

# STRATEGY



A S P I

## Agenda for change

Strategic choices for the next government

Peter Jennings  
Mark Thomson and Andrew Davies  
Anthony Bergin and Kristy Bryden  
Russell Trood  
Ryan Stokes

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AUSTRALIAN  
STRATEGIC  
POLICY  
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(R) Opposition Leader Tony Abbott speaking at the National Press Club in Canberra, 31 January 2012 © AAP Image/Alan Porritt.

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# CONTENTS

CHAIRMAN'S INTRODUCTION	5
1. STRATEGIC POLICY Peter Jennings	8
2. DEFENCE Mark Thomson and Andrew Davies	17
3. HOMELAND SECURITY Anthony Bergin and Kristy Bryden	31
4. FOREIGN POLICY Russell Trood	39
5. ECONOMIC SECURITY Ryan Stokes	48
CONTRIBUTORS	57
ACRONYMS AND ABBREVIATIONS	59





Parliament House, Canberra. © Doug Pearson/JAI/Corbis

# CHAIRMAN'S INTRODUCTION

When Franklin Delano Roosevelt died suddenly at Warm Springs, Georgia, in April 1945, the end of World War II was clearly in sight.

However, Roosevelt's loyal and competent Vice President, Harry S Truman, was woefully ill-prepared to step into the Oval Office as Commander-in-Chief of the US Armed Forces. Quite reasonably, therefore, when announcing the President's death and confirming his elevation, Truman asked the White House press corps to pray for him.

Among the gaps in the new President's knowledge was the Manhattan Project. By July 1945, Truman was obliged to tell the principal American allies, the UK and the Soviet Union, that America possessed the atomic bomb. Within weeks, the destruction of Hiroshima and Nagasaki followed.

This is the classic illustration of the need to make certain that an incoming government is apprised of national security challenges and the options available for meeting and resolving them.

In the Australian context, nothing comes close to the development of atomic weapons, but nonetheless the principle is overriding. A Labor government returned later this year or a Coalition government newly elected has a primary requirement to be thoroughly well briefed on the challenges inherent in Australia's strategic circumstances and the policy options available to it.

This is particularly acute in Australia's circumstances today, as we face shifting geostrategic balances in both the Pacific and Indian oceans. Those challenges might not prove threatening, but they do require careful policy analysis and serious recommendations for responses.

With this in mind, ASPI is publishing this report to thoroughly brief the government, of whatever persuasion, that's elected by the Australian people later this year.

The papers range across the board, beginning with Peter Jennings' sweeping proposal for the development of a global foreign affairs and defence policy rather than one focused on Asia, with an accompanying increase in funding for the Department of Foreign Affairs and Trade in the order of \$100 million. This would be accompanied by a consequent drop in funding for AusAID.

Jennings, who's a most capable and influential contributor to the Australian strategic debate, has already demonstrated value as the Executive Director of ASPI over recent years. No-one will be disappointed by his paper, which looks forensically at the need to emphasise a greater consistency in Defence planning by balancing procurement for the ADF with budget realities and utter rigour in Cabinet decision-making.

Of even greater consequence is his argument for a Cybersecurity White Paper within 12 months of a new government taking office. ASPI is taking a far greater interest in cybersecurity and the growing challenges of cyber espionage. The Jennings paper fits very neatly with ASPI's increased preparedness to contribute to this debate.

Cyber espionage is the newest and most serious challenge to Australian national security. In a visit to Washington DC in March this year, I had occasion to speak with senior figures in the US administration. There's no question in my mind that the US regards cybersecurity as its primary national security challenge of the day.

None of the papers in this report, including Peter Jennings's effort, should be taken as either criticism of Australian Government policy or endorsement of it. Nor are the contributions designed to legitimise Opposition alternatives or to dismiss them. ASPI merely seeks to push the envelope further on the strategic and national security debate in Australia. To do this, it's inevitable that ideas will range freely and there will be a wide discussion of options and alternatives, free of partisan discipline or political rigidity.

