

IPA RESEARCH NOTE

Australia's defence spending below international standards despite rapidly worsening strategic outlook

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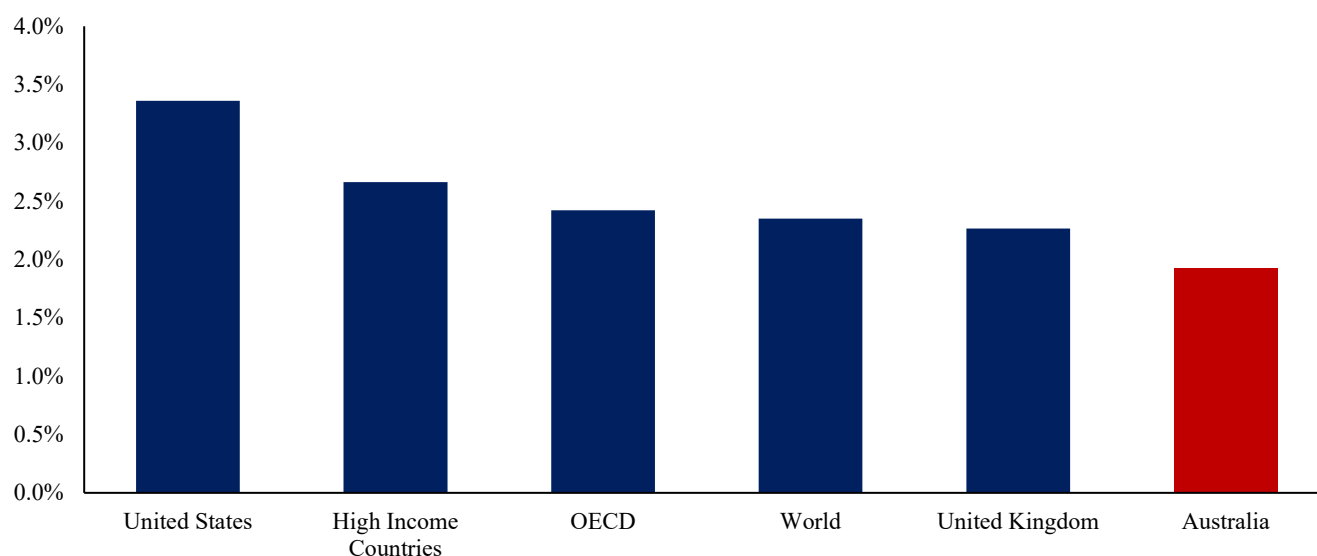
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Key findings

- Australia's defence planners acknowledge that we face the 'most complex and challenging strategic environment since the Second World War'.
- Our closest and most important ally, the United States, has criticised allies for not contributing enough to their own defence and has specifically called for Australia to spend more.
- Yet Australia's current defence spending as a percentage of gross domestic product (GDP) has remained stagnant at barely 2 per cent since 2021, a figure which compares poorly to:
 - Other high-income economies: 2.66 per cent of GDP (up from 2.48 per cent in 2021);
 - The Organisation for Economic Co-operation and Development (OECD): 2.42 per cent of GDP (up from 2.32 per cent in 2021);
 - The world average: 2.35 per cent of GDP (up from 2.18 per cent in 2021); and
 - Other comparable countries in a much better security position than Australia, such as the United Kingdom: 2.26 per cent of GDP (up from 2.07 per cent in 2021).

Figure 1: *Military spending as a percentage of gross domestic product in 2023*



Source: World Bank, IPA

- The result of this underinvestment in Australia's defence has been a decline in the capability and readiness of the Australian Defence Force to defend the country, most starkly illustrated by the recent inadequate response to Chinese warships conducting drills off the Australian coast.
- Australia should immediately set in place a plan to increase spending on defence to 3 per cent of GDP by no later than 2028-29.

