

Royal United Services Institute of Victoria Inc.

Promoting National Security and Defence

A Constituent Body of the Royal United Services Institute of Australia

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RUSI-VIC NEWS

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Dates for your Diary

29 September – AGM and Speaker- Defence Plaza 6 October – Annual Dinner – Naval & Military Club 27 October – Lunchtime Speaker – Defence Plaza

9 November - Council Meeting

24 November - Lunchtime Speaker - Defence Plaza

RUSI VIC CYBERLINKS

RUSI of Australia (inc Victoria)

http://www.defence.gov.au

Department of Defence

http//defence.gov.au

Rusi for Defence Studies Whitehall http://www.rusi.org

Australian Strategic Policy Institute http://www.aspi.org.au

Australia Defence Association

http://www.ada.asn.au

Lunchtime Speaker

** Thursday, 29th September, 2005 **

Commodore Bob Love OBE Royal Navy

Defence and Naval Adviser - British High Commission, Canberra

"The Royal Navy - Roles and Future Plans"

Commodore Love has had a wealth of experience in the Royal Navy, much of it at sea. Specialising in Engineering, he has contributed and advised at the highest levels to the ongoing efficiency and expertise of the Royal Navy. His intellectual aptitude is recognised by his membership of Mensa. A talented all round sportsman and a playing member of M.C.C., it will be a privilege to have Bob speak to us.

Venue: Defence Plaza; Time: 1130hrs (Tea/Coffee); Address: 1210hrs

Admission: Members -\$3-00 Non-Members - \$5-00

Lunch may be purchased from the adjacent "Armoury Bistro" afterwards

Please advise the Office on 9282 7498 or 9282 7392 if you and/or any guests intend to be present by Tuesday, 27th September.

** Thursday 29th September 2005 **

ANNUAL GENERAL MEETING

AT 12 NOON AUDITORIUM 1, GROUND FLOOR – DEFENCE PLAZA (Immediately preceding the Guest Speaker's Address)

Further details are contained in an enclosure with this Newsletter

Vale - We record with deep regret the passing of;

LTCOL C.E Lewington; Mr M. Bennett.

New Members - We welcome the following New Members:-

MAJGEN J.E. Barry AM MBE RFD ED — Jolimont; LT P.J. Billings — Melbourne; Mrs J. Eldridge — Torquay; LTCOL D.R.C. Ellis — Ringwood; LTCOL R.J. Torrington — Bacchus Marsh; CAPT M.C. White — Camberwell.

From the Library - Major General Mike O'Brien

The sale of surplus books has now been re-scheduled to coincide with the Annual General Meeting on 29 September. The books may be viewed during the week commencing 26 September in Auditorium One, on the Ground Floor of the Defence Plaza Building, 661 Bourke Street. They will also be available before and after the AGM. All books will be sold on a first come first served basis and many bargains will be on offer.

A notice regarding the sale appears on the back page of this Newsletter. If you wish to view the books during that week you should ring the office on 9282 7498 or 9282 7392 to make sure that someone is on hand to assist.

Presentations to the Library

We are very grateful for the following presentations to our collection and thank the donors for their thoughtful generosity.

- Mr Don Thomas' impressive collection of books on the Special Air Services Regiment,
 The Commandos and The Royal Marines. These books form an important addition to our
 Library, filling gaps in our collection. We thank Don, who served with distinction in the
 SAS, for this significant donation.
- WHERE FATE CALLS The HMAS Voyager Tragedy by Tom Frame.
 This probing and controversial investigation of the four year Voyager saga and its aftermath was presented by Commander Hugh Jarrett RAN.
- The Photographic History of the Civil War THE CAVALRY.
 This fascinating photographic history with in-depth comment, of the Cavalry's part in the American Civil War, was presented by Commander Hugh Jarrett RAN.

From the President – Air Commodore Mike Rawlinson

Your Council recognises the long and notable service of individual members by admitting them to Honorary Life Membership of the Institute. I am very pleased to report that following the last Council meeting the RUSI VIC has three new such members: Vice President, Major Ian Rainford; Honorary Treasurer, Flying Officer Neville Wright, and our Councillor from Geelong and former Geelong Branch President, Mrs Marie Congratulations to all of them on receiving this well deserved honour.

