

Remarks at the Financial Review Business Summit 2022

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E&OE

Andrew Tillett (host): Andrew Shearer, Welcome to the Australian Financial Review Business Summit. Wonderful to have you up here in not so sunny Sydney, but it's a bit of a change from Canberra. Look, you've obviously, you've been at the forefront I think of the formulation of national security policy for 20 years as, you know, former adviser to PMs Howard and Abbott, Cabinet Secretary under Scott Morrison, senior diplomat in DC and also a bit of time in think tank world as well. Then you became ONI head at the end of 2020. You also happen to be a Hawthorn supporter like me, so ...

Andrew Shearer: Hoping for better things!

Host: So, anyway, look, part of your day job responsibilities is providing a daily assessment to the Prime Minister of the security situation confronting Australia, both sort of international and domestic sort of thing. There's a lot to talk about in the world at the moment. So, wonder if you'd like to get underway.

Andrew Shearer: Well, thanks, Andrew. And it's great to be here and to see everyone. Nice to be able to gather in person finally.

I was reflecting on the plane on the way up that a few years ago, I would have been an odd inclusion at a business summit like this. But just listening to that previous conversation about ESG and how businesses are grappling with developments in Russia, and the terrible events in Ukraine, but also aspects of China's rise, really highlights my point today, which essentially is that geopolitics is back - and back with a vengeance. You know, when you think about the last 30 or 40 years, I think it's true to say that Australian business leaders didn't have to worry too much about geopolitics. And that was really symbolised, I think, by the way we were able for a very long time to successfully compartmentalise, if you like, our economic engagement in China, and our long-standing security alliances and other partnerships, particularly with the United States.

But I guess my message today, for everyone here, is that that era is well and truly over. I mean you just have to look at the overnight news, the United States and the UK banning oil imports from Russia.

And the latest statement from the Chinese Foreign Ministry lambasting Australia for daring to be part of the Five Eyes intelligence partnership, the quadrilateral dialogue, and the new AUKUS partnership, all of them, essentially defensive networks of like-minded countries that want nothing other than to maintain and uphold the status quo and to maintain the liberal quality of the international order which has served Australia exceptionally well for decades, and underpinned our growth.

When I say geopolitics is back, I think it's fair to say, for people who were paying attention, geopolitics has actually been back for a while.

I take it back to 2008, for example, when Russia invaded Georgia. [Then] in 2009 in a not terribly noticed development at the time, the Chinese government issued the nine-dash line map of the South China Sea. And then in the period following that, you saw Russia invade Crimea in 2014, China start dredging islands in the South China Sea and then sort of you know, literally building the reality of the nine-dash line over the succeeding years, and you know, frankly, we all sort of turned a bit of a blind eye and there wasn't a terribly effective response.

Host: Well, I guess we were all sort of busy with the post GFC world weren't we, while all this was going on?

Andrew Shearer: Absolutely right. And one thing we know about these authoritarian regimes is - you talked about football before - they're very good at rebound football, they're very good at moving the ball from their backline deep into your backline, and I think we've seen that over a lot of that period.

But now what we assess is that Australia is moving into a period for the next decade, and probably well beyond that, where this geopolitical competition is only going to intensify, and that's going to have profound implications for Australia as a country, and for our businesses.

We judge that major power conflict, unfortunately, is becoming a less remote prospect than we thought it was previously.

We're seeing Vladimir Putin moving aggressively to reshape the European security order.

And why I emphasise that is that if you think about Australia and our history, the last time we faced an existential threat was when the Asian security order collapsed in 1942.

And why did the Asian Security order collapse? It collapsed because the European security order had collapsed. So even though events in Ukraine may feel like they're a long way away from Australia, the point there of course, is that these things are deeply interconnected.

And of course, we see a troubling new strategic convergence between Beijing and Moscow. The statement that President Xi and President Putin issued jointly just before the invasion of Ukraine was, I think, in a way a symbol of this convergence.