Mark Thomson and Andrew Davies again leave their indelible mark on the defence policy discussion. Their primary focus is on resources for Defence and the management of the necessary resources to match both strategy and capability. They begin by examining whether or not there's sufficient money to cover future plans, including the Defence Capability Plan.

It is at this point that as Chairman of ASPI I would argue that, broadly, government finds the necessary funds to resource Defence needs and initiatives. Defence ministers from Brendan Nelson to Stephen Smith have demonstrated this repeatedly in terms of procurement decisions, whether about kit of immediate necessity for the ADF deployed in Afghanistan or longer term decisions on capability for the Air Force and the Navy.

The shortage is sometimes found in our political processes on both sides of the aisle, where political resolve and political will do not carry the day, given the constant pressures to find money for other, worthy, policy initiatives. It is very much ASPI's role, therefore, to bring an added measure of reasoned argument into the political debate on national security and defence imperatives.

The Thomson/Davies paper argues for greater efficiencies in the delivery of defence capability, acknowledging the need for an Australian defence industry base.

In particular, the Collins class submarines and the replacement boats come into sharp focus. This is very timely analysis and, given the impact of the classic ASPI paper *How to buy a submarine*, written by Andrew Davies some time ago, will have considerable impact in the current debate on the Collins' replacement.

ASPI's deputy director, Anthony Bergin, has already made a landmark contribution to public debate on homeland security. His chapter with ASPI analyst Kristy Bryden suggests the need to appoint a Minister for Security and Resilience at Cabinet level to provide unity of command for counterterrorism, combatting organised crime, cybersecurity and emergency management. In the area of disaster resilience, they argue further that mitigation should be a key part of Canberra's microeconomic reform program and offer suggestions on health preparedness, national warnings, the role of business in resilience, and strengthening the mandate of Emergency Management Australia.

Countering online radicalisation should be a key counterterrorism priority for the next government, and Bergin and Bryden stress the need to maintain the robustness of our counterterrorism legislative framework.

They emphasise the importance that a new government should attach to criminality as a strategic threat. Part of their solution is to integrate the tools to prevent transnational and serious and organised crime, so that it's a manageable public safety problem.

This paper is well focused and sharp in both its arguments and conclusions, lending a sense of immediacy to policy demands and practical necessities in challenges with both domestic and external consequences.

Also of very considerable value is Russell Trood's chapter on Australian foreign policy. It's insightful on the shifts in both the Asia-Pacific and the Indo-Pacific. He includes an enlightening discussion of Australian relations with both China and India. Indonesia is also afforded its rightful place in the analysis.



Perhaps even more significantly, there's a convincing argument for Australia to embrace a more flexible and differentiated approach to all the countries of ASEAN in acknowledgement of both bilateral needs and regional strengths. This is a very real contribution to the policy offering for a new government.

Multilateralism is also a feature of the Trood paper. He makes some careful suggestions on the Australian role on the UN Security Council, particularly during the Australian chairmanship of September this year. The call for a bipartisan approach across the aisle shouldn't go unheeded.

Ryan Stokes brings an additional dimension to the strategy briefing with a comprehensive chapter on economic security. The discussion traverses the domestic agenda with its emphasis on productivity and then places Australian economic performance in a global context. The paper notes the dramatic rise in the global middle class from 1.5 billion people in 2010 to some 4 billion in 2030.

There are arguments for a sustained policy focus on Australian economic growth and a clear set of priority prescriptions. In a thoughtful and detailed way, Stokes considers infrastructure and skilled migration; education, research and technology; labour market reform; and playing to our advantages. There can be no satisfactory Australian national security strategy without an economic base that provides the resources to fund the necessary posture and profile.

In all, ASPI has sought to lay out some differing policy options for the next Australian Government. The success of Australian foreign policy lies not only in our ability to maintain close and effective relationships in both our region and beyond. It rests also, in Gough Whitlam's memorable words, 'in the intelligent anticipation of change'.