Australia has recently commemorated the 60th anniversary of VJ or VP Day, the ending of the War in the Pacific and the Second World War. This year VP Day anniversary ceremonies will most probably overshadow the ceremonies commemorating the Battle for Australia, the defeat of the Japanese attack on Australia in 1942-43. From an RUSI viewpoint I hope that the status quo is restored in 2006 as the Battle for Australia commemoration offers not remembrance and historic reflection but an important focus on Papua New Guinea and the countries of the South-West Pacific which are probable areas for future ADF operations. Along with a number of RUSI members, I attended the Defence Reserves Association Conference Simpson Barracks. The CDF, Air Chief Marshal Angus Houston addressed the Conference on the direction that he intends to take the ADF. This year there was good representation from Navy and Air Force, and a healthy exchange of An indication was given of views. changes in conditions-of-service that will benefit reserves in all three Services and should improve recruitment and retention.

The devastating effects of Hurricane Katrina on the US Gulf Coast, remind us how fortunate we are in Australia to be in a part of the world that is not prone to massive natural disasters in areas of high population density. The scale of human tragedy in New Orleans was shocking and the initial slow response of relief efforts disappointing. It is reassuring Australia has tried and proven emergency arrangements which routinely are exercised handling bushfires and floods, albeit mostly in country areas. While Darwin and Cairns are in the cyclone belt, Newcastle and Perth have experienced minor earthquakes, the risk of major natural disasters in our capital cities is low. Nevertheless, Katrina should be a reminder to the Federal government about our preparedness to handle a large-scale urban disaster. The small size of our Army and Army Reserve are worthy of consideration in this context.

Earlier in the year I foreshadowed a move of the RUSI Office to the ground floor of the Defence Plaza building. A downside of this relocation was always the prospect a further move within four years when the Defence lease on the Plaza building runs out.

Fortunately the RUSI office has now been earmarked for a spot in the Barracks on the ground Floor of 'H' Block, not far from the Shedden Auditorium. The RUSI office will be adjacent to the relocated Defence Regional Library, which will enhance the value of the RUSI library to researchers and make a range of current journals more readily available to members. While a firm time scale for this move has not been agreed, I expect that we will be settled in before Christmas.

RUSI VIC - 115TH ANNUAL DINNER THURSDAY 6TH OCTOBER NAVAL AND MILITARY CLUB

From The Secretary - Martin Holme

This edition of the Newsletter contains the second and final instalment of Major General John Hartley's significant 2005 Blamey Oration. We also publish a synopsis of Dr Mark Thomson's interesting address to us concerning the 2005-06 Defence Budget.

The July Meeting, chaired by Major General Greg Garde, inspired some lively discussion around his topic of the future of our Reserve Forces. He was ably assisted by Major General Jim Barry, in a most worthwhile debate.

Neil James, Executive Director, Australian Defence Association, delivered a provocative and entertaining talk at the end of August, at Victoria Barracks. Most stayed on for a fascinating and down-to-earth *tour de horizon* of political and defence matters in our region and beyond. Neil was on his feet for nigh on three and half hours, commanding the full attention of all throughout — a sterling performance by all concerned!

The next Meeting will be on 29 September, at Defence Plaza. The Annual

General Meeting will commence at 1200 hrs as per the Notice of Meeting which is enclosed. At its conclusion, Commodore Bob Love RN, the Defence and Naval Adviser at the British High Commission in Canberra, will address us, as per page one of the Newsletter. I hope as many members as possible will attend and, before and after, avail themselves of the opportunity to browse/peruse purchase some of the books on display on the day and indeed for the week commencing 26 September. If you wish to peruse before the Thursday, please give a ring as directed.