And what we're seeing is that increasing cooperation between these authoritarian powers - now I'm not saying for a moment that history is necessarily going to repeat itself - but I do think it tells us that we're going to have to work much harder to maintain the liberal quality of the rules-based order, in Europe, and here in the Indo-Pacific region.

Right at the centre of that contest is going to be economics and technology. In many ways, technology's the centre of gravity in this new geopolitical contest, and we're going to see increasing manoeuvring between the great powers in particular for pre-eminence in critical technology, and also to exploit areas of economic strength, and to use economic muscle as a tool of statecraft.

For example, we're seeing that in Russia's efforts to use Europe's dependence on it for energy, against Europe. And we're seeing in the US-led sanctions which are an extraordinary mobilisation of financial power and a reminder, when sometimes we're inclined to think that the US may in fact be in decline, that the reservoirs of American power run incredibly deep and that the United States is still capable of galvanising.

Host: It's been a galvanizing moment for the for the West, I think, you know, which we probably would not have thought possible, you know, a month ago, even.

Andrew Shearer: I think that's right, Andrew. I guess I just add a note of caution that it's still early days, and you know I think the thing that's changed the game with respect to the conflict in Ukraine, is the remarkable resistance shown by President Zelenskyy and the brave men and women who are fighting the Russians.

So what does what does all of this mean for Australia?

I think it points to some really profound challenges. One of them is we need to harden our country. We need to build our resilience. We need to strengthen the resilience of our economy, our critical infrastructure. We have to deal with the threat of foreign interference and espionage.

So we have to raise our security levels. The cyber threat is again to the fore with Russia, obviously one of the world's leading cyber powers, but certainly not alone. So we've got a lot of work to do there with our critical infrastructure and our critical IT networks.

We have to maintain the integrity of our political system - we've obviously got a federal election presumably coming up sometime soon.

And we have to, we also have to strengthen the resilience and the security in our higher education system, which is a challenge.

And as we do all of those things, domestically, we're going to have to maintain openness to capital and to technology, and talent.

So this is going to be a difficult a difficult path for all of us. And I think one of the really important aspects of this is that the challenge I'm outlining where you have authoritarian powers that are using all the instruments of their national power - intelligence services, cyber activity, economic coercion, united front political interference, tactics, economic coercion, etc - we need as a government to be better joined up. And I think there's been a transformation coming back into government in terms of how our economic and other domestic policy agencies are working with the more traditional national security agencies.

I think there's a transformation in how central intelligence is, in that process of providing insight to government and informing government responses.

We've seen extraordinary deployment of intelligence by the US and UK intelligence communities, and in terms of Australia's response to Chinese coercion, intelligence is very central. But the people around the table - the interest, the stakeholders in government around that table - are much broader than traditionally would be the case.

I spend a lot of time briefing our energy minister, our education minister, agriculture minister on these threats and challenges with my colleagues. And then we work very closely with the states and territories because the states and territories are a target of much of this activity. Next week, I'm briefing two of our premiers on some of these threats.

And then finally, the business community - and I'm very pleased to be here today - because ultimately, this isn't just a whole of government challenge - it's a whole of nation challenge. And we need that two-way dialogue with business leaders. So that we in government can understand the profound base of information that all our businesses have available to them, and so that together, we can navigate this increasingly perilous strategic outlook.

Host: Well, good that you've mentioned business there because it's a nice segue to what I was going to ask. And you talked about technology being the centre of gravity in this competition, you know, the Prime Minister refers to it as the arc of autocracy, you know, China and Russia on the one side and authoritarian states and democratic countries on the other. What can business actually do to not only sort of protect themselves, and build that resilience you're talking about, but also contribute to the national effort to do this?

It sort of in a way goes a bit against probably the last 30 years of sort of, you know, being lured by the opportunities in China, and things like that to suddenly sort of say, well, it may not be what you thought it might have been.