Data source

Comparative international data on military spending as a percentage of GDP were sourced from the World Bank Group's military expenditure database, which – in turn – derived its data from the Stockholm International Peace Research Institute's yearbook on armaments, disarmament, and international security.¹

Military spending includes all current and capital expenditures on the armed forces, defence ministries and other agencies engaged in defence projects, military space activities, and paramilitary forces which are judged to be trained and equipped for military operations.

The latest data, as of the time of the analysis, were for the year 2023.

Analysis

Australia's rapidly worsening national security outlook

Landmark research by the Institute of Public Affairs and Strategic Analysis Australia, *National Security and Australia's Northern Defence*, finds that Australia is facing the most challenging security environment since the Second World War.

[T]here is a much greater probability of a conflict involving China and our allies and friends within a very short number of years, and consequently a matching increased probability of conflict involving Australia.²

Australia's security environment has changed considerably since the end of the Cold War in the early 1990s. China's growing assertiveness and the more isolationist stance of the United States call for Australia to increase its defence capability.

As early as 2009, the Commonwealth government identified that the United States' strategic primacy in the Asia Pacific was being 'increasingly tested' by China, which was set to be 'the strongest Asian military power, by a considerable margin'.³

Sixteen years later, the Chinese People's Liberation Army-Navy was spotted conducting an operation to the northeast of the Australian mainland. The fleet—consisting of a frigate, a destroyer, and a replenishment ship—spent the subsequent three weeks circumnavigating Australia's landmass, going further south than they had ever gone before. They carried out live-fire drills and cruised within 200 miles of Sydney.⁴ This development confirmed the conclusion reached in the most recent Australian defence planning paper that 'Australia faces its most complex and challenging environment since the Second World War'.⁵

As a percentage of its GDP, Australia's military spending in 2023 was approximately the same as it was in 2009.

Australia's military spending is below the world's standard and is not reflective of the seriousness of the threat posed by its potential adversaries. It does not match the rhetoric of successive defence papers published subsequent to 2009. Nor is it consistent with the unique security challenges that Australia must deal with today and into the foreseeable future.

The Australian Strategic Policy Institute (ASPI) noted that the recent action by the Chinese navy is not unique, nor is it uncharacteristic of China's increasingly confrontational attitude towards Australia.

Over the past few years, China's navy has deployed a range of vessels in Australia's vicinity, including state-of-the-art warships, replenishment ships, intelligence-gathering ships, survey ships, satellite support ships and hospital ships.

Together, these deployments paint a picture of a country that is undertaking sweeping efforts to transform its navy into a formidable blue water force, capable of regularly projecting hard and soft power to our region.⁶

Australia is the sixth largest country in the world, with land area totalling 7.68 million km², and it has the 8th longest coastline to defend, at 25,760 km. Australia also does not have any major ally in its close neighbourhood that can assist it at rapid pace in a crisis. In contrast, the United Kingdom is a much smaller island nation, with shorter coastlines, and has powerful allies nearby on continental Europe. Yet despite this more secure defence environment, the United Kingdom spends considerably more on defence than Australia.

Australia's defence spending is inadequate and has been below international standards

The response of the Commonwealth government to the increasing tension in the Indo-Pacific region has been inadequate. Australia's defence preparedness has been, and continues to be, sub-par and falls far short of the world's standard.

As of 2023, Australia's military spending amounted to 1.92 per cent of its GDP, below the 2 per cent best practice guideline set by the North Atlantic Treaty Organisation.

Since 1999, Australia's defence spending has only reached the 2 per cent of GDP target in three of those 25 years.

Australia's military spending, as a percentage of its GDP, is below that of the United States, the United Kingdom, the OECD (aggregated), high income countries (aggregated),⁷ and – indeed – the world.