Lastly, please note and record in your diary that our **Annual Dinner** will be held at the **Naval and Military Club**, on **Thursday 6 October**. It will be another great occasion with the, for us, innovative attraction of some WW 11 traditional songs, led by Able Seaman Jennifer Monk, in which everyone will be encouraged to participate. (Words will be provided). We hope for a big attendance . It promises to be an evening to remember! The formal invitation with all details will be mailed out shortly.



The 2005 Blamey Oration

Given by Major General John Hartley AO (Retd)

"The Changing World Order: a further decade of uncertainty"

General Hartley identified three main areas of concern over the next decade;

- The uncertainty over Islam and Islamism
- The possible implosion of the Russian empire
- Tensions in North East Asia

The first instalment of the Oration contained General Hartley's introduction and his comments on the Islamic situation. His thoughts on Russia and North East Asia are published in this edition.

Russia: the Beginning of the End?

Russia is at something of a crossroads. A number of contradictory forces are present that threaten its very make up. How the Kremlin deals with this, and how these events pan out, will dominate headlines in the decade ahead.

Let me highlight some emerging trends.

- Popular protests against Putin's government are on the rise. In part these have been against the recent monetisation of social benefits, which has impacted negatively on millions of Russians, particularly the elderly. Indeed, it seems that the Russian people are starting to realise that they can be a force to be reckoned with.
- Two polarised, and uneven, halves are emerging in Russian society. A pro-Western elite, which typically would like to see Russia withdraw from Chechnya, for instance, and a mostly anti-Western mass, yearning for Russia's resurgence as an independent power.
- Velvet revolutions are continuing to spread and Russia is rapidly losing influence over neighbouring and former parts of the Soviet Union. Ukraine, Moldavia and Kyrgyz Stan have followed Georgia and Uzbekistan may be next.

> The so-called revolutionary spirit, inspired by the fall of Kremlin-backed governments, is building within Russia proper with the West's encouragement. Regional forces are positioning themselves to grab power in constituent republics of the Russian Federation, particularly where there is significant non-ethnic Russian population.

Let me speak briefly to this last issue because, if these groups succeed, they could mark the end of the Russian Federation.

Disparate groups – pro-Western liberals, anti-Russian nationalists, Islamists and crime syndicates – will try to lead or manipulate these revolutions and use them to their advantage while making temporary alliances among themselves.

The frequency of demonstrations in non-Russian areas has steadily ethnic increased in recent months. Many of these regions enjoy some autonomy and would require fewer steps to break from Moscow than ethnic Russian areas where displeasure with the Kremlin is also growing. Moscow's influence among nonrepublics weaker Russian is elsewhere because many of the local population feel more bound to their ethnic and religious groups than to Moscow.

Protesters also are emboldened by the success of recent 'popular' revolutions in nearby former Soviet republics. Indeed, protesters no longer fear reprisals by the Russian government because Moscow's response to recent demonstrations has been docile, with no arrests or harsh penalties for opposition leaders.

Opposition groups also see support from abroad. President Bush, for instance, openly promotes democratic reform to advance his administration's international goals. Western NGOs, such as the US Republican Party's Freedom House and the Seros Foundation, help opposition groups with planning and organise seminars on how to lead protests and train activists and provide financial support.

There is, of course, nothing new in this. Britain gave money, arms and provided military instructors to Caucasian and central Asian tribes during the nineteenth century. The entente did the same for non-Russian nationalist movements during the October Revolution of the 1920s and Adolph Hitler's Germany raised whole divisions of non-ethnic Russians unhappy with Moscow's rule.

Nor, in present conditions, do the number of protesters need to be particularly large. In Kyrgyzstan, for instance, it required only 2,000 to 3,000 demonstrators to break in and occupy the central government offices to start the process to displace the government.

Let me turn to some specific examples, recognising that there has been little Western media coverage of the issues.

One of the latest cases involves the autonomous Russian Federation of Bashkortostan, which is located in the southern Urals between the European and Asian parts of Russia. The only strategic main highway from Russia's east to its west runs through the republic, as do several major energy pipelines, linking western Siberia to western Europe. The republic also is rich in oil and natural gas and has the largest oil-processing centre in Russia.