Together with allies and partners, especially the US, Australia is well placed to shape a global environment in the second decade of the 21st century which responds to challenges of a very diverse kind, from nuclear nonproliferation to regional shifts to the emerging threats in cyberspace.

This body of ideas makes a compelling contribution to the discussions which ought always to characterise the Australian strategic and defence debate.

**Stephen Loosley**

Chairman

Australian Strategic Policy Institute

# 1. STRATEGIC POLICY

**Peter Jennings**

## Key proposals

- Develop a global rather than Asia-centric foreign policy focus, set it out in a new Foreign Policy White Paper and increase DFAT funding by \$100 million a year by reducing AusAID funding.
- Return order and consistency to defence planning by reconciling ambitious equipment plans with budget realities.
- Rethink approaches to cybersecurity by committing to a Cybersecurity White Paper within 12 months of taking office, and boost cyber policy and decision-making capabilities.
- Take a more disciplined approach to using Cabinet for decision-making. Rethink the roles of junior ministers and strengthen the use of parliament to help produce better quality policy.

Elections provide a circuit-breaker in policy development, giving even re-elected governments the option to rethink policy settings as a new term of office begins. There's a prospect of even greater policy change when an opposition is elected, but all governments are constrained by the decisions of their predecessors. And oppositions-turned-governments often need to quietly walk away from some policy commitments made in the heat of election campaigns. Whatever scenario Australia faces after the next election, a new Cabinet should take a fresh look at some of the broadest policy settings that drive national security.

The new government will inherit a mixed legacy of national security policy decisions, some of them correct but others at best confused and in conflict. A three-year term of office creates only a narrow window of opportunity to make a new policy mark. In the first year, the government needs to settle in, ministers must learn their portfolios and major policy development work must be commissioned. Year 2 is often the year of big policy decision-making as Cabinet gets to grips with the endless trade-off decisions it must make. By Year 3, the government turns its mind to the coming election.

If a government gains a second term in office—the norm in Australia—that can be when the most effective policy decisions are made by experienced cabinet ministers who know how to work with the Australian Public Service (APS) to shape policy. However, politics is a cruel business and the quality of decision-making can erode as exhaustion sets in and ideas dry up. The message for a new government is clear: get the APS working quickly on your big policy choices. Don't rush announcements until you've learned the demands of complex portfolios, but be ready by the second year of office to set fundamental new policy directions.

In national security, four key challenges will frame decision-making for the government after the coming federal election. The first challenge is to develop a more coherent approach to thinking about Australia's external policy interests in our region and beyond. The second is to return some order to defence planning and spending.

Third, there's a need to rethink approaches to cybersecurity, the fastest growing national security challenge. Last, the government should look again at its own decision-making mechanisms and the structure and operation of the national security community.

Three major statements defined the Gillard government's approach to foreign policy and national security: the *Australia in the Asian century* White Paper (November 2012), *Strong and secure: a strategy for Australia's national security* (January 2013) and the *Defence White Paper 2013* (May 2013). Although the three documents were released in seven months, and notwithstanding the government's claim that they present a coherent approach, they offer a jumble of different and sometimes conflicting assessments about the impact of strategic developments on Australian security.

Kevin Rudd's return to the prime ministership in June raises fresh questions about the government's national security orientation. Will Rudd prefer a return to the more muscular and better-funded policy settings of the 2009 Defence White Paper? It's unlikely that the benign assessment of Gillard's National Security Strategy reflects Rudd's more pessimistic view of prospects for regional security. Gillard's policy trilogy also offers conflicting approaches on what the right geographical focus of strategic attention should be. Nonetheless, the three documents will be the starting point for a government looking to make its mark on strategic and defence policy after the next election.