Andrew Shearer: That's right, Andrew. I think as I alluded to, we tended to regard economics and security in sort of separate lanes, and never that the two shall meet. I guess the PM has been saying this week, we need to completely reconceptualise that and recognise that security and economics are completely integrated, interdependent, and, you know, frankly, one of the best things that business can do to help the national effort in this regard is to help itself. I mean, having good cyber security is in aggregate very important for our national security so that we can't be coerced or subjected to cyberattacks or disruption, but it's very important obviously to individual businesses.

We want growing healthy, vibrant businesses. We need a growing, as I said earlier, open economy, so that we can fund the increases in defence spending, for example, that the government's committed to.

So this can't be a sort of zero-sum trade-off between economic growth and security. And one of the reasons the dialogue that I have and Mike Burgess has and Rachel Noble has with business leaders is to make sure that we get that balance right.

And I want to assure everyone here, we understand the importance of a growing economy and that openness to capital and talent as I said, and technology, because we need that to drive productivity growth, so that Australia remains strong, and able to see off these challenges over the next decade and beyond.

Host: I'll come back to Russia a moment but, you know, for obviously, our part of the world, it is dominated by China. It is, sort of, our thing. Australia and China have obviously had a pretty tough relationship over the last few years. But looking forward, how is it - how is that relationship - over the next few years going to work? Are we at the nadir, and this is going to be the way it's going to be for now, from what we're seeing with the direction of Chinese political leadership and things?

Andrew Shearer: I think, before I talk about the bilateral relationship, Andrew, I'll just make the point that while Australia has certainly been subjected to a wide-ranging suite of coercive measures, we're by no means on our own in this, and I think that's one of the things that's changed in the last few years. And I think, frankly, it's helped to wake all of us up to this challenge. You know, I was just in Europe - I was in Munich, and then in Brussels when the invasion of Ukraine happened, and even though that was obviously dominating the agenda there, European leaders, NATO leaders all wanted to talk to me about China. And the challenge, and the threat posed by China's coercion, its cyber activities, its political interference. So China's increasing assertiveness over the last few years has really been the driver here. And the development of groupings like the Quad and like AUKUS, I think testifies to the fact that it's not just Australia that's in the crosshairs here.

What we see is a Chinese political leadership increasingly consolidating its power and its hold over all aspects of Chinese society and national life, over the economy, over Chinese businesses, over the security services, over the PLA, over public debate, or what passes for public debate in China. An incredible centralisation of power. President Xi is heading to the very important Party Congress towards the end of this year where he's likely to be given another term as China's leader.

It's an increasingly assertive China that we're dealing with. We all need to recognise that but we're not dealing with it on our own. We're dealing with it in like-minded partnership with an increasing range of countries. And as well as those defensive resilience building measures that I talked about, which increasingly other countries are putting in place and talking to us about, we are building these like-minded partnerships and the ability to stake out positions defending the liberal aspects of the of the world order that give us some hope of at least curbing some of China's more assertive behaviour.

Host: Are we seeing any evidence of you know, of Western capital into China declining, either because China's rebuffing it, or Western countries sort of, you know, decoupling themselves from China?

Andrew Shearer: I think what we see is, is some limited - I stress, limited - economic and in particular, high tech decoupling between the two countries. In part that's driven by largely US-led measures that it's taken in response to the theft of US intellectual property over a long time.

But increasingly, we also see President Xi preparing his country for this long struggle with the United States. And in building towards his rejuvenation of China, he is looking to build a more self-reliant economy, the so called dual-circulation economy, he's looking, he's actually looking to contract some of China's outward engagement.

He's also reining in the tech entrepreneurs. He's imposed a heavier regulatory footprint on the property sector, financial sector, different aspects of the Chinese economy.

We see a leader who's really battenning down, and hardening his country for this struggle to overtake the United States as the world's leading power. That's the assessment of the US intelligence community of China's intent. It's also our assessment of China's intent. And the waystation - if you like, the base camp - for getting to that position of global pre-eminence is to establish primacy in the Indo Pacific region - a situation where other countries in the region - across Southeast Asia, across the Pacific and including Australia - have to defer to Beijing's choices.

