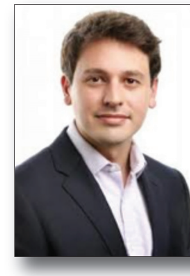
How power adapts to a changed world



A paper based on a presentation to the Institute on 25 June 2019 by

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Global wealth and power are shifting eastwards with profound implications for war and peace globally. The Lowy Institute Asia Power Index, established in 2018, is an analytical tool that tracks changes in the distribution of power in the region using 126 indicators across eight thematic measures. In this paper, Mr Lemahieu describes the Index and uses it to assess the relative strengths of 25 regional nation-states, identifying two superpowers, two major powers and 13 middle powers. He examines 10 of these powers then briefly assesses what these trends may mean for Australia.

Key words: Asia Power Index; Asia; Indo-Pacific; Australia; China; India; Japan; Korea; Malaysia; New Zealand; Taiwan; United States; Vietnam; power; wealth.

Asia's economic transformation is reshaping the global distribution of power. Three of the world's four largest economies are in Asia, and the fourth, the United States, is a Pacific power. By 2025, two-thirds of the world's population will live in Asia, compared with just over a tenth in the West.

Just as significantly, tensions between powers in the region will define war and peace in the 21st century. We are moving from an open and consensual world order to one defined more by competition and zero-sum politics, certainly between the two largest players, the United States and China.

To make sense of these long-term trends, the Lowy Institute Asia Power Index was established in 2018 as an analytical tool that tracks changes in the distribution of power in the region. It aims to sharpen the debate on geopolitics in Asia. The Index ranks 25 countries and territories in terms of their capacity to influence regional events — reaching as far west as Pakistan, as far north as Russia, and as far into the Pacific as Australia, New Zealand and the United States. The project evaluates state power through 126 indicators across eight thematic measures: military capability and defence networks; economic resources and relationships; diplomatic and cultural influence; as well as resilience and future resources.

Overall findings of the 2019 Study

There are three overarching trends which emerge from our study that will shape the region in decades to come:

1. Under most scenarios short of war, the United States will not be able to halt the narrowing power differential between itself and China. Nor will China simply be able to replace the United States as a unipolar power. In fact, it is looking increasingly likely that neither superpower will be able to exert undisputed primacy in the region.
2. Globalisation will still involve the United States and China, even if the two become less dependent on each other. Decoupling between the world's two largest economies is unlikely to result in two mutually exclusive spheres of influence in the sense of the last Cold War.
3. Countries will be reluctant to choose sides. Instead, a more hazardous variant of globalisation will be defined simultaneously by heightened interstate competition and continued economic inter-dependence. For this reason, there will be much more fluidity in the international system.

In a situation where two superpowers are effectively gridlocked, middle powers – including Australia – will become more important in determining the overall balance of power in Asia. They will have to come up with novel ways of working together to deal with the narrowing geostrategic predominance of the United States and the sharpening ambitions of China.

2019 OVERALL POWER

Rank	Country / Territory	Score	Trend†	
1	United States	84.5	–	Super powers ≥ 70 points
2	China	75.9	↗	
3	Japan	42.5	–	Major powers ≥ 40 points
4	India	41.0	–	
5	Russia	35.4	↗	Middle powers ≥ 10 points
6	South Korea	32.7	–	
7	Australia	31.3	–	
8	Singapore	27.9	–	
9	Malaysia	22.8	↗	
10	Thailand	20.7	↗	
11	Indonesia	20.6	↗	
12	New Zealand	19.9	↗	
13	Vietnam	18.0	↗	
14	Taiwan*	15.9	↘	
15	Pakistan	15.3	–	
16 +1	North Korea	14.0	↗	
17 −1	Philippines	13.7	↗	

Rank	Country / Territory	Score	Trend†	
18	Bangladesh	9.7	↗	Minor powers < 10 points
19	Brunei	9.1	–	
20	Myanmar	8.9	↗	
21	Sri Lanka	8.5	–	
22	Cambodia	7.7	↗	
23 +1	Laos	6.4	↗	
24 −1	Mongolia	6.2	–	
25	Nepal	4.7	↗	

* Taiwan is included in the Index as a self-governing territory claimed by China
† Trend arrows track changes in scores greater than or equal to 0.5 or less than or equal to −0.5

At a more granular level, the 2019 Asia Power Index reveals six big takeaways:

- The United States remains the dominant power but has become a net underachiever in 2019.
- The biggest challenger to China's rise is not the United States but itself.