Other powers in the region, against whom China has taken an adversarial stance, have higher levels of military spending. South Korea's military spending was 2.81 per cent of GDP in 2023. Taiwan's defence spending is roughly 2.38 per cent of its GDP and is set to rise further to 2.45 per cent of GDP in light of China's increasing assertiveness next door.⁸

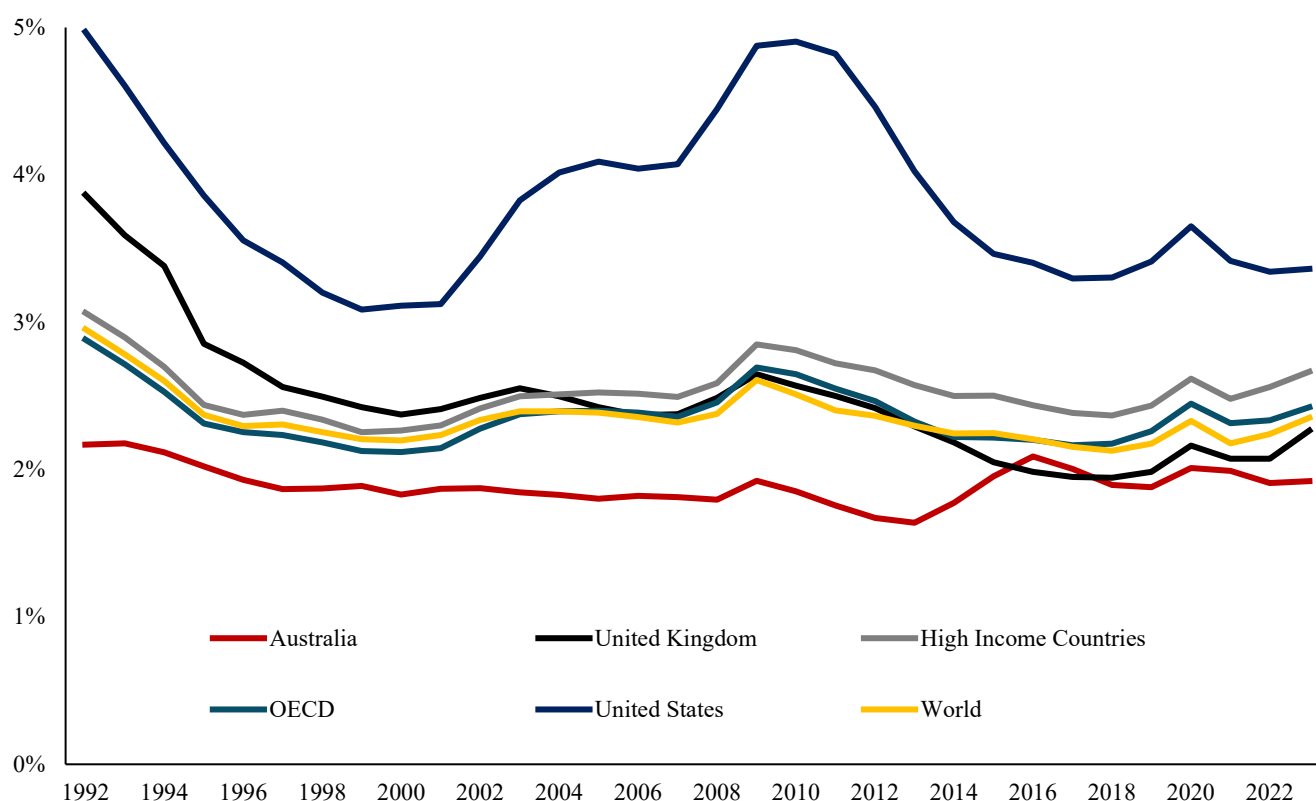
Figure 2 shows that Australia's level of military spending has been lower than the world's aggregate for at least a generation. Therefore, it will not be sufficient to simply match the spending level of the rest of the world, because Australia's cumulative stock of defence assets (both tangible and intangible) has been diminishing relative to those of other countries.

As the figure shows, there has been a general uptick in the post-pandemic levels of defence spending globally and among members of the OECD. Australia's defence spending, on the other hand, fell from 2.01 per cent of GDP in 2020 to 1.92 per cent of GDP in 2023.

The 2025-26 Federal Budget promises that in the current financial year, defence spending is set to increase to 2.03 per cent of GDP, with the additional promise to reach 2.3 per cent of GDP by 2034, nine years from now.⁹ After years of flatlined defence spending, the increase will be too late and manifestly inadequate.