## Australia's external policy interests in our region and beyond

The *Asian century* White Paper has the sharpest geographical focus: China, Japan, South Korea, India and Indonesia, with an honourable mention for the US. The policy essence of the paper is to 'create deeper connections with Asia' (p. 8), to sustain Australian economic growth and to more deeply integrate all aspects of Australian society into the region. It sets out a series of challenging national targets to be reached in 2025, such as lifting per capita GDP from 13th in the world in 2011 to 10th, putting the schools system into the world's top five, putting Australian innovative capacity into the world's top 10, and so on. Implementation strategies, called 'pathways', set out means to achieve the broadest goals. They include a strong focus on building 'Asia literacy', an emphasis on language training in Mandarin, Japanese, Bahasa Indonesia and Hindi, and a rather Orwellian requirement that 'one third of board members of Australia's top 200 publicly listed companies and Commonwealth bodies ... will have deep experience and knowledge of Asia' (p. 24).

The white paper passes rather lightly over security issues; it refers to unnamed 'challenges' and the risks of 'miscalculations' that might disrupt regional growth but that will be addressed by 'trust and transparency'. Australia's alliance relationship with the US gets the lightest of passing mentions. Overall, the paper concludes that 'we are optimistic about the ability of China and the United States to manage strategic change in the region' (p. 228). It advances the concept of 'sustainable security' as Australia's contribution to the region. Apparently this is an amalgam of 'national security' (which 'depends on partnership—building trust—with others'), 'collective security' (about which 'trust and confidence can be built through cooperation') and human security (where 'our trust-building policies will be directed towards information sharing and building trust between specialists'). 'Trust' is mentioned no less than 15 times in one chapter. And, without a hint of irony, the paper says that Australia will be 'stepping up to the plate' on food security (p. 242).

The glib treatment of security points to the fact that it was a late addition to a paper conceived around one thought: how to hitch Australia's wagon to an Asia that's assumed simply to keep on growing economically. The narrowness of focus is alarming. Indeed, notwithstanding the white paper's 'Asian century' title, its focus is overwhelmingly limited to the 'big five': China, Japan, South Korea, Indonesia and India. Southeast Asia other than Indonesia disappears into references in tables, as does South Asia other than India. The broader Pacific region's ignored.

Following the release of the *Asian century* White Paper, the government developed an implementation plan that can only be described as a central planner's dream. The plan is to link almost all aspects of government effort into

delivering our place in the Asian century, and reporting on that to Cabinet. DFAT developed country strategies for the big five countries for release in June and July 2013. The strategies will only tighten the focus of Australian foreign engagement effort on those countries.

To use a word much favoured in the white paper, one ‘challenge’ for government after the election will be to sort those elements of the paper that are sensible and should be kept from those that are unrealistic or unaffordable and should be abandoned. The government must ask whether the ‘big five’ focus is too narrow to promote Australia’s broader and longer term interests. Is it sensible to continue to deepen Australia’s economic dependence on three North Asian economies when China is slowing, Japan is mired in long-term economic stagnation and South Korea faces the constant threat of military conflict with Pyongyang? Of the other two countries, Indonesia’s a potential growth market for Australia, but our current trade and investment with it are surprisingly limited and there are legitimate worries about whether a post-Yudhoyono regime will put any priority on relations with Canberra. Australian economic interests with India are tied to three main commodities (coal, gold and copper ores and concentrates), to which education and tourism services can now be added. In other respects and especially at the government-to-government level, Australia’s ties with India have always lagged far behind where Canberra would like them.

A new government shouldn’t do any less with any of the big five countries highlighted in the *Asian century* White Paper—they remain important priorities—but it’s misguided to think that those relations constitute the total of Australia’s international interests and dangerous to concentrate on them at the expense of a more widely focused foreign policy. Inevitably, DFAT, with its very limited resources, will focus on implementing the big five country strategies. All other areas of the department’s portfolio, from Africa and Europe to the Pacific islands and Latin America, will languish for want of funding and senior-level attention.