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- Japan has become the leader of the liberal order in Asia, while India will not be the next China.
- North Korea's high-stakes power game pays off in 2019 but is far from complete.
- Malaysia, Vietnam and New Zealand are the most improved middle powers after North Korea.
- Australia has the comparative advantages required to forge a favourable balance of power in the region.

I shall now examine each of these findings.

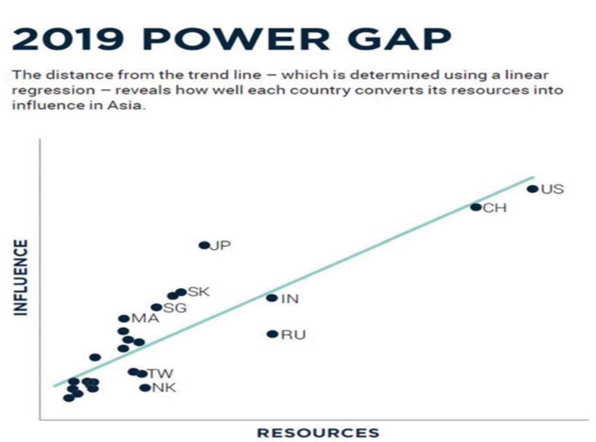
The Superpowers

The United States claims the top spot in four of the eight Index measures and its overall power score – the only country to top 80 points – remains unchanged from last year.

America is still the dominant military power – reflected in the depth of its regional defence networks – as well as the most culturally influential power, as the leading study destination and source of foreign media in the region. Combined with strong demographic and geographic fundamentals, these results go some way to dispelling the notion that United States power is in absolute decline.

Nevertheless, the United States faces relative decline. A 10-point lead over China in 2018 has narrowed to 8.6 points in 2019. Current United States foreign policy may be accelerating this trend. The Trump administration's focus on trade wars and on balancing trade flows one country at a time, has done little to improve the glaring weakness of United States influence in its economic relationships. The obvious contradictions between Washington's revisionist economic agenda and its role, as a *status quo* power, providing consensus-based leadership, have contributed to its third-place ranking, behind Beijing and Tokyo, for diplomatic influence in Asia.

The United States has moved from a positive to a negative Power Gap in 2019, indicating it has become less effective at converting its resources into broad-based influence in Asia.



China, the emerging superpower, netted the highest gains in overall power in 2019, ranking first in half of the eight Index measures.

For the first time, China narrowly edged out the United States in the Index's assessment of economic resources. In absolute terms, China's economy grew by more than the total size of Australia's economy in 2018. The world's largest trading nation has also paradoxically seen its gross domestic product (GDP) become less dependent on exports. This makes China less vulnerable to an escalating trade war than most other Asian economies.

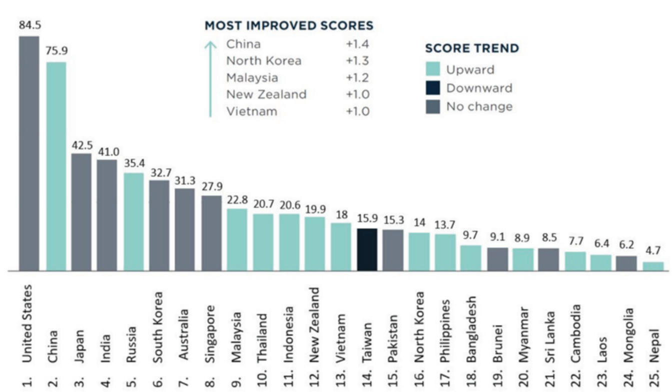
Access to Western markets will likely prove increasingly marginal to the global ascendancy of Chinese technology. The country's consumer base is making large-scale implementation of new technologies, such as 5G[2], easier to achieve at home, before being rolled out into emerging markets.

Beijing has chosen to concentrate its military resources and modernisation efforts on its near abroad in contrast to America's global military posture and security commitments. Within its region, China's defence budget is 56 per cent larger than those of all 10 ASEAN[3] economies, Japan and India combined.

Despite steady advances, however, Beijing faces political and structural challenges that will make it difficult to establish undisputed primacy in the region.

Beijing's hard power remains hobbled in key respects. China's ninth place for defence networks – up three places from 2018 – still constitutes its weakest performance across the measures of power. As the People's Liberation Army's presence in contested spaces grows, so too do efforts by other powers to create a military and strategic counterweight in response. President Xi Jinping's flagship Belt and Road Initiative faces growing degrees of opposition. In many cases – from Malaysia to Myanmar – this has resulted in renegotiations resolved in favour of the borrower.