Being able to respond to the threat that Australia faces requires fundamental reform. Increasing military spending as a share of GDP is necessary but not sufficient as a standalone measure. Other critical reforms, set out in the IPA defence blueprint *No Higher Priority* should also be implemented.

Figure 2: Military spending (as a % of GDP) since the end of the Cold War



Source: World Bank, IPA

Recommendation

IPA research, *No Higher Priority: A blueprint for immediate action on Australia's defence 2025-2028*, calls for the government to:

[L]ift defence spending from its current level of just below 2 per cent of GDP to 3 per cent of GDP by 2028-29.

This proposed funding would provide an additional \$40.9 billion to defence over the four years of the forward estimates (compared to the current government planning for additional spending of \$5.7 billion).

Over a decade, this new funding adds \$206.9 billion to planned defence spending. By contrast, the current plan adds \$50.3 billion over the coming decade.

An increase in Australia's military spending to 3 per cent of GDP will be a necessary first step in narrowing the gap between Australia's current defence capability and what is required to ensure Australia can deter aggression in our region.

The purpose of defence spending is not primarily to fight wars. It is to deter aggression and therefore prevent a war from occurring. It is clear from recent events that our current defence capabilities are incapable of offering such deterrence on our own. Australia has become accustomed to relying on a powerful ally to fulfill this gap in our capabilities. But this policy is no longer sustainable.

The corollary of having an insufficient deterrent capability is that national weakness can encourage aggression. Investing in defence at a much lower level than comparable countries or the world average signals that kind of weakness.

There is much that Australia can do to turn around the current parlous state of its defence capabilities. This will require increased funding in the immediate future.

Just as important as the extra defence capabilities that more funding can acquire, is the message it sends to potential aggressors in our region. If Australia increases its defence spending to 3 per cent of GDP (or above) it will send a clear and powerful message that we are starting to take our national security seriously, which may give pause to those who would do us harm.

For more information contact Morgan Begg, Director of Research at mbegg@ipa.org.au

End Notes

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3. Department of Defence, *Force 2030: Defending Australia in the Asia Pacific Century* (2009).
4. Hilary Whiteman and Nectar Gan (6 March 2025) 'China's warships are turning up in unexpected places and alarming US allies. Is this the new normal?', CNN World, <https://edition.cnn.com/2025/03/06/asia/trump-china-warships-asia-pacific-analysis-hnk-intl/index.html>; David Lague (13 March 2025) 'Australia moves to arm troops with anti-ship missiles as China threat looms', Reuters, <https://www.reuters.com/world/asia-pacific/australia-moves-arm-troops-with-anti-ship-missiles-china-threat-looms-2025-03-13/>; Ryan Chan (17 March 2025) 'China Reveals Details About Show of Force Against US Ally', Newsweek, <https://www.newsweek.com/china-news-reveals-details-navy-deployment-around-australia-2045782>; Department of Defence (13 February 2025) 'Statement on People's Liberation Army—Navy vessels operating to the north of Australia', <https://www.defence.gov.au/news-events/releases/2025-02-13/statement-peoples-liberation-army-navy-vessels-operating-north-australia>.
5. Department of Defence (2024) National Defence Strategy.
6. Joe Keary (10 March 2025) 'China's navy sends a steady drumbeat of ships around Australia', ASPI, <https://www.aspistrategist.org.au/chinas-navy-sends-a-steady-drumbeat-of-ships-around-australia/>.
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9. Max Blenkin (25 March 2025) 'Defence budget inches upwards', Australian Defence Magazine, <https://www.australiandefence.com.au/news/news/defence-budget-inches-upwards>; Jessica Wang (25 March 2025) 'Australian defence spending to hit 2.3 per cent of GDP by mid-2030s, won't hit US target', News.com.au, <https://www.news.com.au/finance/economy/federal-budget/australian-defence-spending-to-hit-23-per-cent-of-gdp-by-mid2030s-wont-hit-us-target/news-story/e39968967d44ab67893bb6d2b10c16d1>.