A new government could counter this limited focus by directing DFAT to develop similar ‘country’ strategies to promote Australia’s interests in the Pacific, Europe and emerging markets. The government should add a broader range of languages to the four currently prioritised by including French, Spanish, Portuguese, Swahili and Arabic. It could take a leaf from the NSW Government’s book: the April 2013 NSW International Engagement Strategy presents a simpler, wider-ranging and more pragmatic international engagement strategy aimed at increasing business investment in the state by 4% annually and achieving net growth in NSW exports.

After the federal election, the government should set out to develop a foreign policy that reflects Australia’s global interests.

After the federal election, the government should set out to develop a foreign policy that reflects Australia’s global interests. This could be done by writing a Foreign Affairs White Paper, the last of which was produced in 2003. The government should avoid a regrettably constant feature of debate on foreign affairs, which is to define Australia’s place in the world by publicly detailing regions where we supposedly *don’t* have interests. Surely no country other than Australia would campaign for a UN Security Council seat by saying that it has a lesser interest in all countries other than the Asian big five and the US? That’s exactly what Canberra did in 2012 by uncomfortably juxtaposing the *Asian century* White Paper and Australia’s Security Council bid.

A new Foreign Affairs White Paper would build on many of the sensible elements of the *Asian century* study, but in the wider context of our global interests. It shouldn’t be focused on economic linkages at the expense of security, and should avoid the overzealous, exclusionist focus of Asian policy spruikers inside the APS and many other

national institutions. Just like our major partners in Asia, Australia could acknowledge that we have interests to promote in Europe, America, the Pacific and elsewhere. What matters most are the connections linking regions, not the boundaries between them.

A Foreign Affairs White Paper will need to acknowledge that DFAT's been chronically starved of funds. The department currently has 5% fewer staff, and 14% fewer staff overseas, than in 1996. Among the G20 nations, only Saudi Arabia has fewer overseas diplomatic missions than Australia.

A government that wants to promote a mature and broad foreign policy would divert about \$100 million a year from AusAID to DFAT (less than the cost of a wing on a new Super Hornet, 12 of which were bought on a whim for around \$2.9 billion in the 2013 Budget). This would allow some additional posts to be opened in potentially important emerging markets in Africa, Europe and Latin America. More critically, it would pay for additional numbers at existing posts, where staff have been refocused and cable reporting has been sacrificed in order to perform consular tasks.

## Return order to defence planning

In their chapter in this report, Mark Thomson and Andrew Davies set out a detailed case for defence reform as an essential task for government after the next election. Defence policy settings are simply not credible when they're based on the idea that a budget that's sustained current and planned cuts of up to \$30 billion since 2009 can deliver all of the 'core' planned defence capabilities. There's a price to be paid in maintaining that fiction, which is that governments will commit to long-term projects, the full costs of which aren't apparent now but which will certainly exceed projected defence spending levels.

This dilemma was most recently articulated by David Gould, the Defence Materiel Organisation's General Manager, Submarines, in an ASPI address on 4 July 2013. Gould said he was unable to estimate the cost of the Collins replacement submarine in any precise way until detailed design and capability requirements are developed. We know that the cost of a submarine larger than the Collins is unlikely to be less than the \$36-\$40 billion figure Andrew Davies and Sean Costello estimated in 2008, based on historical trend data. However, the absence of any more solid cost information hasn't stopped the government repeatedly committing to building 12 submarines. As Sir Humphrey would say, 'A brave decision, Minister!'

The only way to avoid being locked into unsustainable long-term spending commitments is for the new government to making the unpalatable choice between increasing defence spending and cutting future capability plans. A returned Labor government would face the challenge of having to do this against the record of its two previous defence white papers, but Kevin Rudd would have the option of distancing himself from Julia Gillard's approach and could commission a new statement. The Coalition has already committed to producing a new Defence White Paper within 18 months of being elected. Presumably, this will be the vehicle for its voyage of defence policy discovery.