Beijing also faces growing internal hurdles: China's workforce is projected to decline by 158 million people from current levels in less than 30 years. This likely presages societal and economic challenges. By mid-century, China's total population will also be approximately 20 per cent smaller than that of India, a growing potential regional rival.



The Major Powers

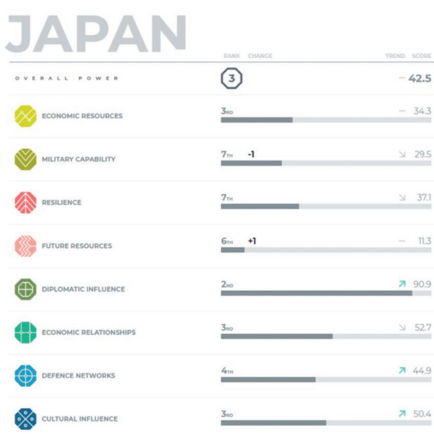
There is often a temptation to reduce the complexity of Asia's international order to a two-player game. In fact, the Indo-Pacific ecosystem is sustained by a much wider array of actors.

[2]Fifth-generation cellular wireless network technology
[3]Association of South-East Asian Nations

Japan and India, the third and fourth ranked powers, are separated by oceans, distinct geopolitical contests and legacies, and vast demographic differentials representing young and old Asia. Both major powers, however, must contend with fading United States strategic predominance and the sharpening ambition of China.

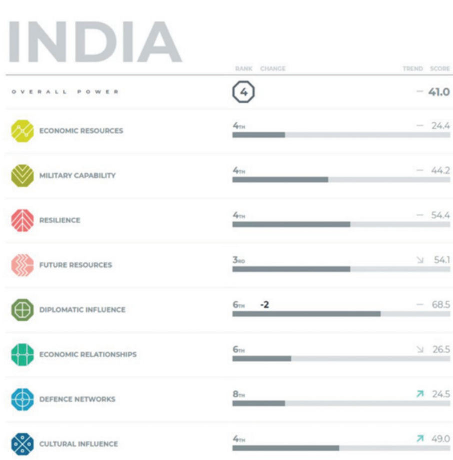
Japan is the quintessential smart power, using the country's limited resources to wield a top-four ranking across the four influence measures. It finishes in the top two, only six points behind China, for diplomatic influence. Maintaining a liberal order has become a key organising principle under the premiership of Shinzo Abe. Tokyo successfully resuscitated the Trans-Pacific Partnership (TPP) in 2018, which became the TPP-11, together with 10 other economies minus the United States.

Japan also has proven a capable rival to China for infrastructure investment in South and Southeast Asia. Over the past decade, Japan has been the dominant foreign investor in strategically pivotal countries as varied as Mongolia, Myanmar, the Philippines and Thailand.



Whereas Japan is an overachiever in long-term decline, India is an underachiever relative to both its size and potential. Despite Prime Minister Narendra Modi's 'Act East Policy', New Delhi trails in sixth and eighth place for economic relationships and defence networks and is down two places in diplomatic influence in 2019.

What India lacks in influence, it makes up for in scale. India's economy is predicted to double in size and reach approximate parity with the United States by 2030.



Tokyo has cultivated strategic ties with New Delhi. Yet they are unlikely bedfellows. Unlike Japan, which operates within a United States-dominated alliance system, India will continue to cherish its strategic autonomy.

Moreover, India will not be the next China. New Delhi lacks the control over the allocation of economic resources which has been intrinsic to China's rise. Yet, as the giant grows in uneven and incremental steps, so too will its ambitions.

The Middle Powers

A diverse set of middle powers have made gains in their overall power in 2019. North Korea overtook the Philippines, now relegated to 17th place, registering the largest increase in its overall power score after China. The nuclear power jumped five rankings in diplomatic influence, albeit starting from a low twenty-first place, in the year following the first-ever meeting between the leaders of North Korea and the United States.

Summit diplomacy in Singapore and Vietnam – ostensibly on equal terms with the United States – has elevated and partly normalised North Korea's regional standing and ties. Pyongyang, however, remains a brittle power preoccupied by its survival. The risk of a lapse into further crises is high.

In a dynamic part of the world, North Korea's economy is estimated to be smaller than that of Laos. Pyongyang's nuclear weapons and intercontinental ballistic missile capabilities are one of the few credible sources of leverage it has to compete with larger powers. This raises questions about what can realistically be achieved on denuclearisation. The country has moved up one ranking in military capability, with the sixth most powerful conventional military force in Asia. Only China and India have larger standing armies.