Bashkortostan's separatist, anti-Moscow tendencies began with Gorbachev's perestroika and continued with President Yeltsin. Though Russians have long been the dominant ethnic group, accounting for some 39 percent of the four million strong population, Bashkirs, who represent 22 percent of the population, moved quickly either by threat of force or through clan connections - to remove Russian officials from almost all key government positions. Neither Gorbachev nor Yeltsin intervened; moderate allowed anti-Russian nationalists to come to power to avoid the more dangerous threat of radical nationalists.

Moscow also feared the rise of Islamism in the republic. A majority of the population – Bashkirs and Tartars – is Muslim. Some radical elements have preached revolution and founded several cells. Dozens of young men have gone to fight the Russians in Chechnya.

In March, some 20,000 demonstrators gathered in the capital Ufa to demand the resignation of the moderate president who had sought and received more independence from Moscow. But radical elements, encouraged by the timidity of Putin's response, now believe it may be possible to extract Bashkortostan from the Russian Federation, especially with the West providing political and financial support.

If the present process continues, and is not checked by the Russian government, then the prospect of a velvet revolution in Russia proper becomes a very real outcome. Such an outcome would be more dangerous to Moscow than the Chechnyan war.

Nor is Bashkorostan an isolated case. Similar and even larger so-called revolutions are being contemplated in neighbouring Tartarstan, Yakutia and Tuva in Siberia, Karelia in the northwest, Kalmykia in the lower Volga region and several republics in the North Caucasus.

Take Tartarstan, which is perhaps the most important of these potential breakaway regions. It sits between Moscow and the Urals, has a developed oil

sector and is the main base for Russian heavy industry.

Tartars are also the most politically influential ethnic minority in Russia. Only about a quarter of them live in Tartarstan. They hold senior positions in government, the economic sector and within the security forces. Tartar oligarchs are second — albeit a distant second — to Jewish oligarchs amongst Russia's elite. The Tartar lobby in the Kremlin and Tartar mafias in Moscow and the Tartar capital Kazan are among the strongest in the country. Tartarstan is closest to independence of any republic within the Russian Federation.

Separatism and, to a lesser extent, Islamism have developed strongly among the Tartars since perestroika. The current president is a moderate nationalist and, despite the fact that the republic is drifting away from the Kremlin, Putin dare not replace him because those who might follow would be even more radical.

Let me briefly mention Yukutia, Russia's largest region that occupies one-fifth of the country. This, of course, is the area of eastern Siberia, rich in gold and diamonds.

Yukutia saw violent anti-Russian separatist demonstrations under Gorbachev, with ethnic Russians killed on the streets of the capital in the late 1980s. The separatist movement is still alive and western NGOs are actively trying to unite the opposition, at least according to Yukut government sources.

These and other examples have yet to result in a substantial shift in authority in the republics, but the likelihood of such an outcome is quickly gaining momentum. It is clear that the destabilizing forces of these revolutions are entering Russia proper and, unless Moscow moves quickly to deal with these well-organised, Western-supported and increasingly active protests, Russia could start to see its territory slip away, piece by piece.

China: a faltering economic miracle?

Turning now to northeast Asia, we have seen a considerable increase in tension in recent months, particularly between China and Japan. North Korea's nuclear blackmail, Taiwan's games and America's involvement have all contributed. But there is another problem emerging that gets little coverage from the mainstream media and yet has the potential to be the most destabilising issue.

A number of economists are starting to believe that the Chinese economic miracle is faltering. This is the result of a complex mix of political and economic factors that cannot be changed without serious harm to the communist-run system. Pressures are being generated by cheap finance, guaranteed employment and state-financed and owned industry. A number of crises will erupt between now and the end of 2006.

Under the Chinese model, Beijing guarantees Chinese companies with generous loans and repayment options. This works well provided this process is

restricted to China. But coastal industries have now been exposed to foreign investment for about 20 years. Thus some Chinese companies have become vulnerable to debt crunches in the same way that western companies are affected. Furthermore, inefficient practice and widespread corruption have resulted in overproduction that threatens to swamp the economy with unneeded goods.