Just as important as the content of new policy is the means by which that policy is developed. Although discussions about process can be eye-glazing to all but a few hardy souls in the policy business, good processes make good policy. Much of the Australian political debate in recent years has centred on views about the coherence, or lack thereof, of policy development. On returning to office, Mr Rudd claimed that he would be more consultative and more inclined to use Cabinet processes in policy development. The Coalition also emphasises its commitment to orderly Cabinet government.

The next government should take three steps to improve the quality of defence policymaking for white papers. It should:

- set out *how* it will produce a new Defence White Paper
- commit to greater clarity in defence budgeting
- establish some rules for defence and media engagement.



In the Australian political system, defence white papers are special because they're seen to be detailed statements of policy, developed through careful analysis, subject to close government consideration and intended to last for some years as expressions of policy. They're also designed to serve the political purposes of the government of the day. In some respects, policy and political purpose coexist uneasily, but it can equally be true that good policy can underpin strong political performance. Governments should develop defence white papers with a strong commitment to what could be called the five Cs: base work on classified assessments; use Cabinet (really, the National Security Committee) as a direction-setting forum; make choices; consult widely within official circles; and engage the broader community.

Using classified assessments as the basis for decision-making is a critical way to focus government on difficult and hard-edged judgements about strategic developments. Equally, governments need access to realistic assessments about the strengths and weaknesses of ADF capabilities. In both cases, it mightn't be advisable to make such assessments public. The unclassified white paper statement explains policy to a wide audience, but it should only be the final stage of a more thorough process.

Likewise, Cabinet's deep involvement is important to make sure that key ministers have the opportunity to talk issues through and decide on outcomes that they'll commit to. In 2000 and 2009, the National Security Committee met several times to consider strategic trends, force structure options and budget trade-offs. Endorsing a public white paper at the end of this process should be the least onerous of Cabinet's task.

The third 'C' is for choices. The real policy purpose of white papers is to force choices about defence priorities onto decision-makers. The *Defence White Paper 2013* in some ways failed this test because of the government's reluctance to acknowledge the cumulative impact of spending cuts and deferrals. That situation's unlikely to be sustainable for the next white paper. When it comes to defence, Cabinet should work on the basis that a choice delayed is a choice not made.

The fourth 'C' is for consultation within the wider group of agencies and government departments that make up the national security community. One of the successes of the past decade has been a stronger whole-of-government approach to national security, for example in enhancing counterterrorism strategies and in linking defence, development and policing interests in Afghanistan, Solomon Islands and Timor-Leste. Consultation can slow policymaking down, but a new Defence White Paper would benefit from more of it. This is particularly so because we're now using defence to engage more deeply with countries in our region and deploying the ADF in a range of operations other than war.

The final 'C' in developing a good-quality white paper process stands for 'community'. White papers can play an important role in educating the public about defence and building support for policy by asking them for their views. At a time of significant strategic change in the Asia-Pacific, a new white paper shouldn't ignore the importance of community engagement. A discussion paper issued in advance of a white paper—as happened in 1999 and 2008—can help to define the right policy areas for community debate, shape international perceptions about the purpose of the work, and lay the foundation for a favourable reception for the new white paper.

The new government should commit itself early and publicly to lifting the standard of commentary in the next white paper on long-term budget issues. It's difficult to escape the charge that the budget chapters in both the 2009 and 2013 white papers set out to conceal more than they revealed about future budget intentions. The aim should be to return to a long-term budget projection for defence that looks ahead 20 years to cover the life of major capital equipment projects. The candour of the budget chapter in the next white paper will be a critical measure of how seriously the document should be read as an expression of government policy.