If the risk of renewed conflict on the Korean Peninsula has receded, it is in large part due to the creative diplomacy of South Korea's President Moon Jae-in. The larger, more democratic and prosperous Korea has moved up two places to fourth for diplomatic influence. However, the suspension of joint military training exercises announced by the United States as a concession to North Korea in 2018, has also seen South Korea drop one ranking for the depth of its alliance under defence networks.

Malaysia has fared better in the last year across the Index's influence measures, where it has resumed its standing among the top 10 most diplomatically influential powers in Asia.

The return of Prime Minister Mahathir Mohamad has refocused the government's attention on the geo-economic security and bargaining power of middle powers who are faced with great power rivalry and turbulence in the Trump–Xi era. He has succeeded in obtaining more favourable terms for foreign-funded infrastructure projects while maintaining close ties to Beijing.

New Zealand's improvement in diplomatic influence to 11th place in 2019 stands in marked contrast to a fall in Australia's diplomatic standing – to eighth place, behind

Indonesia – following political infighting and a leadership change in 2018. Prime Minister Jacinda Ardern is ranked fourth among leaders in the region in terms of ability to advance her country's diplomatic interests globally. With a fresh electoral mandate, Australian Prime Minister Scott Morrison will first need to prove his durability if he wants to form lasting partnerships with his regional counterparts.

Australia and New Zealand retain the most favourable strategic geography in the region: the same cannot be said of Vietnam or Taiwan, whose locations in contested waters south of China play directly into their strategic vulnerability. Vietnam has made rapid progress in strategic and economic spheres. Current trend projections place it tenth for future resources.

By contrast, Taiwan has become the only middle power in the Index to register a significant downward shift in overall power from 2018. The island – ranked 14th for overall power – is crucially important to the regional balance of power. Backed by the United States, it presents a formidable check on China's aspirations to become a fully-fledged sea power. Taipei's fall in power, which betrays its geopolitical significance, reflects its position as a political outsider.

Australia is a notable all-rounder in the Indo-Pacific, notching up top-ten performances across the Index's eight measures of power: economic resources and relationships, military capability and defence networks, diplomatic and cultural influence, as well as resilience and future resources. Importantly, Australia's power is stable over two years and we are trending upwards for military capability and economic relationships – the latter thanks to the TPP-11. The one setback was a drop by one ranking for our diplomatic influence following more leadership churn in 2018.

A high turnover of prime ministers, five in six years, has undercut the ability of Australian leaders to form lasting partnerships with their counterparts. However, this is a politically reversible, not a systemic, trend. Following his re-election, Prime Minister Scott Morrison has an opportunity to stabilise the country's fluctuating diplomatic influence.

Australia's second-place ranking for defence networks reflects not only the United States alliance but also investment in defence diplomacy with non-allied regional partners. As China's presence in contested spaces grows, Australia is strengthening its links to countries such as India, Vietnam and Japan who share a desire to form a strategic counterweight to Beijing.

Given that modern power politics takes place below the threshold of conflict, Australia will need to do more to prepare for the potential exploitation of economic asymmetries for geopolitical gain. Thanks to its favourable geography and strong institutions, Australia is the fifth most resilient power in terms of our capacity to deter threats to our stability.

Our 30 per cent trade dependency on China, high but not abnormal by regional standards, is offset by a lower trade-to-GDP ratio than most Asian tiger economies. To trade is good and confers power both ways. However, to trade to a diverse set of export markets – including with the European Union with which Australia is negotiating a free trade agreement – will build additional resilience.

Yet, ironically as a net energy exporter, Australia imports more refined fuel than any other country in Asia, leaving us vulnerable to disruptions in sea lines of communication. It makes good sense for Canberra to establish a national fuel reserve as well as to invest in decarbonisation.

Australia also has a crucial role to play in diversifying the supply of critical minerals used in digital and renewable technologies. Australian rare-earth mining reached 15 per cent of global supply in 2017, second only to China's 81per cent.

Finally, we must continue to invest in a farsighted immigration programme. Australia is the sixth largest projected economic beneficiary from growth in the working-age population to 2045. That makes us the envy of ageing East Asia.

Conclusion

In summary, the challenges of great power rivalry present an opportunity for Australia, ranked 7th in overall power in 2019, to expand its role rather than draw up the bridge. The Asia Power Index suggests that Australia's comparative advantages are only becoming more important to ensuring a favourable balance of power in Asia.

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[Photo of Mr Lemahieu: Lowy Institute]