China from identical perspectives. Indeed, there are some large differences in their respective relations with China.

Unlike India, Australia is an ally of the United States. China looms much larger in the Australian economy than it does in India’s economy.

We have in Australia a large Chinese diaspora who are a valued part of Australia's multicultural character. Also, Australia has no border dispute with China, nor have we ever gone to war with China, unless you count the participation of Australians in putting down the Boxer Rebellion.

When India looks at China it sees a great power with which it shares a long and disputed land border and against which it has gone to war. The Indian perspective is shaped by its desire to preserve its freedom of manoeuvre and a concern that China's rising power could narrow India's strategic choices and flexibility. Australia, on the other hand, approaches China from a different perspective. Ours is not a great power's view of China. Nor does Australia see China as an enemy or a hostile power.

The international behaviour of a state is shaped by many factors, including its geography, history and culture. It is also however linked to the character of its political system. China's political system is of course a matter entirely for China. Australia has neither the capacity nor the right to demand that China pursues a particular system of government. But China aspires to be the predominant power in the Indo-Pacific and that, by definition, would make it the single most important shaper of the region's strategic culture and norms. So, whether it is a democracy or a one-party state matters.

India shares Australia's democratic bias but the political character of the Chinese state is not its primary strategic concern. For Australia, a democratic China becoming the predominant power in the Indo-Pacific is a very different proposition to an authoritarian China occupying this position. India's concerns about a powerful China would exist irrespective of whether China were a democracy.

Australia wants to see China succeed in its economic reforms and to play a constructive role in the region and the world. But it also wants to see a strategic system in the Indo-Pacific which is anchored in the rule of law and which recognizes the stability which U.S. strategic engagement brings to the region.

The starting point should be that multipolarity in Asia is only going to get stronger. China has already eclipsed the United States as the world's largest economy measured by purchasing power parity and will likely overtake the United States measured by market exchange rates in the

not-too-distant future. Measured in GDP per capita the United States will of course remain far ahead of China for a very long time. And a China which has yet to escape the middle-income trap is likely to give its first priority to domestic challenges.

But the aggregate size of the Chinese economy, together with its aspirations to dominate its region, means that in the long term, the security of the Indo-Pacific cannot simply rely on the maintenance of U.S. strategic predominance. The United States will likely remain the world's strongest military power for decades to come. But this does not mean that it will also remain the most influential power in the Indo-Pacific.

The U.S. focus is global and that dilutes the attention it can pay to particular regions. China too has global interests but its geopolitical priority is squarely in Asia. Its geography — as a resident Asian power — and the intensity of its economic links to the countries of Asia give China strategic leverage in Asia.

China is a country and a civilization which understands power, and its sense of place has been shaped by the many centuries in which it was the Middle Kingdom. This historical memory is likely to play an important role in the way in which China relates to regional states.

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

China's behaviour is likely to be a mix of many elements. It will be a responsible stakeholder where its interests are served. It will not be a classic revisionist power because China has been too much a beneficiary of the existing system to want to completely overturn it. But there are elements of the system that China will want to see replaced. It will also look to have a greater say in existing institutions and to craft new institutions and arrangements which place it at the centre in a pattern reminiscent of the Middle Kingdom. What is clear is that China will not accept a regional and global order cast in the image of the United States.

## U.S.–CHINA RELATIONS

We are now entering a potentially dangerous period in U.S.–China relations. On one side, the voices of containment are getting louder. The case for engagement is losing ground. Some speak of a new Cold War.

China, for its part, seems to be moving away from economic reform and giving the market a larger role in the allocation of resources. It has benefited from an open trading system but does not offer equivalent access to its own market. Party control reaches into all aspects of the economy. Cyberattacks are becoming more sophisticated. Hide and bide has been replaced with a sense that China's time has come.

There is nothing new about the United States being determined to hang onto strategic primacy. What is new is the suggestion that this can be achieved by blocking or thwarting China. But there is no sensible alternative to engaging China. Containing China, in the way the West sought to contain the Soviet Union, is a policy dead end. China is too enmeshed in the international system and too important to our region to be contained. And the notion that global technology supply chains can be divided into a China-led system and a U.S.-led system is both economic and geopolitical folly.

The United States is right to call China to account. But it would be a mistake for the United States to cling to primacy by thwarting China. Those of us who value U.S. leadership want the United States to retain it by lifting its game, not spoiling China's. The United States should play to its considerable strengths in economic depth and flexibility, technology, research, alliances and values to buttress its standing.

A strategy anchored in blocking China is a dangerous course. A country which already looks to redeem itself from a century of humiliation does not need its worst fears confirmed. China's rise needs to be managed not frustrated. It needs to be balanced not contained. Constructing that balance and anchoring it in a new strategic equilibrium in the Indo-Pacific is the big challenge of our time. We need to shape a balance of power which finds room for China but which also advances the interests of the region's democracies.