Starting March 2004, the Chinese government began to reign in its spiralling growth. But some sectors can only survive if they continue to receive infusions of cheap money and this inevitably requires additional growth. As a result, in 2004, international debt rose by over 18 percent to over \$300 billion. And because many of the loans were high-interest and short term, nearly half has to be repaid within 12 months.

A further complication is that China has pegged its currency to the US dollar whose interest rates have tripled in the last nine months, thus adding to the problem of debt settlement.

The second industry group is based on state-owned enterprises (SOEs) that primarily service the domestic economy and are of far greater concern to the average citizen. They, too, feed on cheap money. But while the import/export coastal industries have some foreign connection, the SOEs have almost none.

Their main purpose is not so much to produce goods as to provide employment for about 40 percent of China's urban population. This is China's social safety valve and, by comparison, the coastal businesses are paragons of financial virtue.

The SOEs are shoddily run, report only to their political masters and were never intended to be profitable. They are financed through state banks that are arms of government policy.

The banks in turn suck up the capital from China's absurdly high savings rate, grant minimal interest to depositors and, at government direction, shovel money to the SOEs. Since the SOEs are quarantined from the international system there has been little incentive to change.

But China joined the World Trade Organisation and Beijing agreed to open up the Chinese economy to foreign competition. Banking will be one of the final sectors to be liberalised.

Now what does this mean? By about December 2006, the state banks will start to decline. As soon as foreign banks can compete freely, they will begin to attract Chinese savings because, unburdened by unprofitable SOEs, they can pay far higher interest rates. As a result, the state banks will no longer have the resources to sustain the SOEs and the government will be forced to pay subsidies directly in order to stave off social disintegration.

The Chinese authorities are certainly aware of these issues. But their choice of options is limited. Fixing one sector will be at the expense of the other.

The best way to preserve the coastal boom would be to implement immediate and drastic banking reform while unilaterally opening all sectors to full international competition. While this would undoubtedly lead to a recession, the large-scale presence of foreign companies would both cushion the blow and provide capital, markets and expertise to exploit China's low labour costs and trigger a quick revival. But it would also put several hundreds of millions of employees on the street.

Conversely, the best way to fix the SOE problem would be for China to pull out of the WTO and place heavy taxes on all imports and exports. This would provide additional funding to subsidise the state sector. It would, however, destroy the import/export sector and drive foreign capital from the country.

Beijing faces a difficult choice. In the unlikely event that the SOEs are sacrificed, the country could well disintegrate. If Beijing retreats from its WTO commitments, foreign banks — the most boisterous cheerleaders for investment in China — will become its sharpest critics and foreigners, who underwrote the Chinese miracle, will depart in droves.

China's history reflects these problems. Will we see a repeat of colonial domination of the coastal areas, dividing the country into different political regions, or will we see something of a repeat of the Great Leap Forward, which unified the nation but crushed China as an industrial power?

The issues will increasingly confront the Chinese over the next 12 months.

The 2005-06 Defence Budget Director Budget and Management Program Australian Strategic Policy Institute (ASPI)

This month's dispatch of 190 troops to Afghanistan is the latest in a series of deployments that have seen the Australian Defence Force (ADF) more active than at any time since Vietnam. Indeed, over a six year period commencing with East Timor in 1999, the ADF has deployed more personnel to operations offshore than in total for the preceding twenty-eight years. In the process, they've done everything from helping Indonesia recover from the recent tsunami and earthquake, to fighting wars in far flung Afghanistan and Iraq.

Throughout this period of high operational tempo, the ADF has been transitioning from a poorly prepared and 'fitted-for-but-not-with' force, to one that's much more ready to deploy at short notice. But after almost three decades of effectively being held stasic, this is proving to be a difficult and lengthy process. Not only is the transition is far from complete, but there's been some unexpected hurdles along the way.

At the heart of remaking the ADF is *Defence 2000* – the Defence White Paper conceived in the aftermath of East Timor. It set out a \$50 billion ten-year program of new capability development backed up by a commitment to increase defence spending in real terms by three percent per annum across the decade. This was a big change. For more than ten years the defence budget had been kept largely static in real terms as efficiency programs strived, with limited success, to free up enough cash for modernisation and preparedness.