A final suggestion for the next Defence White Paper is for the government to commit to launching the document by means of a statement to parliament. This would have the benefit of allowing a sustained parliamentary debate, engaging members and senators, and requiring ministers to explain their policy settings in detail. Such an approach was once the norm for governments making major new policy announcements. Regrettably, the last two white

papers were launched at highly orchestrated media events—one on the deck of a warship, the other in an aircraft hangar with expensive equipment on display. Restrictions on early access to the policy documents mean that the media can rarely use such launches to ask detailed questions. One rule of thumb is that the bigger the launch, the less there is to the statement.

## Rethinking approaches to cybersecurity

After the election, the government will face the challenge of developing a more effective cybersecurity strategy. This is a fast-changing field, and a steady flow of newspaper headlines points to an increasingly serious problem. Domestically, business and government information systems are coming under increasing attack from malicious actors looking to steal or damage information; internationally, countries are struggling to work out how to manage cyber cooperation.

Australian policy performance on cybersecurity in the past few years has been poor.

Australian policy performance on cybersecurity in the past few years has been poor. A Cyber White Paper was promised in June 2011, when lead responsibility for cyber policy development was handed from the Attorney-General's Department to the Department of the Prime Minister and Cabinet. By October 2012 it appeared that prime ministerial enthusiasm for the statement had waned. The Cyber White Paper, apparently completed in draft form, was shelved and the Department of Broadband, Communications and the Digital Economy given the remit to address cybersecurity as part of a Digital Economy White Paper. In the event, a paper released in June 2013 had lost the 'White Paper' tag and had become an 'update' to the Digital Economy Strategy statement originally issued in 2011.

Far from offering a well-defined set of policy responses to cybersecurity challenges, the update was a disappointing aggregation of old initiatives, including many rather half-baked attempts at public communications strategies on issues as varied as cyberbullying in schools and cyber aspects of health and aged care reforms. A seven-page chapter on cyber 'security and safety' did little more than promise further policy announcements in coming months.

Other forms of organisational tinkering were announced in the May 2013 Defence White Paper. The Defence Signals Directorate is to be re-named the Australian Signals Directorate and its Cyber Security Operations Centre rebranded as the Australian Cyber Security Centre. It appears that no additional funding has been provided to either entity since 2009; nor has any further detail been given about the roles, organisational abilities or reporting structures of the cybersecurity centre.

At the practical level of cybersecurity operations, we've done better than most countries in combatting a rapidly changing threat, but getting it right is challenging policymakers as the risk moves from the domain of IT security professionals to the nation's boardrooms and Cabinet. The issues are difficult to understand and don't map comfortably to our current national security infrastructure. There are no clear boundaries between national and international capabilities, threat attribution is complicated because of the globalised structure of the internet and telecommunications, and businesses and private citizens must be intimately involved in any workable cybersecurity strategy.

It follows that a new government must embark on an urgent remediation strategy to strengthen Australia's cyber policy and crisis management structures. In July 2013, Tobias Feakin and I set out an ASPI agenda for cyber policy reform in *The emerging agenda for cybersecurity*. The essence of our recommendations is as follows:

- Develop a Cybersecurity White Paper within 12 months of the election.
- To promote community and business engagement in the White Paper process, commission a cybersecurity discussion paper to be released within six months of the election.
- Strengthen contact with the business community at senior levels to build a broad public-private partnership on cybersecurity.
- Establish a Prime Minister's Cyber Council, comprising leading business CEOs, senior officials and cyber specialists to meet two or three times a year to discuss cybersecurity threats, challenges and solutions.
- Establish a cyber policy unit, reporting to the Secretary of the Attorney-General's Department, to act as a means to bring cyber capabilities across government together (virtually, rather than physically), to strengthen reporting to government.
- Develop strategies to enhance cyber cooperation with the US.
- Establish a cybersecurity dialogue with China.
- Develop a cyber regional engagement strategy for ASEAN Regional Forum countries.

These measures will push Australia rapidly towards a strengthened cyber policy development capability to complement our national cyber operational capabilities.