The concept of a balance of power has lost its appeal to many scholars and practitioners of international relations. But it still matters. The late

Lee Kuan Yew, as shrewd an observer of our strategic environment as any, understood both the importance of a balance in Asia and also the need to think about it more broadly than just a military balance. As Lee observed: “In the old concept, balance of power meant largely military power. In today’s terms, it is a combination of economic and military, and I think the economic outweighs the military”.<sup>2</sup>

## **AN EVOLVING ORGANIC BALANCE**

Already a de facto balance along these lines is in the making through the shared desire of the United States, India, Japan and others to balance China. Each has its own geopolitical and historical reasons for doing so, of which the non-democratic character of China is by no means the primary driver. Moreover, this is not a classic balance of power grouping. It is an organic, not an orchestrated arrangement. It is also an evolving balance on both sides.

Russia, for now, lines up with China. They both share an interest in clipping the wings of the United States. Neither support a liberal international order. For the most part theirs is an opportunistic partnership masking a fundamental strategic suspicion of each other. But it is a partnership with a shelf life at least as long as their authoritarian systems.

Where Korea lines up in the longer term in the strategic balance of Asia is an open question. The Republic of Korea is an ally of the United States. But what would be the strategic disposition of a united Korea? Would it lean towards China or the United States? Or, more likely, would it seek an independent path with or without nuclear weapons? A united Korea is likely to be a democracy and this suggests it will at least lean towards balancing China. But no one knows which of these options will eventuate, which is one reason why China does not want to push the North Korean regime to the point of collapse.

China is not comfortable with a nuclear-armed North Korea. But it wants even less to lose a buffer state or to see a collapsed regime on its

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<sup>2</sup> Graham Allison’s interview with Lee Kuan Yew, 2 December 2011, cited in Graham Allison, *Destined for War: Can America and China Escape Thucydides’s Trap?* (New York: Houghton Mifflin Harcourt, 2017), p. 20.

doorstep. It probably judges that North Korea can be deterred from first use of its nuclear weapons. After all, the driver of North Korea's nuclear programme is the preservation of its dynastic regime and nothing would more clearly guarantee the toppling of that regime than a North Korean nuclear first strike whether aimed at its neighbours or the United States. North Korea may be a peculiar state but it is not an irrational state. Its leadership's survival strategy is now in its third generation. A regime preoccupied with survival is capable of being deterred.

The emerging strategic balance in the Indo-Pacific is unlikely to rest on two balancing alliance systems, not least because China does not seek allies. But it has other ways of securing influence, most notably the gravitational pull of economic opportunity. This is already working its way through Southeast Asia.

ASEAN as a grouping may remain on the sidelines of the strategic balance. But, with some notable exceptions such as Singapore, more and more individual ASEAN nations are being pulled into China's orbit: not with enthusiasm or conviction but because they see that the economic cost of opposing China's agenda is too high. Even Vietnam, which has a long and fraught history with China, will be constrained in how far it can go in lending support to balancing China.

So, the long-held hope that a non-aligned ASEAN would still lean towards the United States and the West is now looking less likely. The United States is doing little to change this and the unpredictability of the Trump administration as well as many of its policy instincts only makes the problem worse. Japan and India, on the other hand, understand the stakes but their efforts to balance Chinese influence in Southeast Asia may not be enough.

Indonesia is the strategic pacesetter of ASEAN. Its current leadership sees the world through an economic prism and that favours China more than it does the United States. This may not be permanent nor is it likely to change any time soon. So where to position Indonesia in the evolving geostrategic balance of Asia is an open question. That has large consequences for Australia because Southeast Asia is at the epicentre of our strategic interests.

The two Asian powers with an unambiguous commitment to balancing China are Japan and India. For each, China is the reference point of their

strategic compass. Geography and history pull them to the other side of the China balance. This creates common strategic ground between them and both are moving quickly to build on that foundation.

Japan is no longer willing to contract out its strategic positioning to the United States. It is carving out a more independent role, determined to use its economic heft to leverage its strategic interests and more willing to push out the boundaries of its constitutional limits on the projection of power.

None of this should be seen as a precursor to Japan abandoning its alliance with the United States. Indeed, the larger China looms in the consciousness of Japan, the more persuaded it will remain of the value of the U.S. alliance both as a security guarantor and as a balancer of China. If a break in that alliance comes, it will be only because Japan has lost faith in the U.S. commitment to Japan's security and not even the fickleness of President Trump is likely to lead Japan to that grim conclusion.

The key player in the organic balancing of China is of course the United States. Without the United States there can be no effective balance. The Trump presidency has complicated the situation but it does not fundamentally change it. Just as Australians draw a mature distinction between the persona of Trump and the alliance with the United States, so also are U.S. alliances in Asia likely to outlive the dysfunction of the Trump administration. "Likely" because no one can be certain about anything relating to President Trump's policy positions. We can only hope that the strength of interests which underpin the U.S. commitment to the region will outlive the weakness in character of its current President.