It's an ambitious plan. Aside from making the ADF more prepared for operations at short notice, *Defence 2000* envisaged a range of new capabilities including attack helicopters the Army, air warfare destroyers for Navy and airborne early warning and control aircraft for Air Force. Importantly, the plan contained

replacements for a host of aging assets across the force.

But it hasn't been easy sailing. In 2001, having received around \$900 million in additional funds, Defence found themselves in the embarrassing position of having more than \$800 million sitting in the bank at the end of the year. There were several reasons for this, the most enduring of which turned out to be that it was much easier to plan for new equipment than to deliver it.

This problem loomed large over defence for three years, until 2004 when more than \$2 billion in unspent and planned investment money was deferred until after 2008. At the same time, a major reform of the acquisition agency, the Defence Material Organisation (DMO), was initiated following an external review headed by industry heavyweight Malcolm Kinaird. This has seen DMO re-established at arm's length from Defence with a charter to take a more commercial approach to the billion dollar business of equipment acquisition and support.

The good news is that it looks as though the changes are starting to make a difference. DMO is set to exceed its spending target this year and \$300 million dollars of previously deferred investment money has been reinstated into the budget for next financial year. As far as being able to shift money out the door and bring equipment back in, this is the best news we've had for a long time. Having said that, our optimism needs to be tempered with the fact that investment spending in planned to rise steeply over the next several years at a time when industry capacity is being stretched in several areas. Moreover, while the ability of DMO to spend money has taken a turn for the better, the rate at which new projects are approved has reduced to a trickle. And if projects are not approved on time, it's very unlikely that they can be

delivered on time. Thus, while things are looking good, there are challenges ahead.

But just as problems with procurement have shown signs of getting better, a new challenge has emerged — finding enough men and women to serve in the ADF.

Back in 1999 the Prime Minister announced that the ADF would grow by around 3,500 personnel. The aim was to rapidly build the force up to around 53,500 and increase the number of fully operational infantry battalions from four to six in order to sustain Australian forces in East Timor. Yet, more than five years later, the ADF has only barely reached 52,000 and then only temporarily. In fact, for two years in a row the average strength of the permanent force has fallen slightly at a time when the aim has been to grow. This year's projected result of around 51,900 is almost a 1,000 below the target set in May last year.

The problem is not uniform across the three services. Navy, who traditionally had a hard time recruiting and retaining people, are probably in the best position overall. Air force is also in a reasonable position having posted the best retention results in years. By far, Army has the biggest problem being some way off having the six full strength battalions required of it and every one of them clocking up a healthy HECS debt. There's got to be an opportunity along the lines of exchanging a period of service for a degree, just as the US does with their GI bill.

Whatever the solution, it had better work. There is little point spending billions of dollars on military equipment without the men and women to use it.

Mark Thomson runs the defence budget program at the Australian Strategic Policy Institute (ASPI) and was our June Lunchtime Speaker. These are his personal views.

Monster Book Sale

Over the last two years the RUSI VIC Library has been consolidated into a collection that is exclusively composed of defence and military titles.

Some 2000 books on other topics have been removed from the collection.

Topics covered include: Agriculture, Anthropology, Architecture, Fauna, Flora, Language, Literature, Medicine, Science, Spies, Sport and Travel.

These general interest books, some of them no doubt rare and difficult to acquire, are now for sale. RUSI VIC members have the first opportunity to buy them at bargain prices before they are offered to dealers and the general public.

The 2000 books will be available for viewing and purchase in Auditorium One, on the ground floor of the **Defence Plaza** during the week commencing Monday 26 September including before and after our AGM and Lunchtime Address on **Thursday** 29 September. Sales will be on a first come first served basis.

Members who are interested and cannot attend on 29 September should ring the Secretary in the week preceding the Sale to make alternative arrangements.

Don't miss out on this 'not to be repeated' opportunity!