Host: Okay, we've just got a few minutes to go. So if anyone's got any questions, if they want to sort of put their hands up, I'll come back to it, but I'll just ask about Russia. You know, it is the immediate crisis confronting the world. We had, you know, the spectre of even nuclear sort of threats out of it. What do you think of the implications of Russia's actions in Ukraine at the moment for strategic and economic interests?

Andrew Shearer: Well, I think they're profound. As I said, we've seen a situation where, for over a decade, President Putin in pursuit of his vision for a reconstituted greater Russia has been salami-slicing bits of territory, using little grey, little green men, and all the tools of hybrid warfare to carve out a sphere of influence. Now of course, he's gone that step further. And used naked, conventional military force in the most brutal and horrific way.

And I think you can already see that realigning the tectonic plates of the European security order. I mean, extraordinary, to hear Germany come out and cancel the Nord Stream project, commit to doubling its defence expenditure. Extraordinary to my mind to see the degree of unity between European countries in response to what's happening. And extraordinary to see a quite large economy just being surgically excised from the global financial system, which is what the US-led sanctions regime has done.

Host: How does it end? Is it just way too, too early to tell?

Andrew Shearer: I think it's too early to tell. I mean, the Ukrainians are obviously resisting extraordinarily well, their tactics have been very astute. Their political leadership has been extraordinary, and they are now getting a good stream of support, obviously, in the form of anti-tank missiles and anti-air missiles and other forms of support from Western countries. And we all hope they can fight for as long as possible.

But President Putin is very determined and in my briefings to the government, I've emphasised that he's got everything at stake now. He - it's very hard to see a sort of elegant or even inelegant dismount from this for Putin, and his tactics in our judgement will become more and more brutal - we're seeing that in the shelling of innocent women and children and other civilians just in the last few days.

So we expect some brutal, siege-like tactics around some of these massive cities - Kiev, a city roughly the same size as Melbourne, for example. Think of it - completely encircled by Russian troops, using indiscriminate missile-fire rocketry, artillery fire and air strikes into the middle of a city like that.

So we are in for a very brutal, bloody couple of weeks in our judgement.

Host: I see someone's hand up the back there for a question. Thank you?

Audience member: Hi, Andrew. Michael Weiss. We've long touted education as one of our export markets and COVID certainly showed us and illuminated how dependent the universities were on foreign students. You mentioned that technology is going to be the centre of gravity for the upcoming challenges and conflicts we have. So how do we reconcile the training of foreign students,

particularly in the technology domains, that ultimately end up going back to their home countries and using that technology and training against us and our way of life?

Andrew Shearer: Thanks, that's a good question. And it's going to be about balance, and it's incredibly important that we work as government officials closely with our higher education authorities. Again, we understand the importance of international students. They have an economic importance for our university sector, but they also have a broader societal importance, and you know, they're a source of casual labour and so forth. It's incredibly important that we can resume those healthy inflows of students as soon as possible.

But part of this geopolitical contest that I mentioned, is a dual-use mentality so that the old dividing line between defence technologies and civilian technologies is increasingly blurred. And we're going to have to be mindful of that.

I mean, we want our students, our students and our higher education institutions, to have effective academic exchanges with other countries. But I think most of us will increasingly agree that a situation where Australian research is finding its way into capabilities to provide the PLA, or other advanced militaries, with extremely damaging and dangerous capabilities is not an acceptable form of academic interchange.

And that's why the task force that works between Commonwealth authorities and the higher education sector has an important role to play, and why we just have to keep up this two-way exchange. And I mean, I heard some of the previous discussion about supply chains. I don't think the situation, frankly, in higher education is any different. We have to diversify our markets, and as the borders reopen, and students start coming back, you'd like to think that our higher education leaders have learned some of the lessons of that sort of overly dependent past.