Some have suggested that the best way for the United States to deal with the declining margin of its strategic predominance is to move towards the role of an offshore balancer. Under this arrangement the United States would no longer see itself as a resident power in Asia but rather as an offshore balancer which would only intervene strategically to protect its vital interests or if the balance in the region were to move in a direction which significantly cuts across U.S. interests.

That would be a second-best outcome for Australia. An offshore balancer would make for a more distant United States at a time when we need the United States to be more active in the region. It is very

much in Australia's interest for the United States, as an ally, a liberal democracy and as the most powerful strategic player in Asia, to be a resident shaper of the Asian strategic environment, not an offshore balancer of last resort.

It is important that Australia presents this emerging balance of power as a means of ensuring a measure of stability at a time of churn in the strategic environment. China will probably see it as a form of containment which, for the reasons already outlined earlier, it is not and should never become.

That is why a capital "A" alliance of democracies would be a bad idea because it would create a structural fault line in Asia and further harden China's position. Avoiding an alliance is also a better fit with the strategic preferences of countries such as India and Indonesia, neither of which wish to be allies of the United States or any other power. An organic balance is more in keeping with the strategic grain of the Indo-Pacific than a formal arrangement.

But an organic balancing still leaves room for particular initiatives. Australia should, for example, gradually build the quadrilateral involving the United States, Japan, India and Australia. This was abandoned by the Rudd government because of Chinese concerns but one principle on which firmness is needed is not to allow any country a right of veto over Australian strategic policy. The quadrilateral should not be a formal military arrangement, and it should certainly not be presented as "aimed" at China. But its very existence sends a signal to China about the strategic congruence among these four democracies as well as the enduring importance of values in our strategic calculations. That is why building up the "quad" in careful incremental steps is a sensible policy.

Australia should also persevere with the hard slog of building inclusive regional institutions of which the East Asia Summit is the most important. This signals that while having close strategic relations with the democracies of the region Australia also wants to work with China wherever it can to build institutions which can buttress strategic stability in the Indo-Pacific. And that these institutions should promote fundamental principles such as respect for sovereignty, the peaceful resolution of disputes and abiding by international law. These are the

foundation stones on which the strategic culture of the Indo-Pacific should rest.

China tends to see some of these principles as aimed at it but ultimately, they also serve the long-term interests of China. After all, China has been a beneficiary of the rule of trade law through its membership of the World Trade Organization (WTO). It has been a beneficiary of the UN charter through its permanent seat on the Security Council. As a major power, China should see international law and international norms as an important and stabilizing part of the international system in which it has every right to seek greater influence to match its economic and strategic weight. Instead China tends to see such a framework as serving U.S. interests, not China's.

## CONCLUSION

It is the conceit of every generation that it is poised on the threshold of something new and different. But looking at the international environment it is hard to avoid the sense that the ground is shifting beneath our feet. To adapt a title from the late Tom Wolfe, we seem to be facing a “bonfire of certainties”.

So many of the supporting pillars of the post-Cold War world seem less secure: U.S. strategic predominance is narrowing, even fading. Protectionism is on the rise. The liberal international order is under stress. In many developed democracies, identity politics is overshadowing older ideological fault lines. And illiberal democracy and authoritarian approaches are attracting more support than they ever deserve.

For decades we have spoken about the fluidity of the strategic environment as shifts in economic weight rearrange strategic relationships and economic integration jostles with strategic competition. Today it seems that rather than reach a settling point, this fluidity may be leading us towards a tipping point.

We are currently in the middle of a transition in international relations and that is probably the worst time to put it into perspective. Some of what we are seeing today are exaggerations or aberrations which are unlikely to become enduring trends. But others go to the bedrock of global geo-economics. Deciding which is which is far from easy.

For example, it would be a mistake to see President Trump as an aberration and assume that U.S. policy will return to its norm after his departure. But equally it is unlikely that all of his policies will survive his departure. It is more likely than not, to take just one example, that the value of U.S. alliances will be restored to a central position in U.S. policy in a post-Trump world. And with China, we may well see a tactical shift in China's approach as it recalibrates how far and how fast it should proceed with its more assertive foreign policy position.

For Australia, the challenges ahead are large. If America's China policy continues towards containment, then there will be a sharp divergence in the way Australia and the United States see China policy. For the first time since the European settlement of Australia the country finds itself in a region where its great and powerful friends face a serious challenge to their strategic primacy. Australia's economy, so dependent on external markets and foreign investment, must now navigate a global economy with protectionist sentiment on the rise and a U.S.–China relationship — a relationship between the two largest economies — entering a new and unpredictable stage.

Trends are like waves. We can see them on the horizon but we do not know exactly when they will break and in what pattern they will reach the shore. We cannot, Canute-like, order them back. But we can prepare for them and think through what form we want them to take. They cannot be resisted but they can be shaped and that is what the burden of leadership is ultimately most about: not just anticipating trends but working to shape them with a sense of social and moral purpose and a commitment to the best interests of our communities.

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