Host: Our time's almost up but just a final question from Michael Stutchbury- our editor-in- chief's prerogative!

Michael Stutchbury: Thanks, Andrew. Thanks so much for basically getting off the plane and coming down here and giving us a very frank and quite sobering, even chilling, assessment of the current situation.

The sort of counter view that's gets put in the Australian context, from the likes of Paul Keating to Hugh White, is that we're headed on a hawkish path to a confrontation with a rising China in the region. Which the Americans won't stay the course, and it'll inevitably end badly for us, and we should really accommodate the rise of China. Just wondering if you could address that counter view? And then if I've got time: should Australian business and the business in this room be prepared - well have contingency plans for - electricity systems going down or other key critical infrastructure going down - in case, you know, if the economic cyber war intensifies?

Andrew Shearer: Thanks, Stutch. The first one is as you know a profound question, and one that obviously I and my organisation, and government more generally, spend a lot of time thinking about.

One reason that I disagree with the set of views that you outlined - is that that position doesn't give Australia any agency. And I just profoundly reject that notion. We're not a passive player. We're not a passive spectator in this emerging geopolitical context. We're a serious country. We've got serious values. We've got very serious capabilities as a people, and I don't just mean our defence capabilities, although I think they are. They are serious. And we've got extraordinarily powerful partnerships with countries like the United States, the Quad countries, the Five Eyes countries. And those partnerships are immensely valuable, and you only have to look at the support that we as a country have received in the face of economic and other forms of coercion, I think, to see some of that.

But in our assessment, if the United States remains engaged, and I'll talk a bit more about that, if Japan and India continue their more active role in the region, if we can reach out and engage more European countries to defend the liberal order - and here, I'm not just talking militarily here to be clear, I'm talking about the standards that will guide 6G technology and artificial intelligence and quantum computing; there's a struggle underway now to determine what those rules are and whether they're going to be open, liberal rules that are conducive to us and our like-minded partners, or rules that are conducive to the authoritarian powers.

We can't win that fight on our own. Not even the United States can win that fight on its own. But the US, Australia, India, Japan, plus the massive normative power of Europe, can actually make a difference in pushing back on some of these authoritarian impulses.

None of those countries are looking for confrontation. And I think, particularly after the US withdrawal from Afghanistan, there were legitimate doubts about American staying power, but I would contend that the US response to what's playing out in Ukraine has been robust - as effective as it could be in a very difficult situation - but also responsible, in that you know, we are dealing with a power here that is making overt threats about the use of nuclear weapons - something that's been completely unthinkable for decades.

So I'm heartened by the US engagement in the Ukraine crisis. I'm heartened by their Indo-Pacific strategy. Do they need to do more on trade and investment? Do they need to have a proper regional economic plan? Absolutely. And we badger them mercilessly about that, I can assure you, day in day out. But they are engaged, and when I've talked to American officials in Europe, but also in Washington since the invasion of Ukraine, all of them have said: we know that you are probably concerned that our attention's going to move from the Indo-Pacific to Europe, and that is not the case. All of them have said that, and I think that's - that should be - reassuring.

Your other question, Stutch, was about our critical infrastructure and contingency planning. I do think, as I said, that we need to think differently about our critical infrastructure, and the threats to

it. At the moment, our assessment is that the most likely cyber threats to our infrastructure, in a Ukraine context, are probably not direct cyberattacks, but more likely spillover effects from other cyber activity that's related to Ukraine.

But that doesn't mean that we don't need to be ready for the day when we are directly targeted by offensive cyber operations, and Rachel Noble and her team, the ACSC, they're doing a fantastic job in reaching out to businesses and working with businesses to make sure that their systems and networks are as well prepared as possible.

But there's a whole lot more work to do - there's legislation before the parliament to strengthen partnerships between business and government on cybersecurity, and I think it's really important that legislation passes as soon as possible.

Host: All right. Andrew Shearer Thank you very much.

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