## Decision-making and the national security community

When a new government is sworn in, the Prime Minister will have the opportunity to rethink portfolio responsibilities across the Cabinet and ministry and to look at the shape and operations of Cabinet and its subcommittees. By far the most important thing the government should do is to recommit to the principles of Cabinet government after years of chaos under the media-obsessed Rudd and Gillard governments.

As a minimum, the government should insist that Cabinet procedures be observed. This means starting and finishing meetings on time, observing lodgement rules for Cabinet documents, clearing the Cabinet room of political staff during meetings, and ensuring that all ministers have the opportunity to speak on contentious issues. The government should consider returning to the practice adopted under John Howard of appointing a Cabinet Secretary who's not a member of parliament but a senior adviser to the Prime Minister able to engage the APS on policy development.

The Prime Minister should follow the pattern established by Kevin Rudd on his return to office in June by not filling the position of Minister Assisting the PM on Asian Century Policy, and handing that task to the Minister for Foreign Affairs. The senior portfolio positions—Defence, Foreign Affairs and Trade, Attorney-General—will obviously remain, but there's scope to redesign many more junior positions in the ministry or outer Cabinet.

There are currently two junior Defence Minister positions: one for Defence Science and Personnel and one for Defence Materiel. The latter has never worked particularly effectively because high-cost defence materiel projects always tend to be driven by the senior minister. Frequent changes of the junior minister with this responsibility have meant that individuals have hardly been able to make a mark on the job. The position should be abolished. The Defence Science and Personnel Minister's role should be expanded to take special responsibility for that maligned but valuable creature, the 20,000 APS civilians in Defence. A second parliamentary secretary could be added to take on defence export approvals and industry liaison, which could become a high workload and useful task.

In the Foreign Affairs portfolio, the current junior position of Trade Minister could be given additional responsibilities for Pacific island affairs, lifting this important role into the ministry. It would be a high-travel job, taking a significant workload from the senior minister. One of the two parliamentary secretary positions should be

designated to work on identifying and developing emerging markets. This position could work with federal and state government overseas business development units and would be a great job for an up-and-coming MP with international interests.

The Attorney-General's portfolio is taking on a growing workload of national security related tasks. The Home Affairs junior ministry takes in Customs and Border Protection Command. A new government might consider amalgamating these responsibilities and giving them to a minister senior enough to sit in Cabinet. The Attorney-General's portfolio should establish a junior minister responsible for cybersecurity, given the increasing workload in that area.

Under the Howard, Rudd and Gillard governments, the National Security Committee (NSC) of Cabinet emerged as an essential mechanism for policy development and crisis management. A distinctive feature of the NSC is that intelligence agency heads, the Chief of the Defence Force and key departmental secretaries attend the meetings, sit at the Cabinet table and participate in deliberations (but not in formal decision-making). The NSC's remit needs to be broadened to allow a more systematic consideration of cybersecurity issues. Just as for the rest of Cabinet, good processes make for higher quality policy. The NSC should be run according to the Cabinet rules, and a particular effort should be made to reduce the flow of paperwork to the committee 'for discussion' but not requiring particular decisions.

The government should also move to consolidate some useful roles of parliament relating to defence and national security. Although the media increasingly present Australian politics as presidential, we resolutely remain a Westminster system in which the executive government is of the parliament, not separate from it. The Australian Parliament can't act like the US Congress, as an arm of government separate from the executive, because doing so in our system in effect brings the government down. And our Senate is there as a house of review rather than an alternative executive government. That said, the parliament can play an important role in influencing how governments decide on and manage military operations overseas.

Deployments since Iraq in 2003 have led to the contemporary practice of parliament's role on military operations.

Deployments since Iraq in 2003 have led to the contemporary practice of parliament's role on military operations. The first emerging practice is for the Prime Minister to make a detailed statement to parliament about the basis of a government decision to deploy forces. John Howard did this in relation to Iraq in February and March 2003, and his statements were debated in both houses of parliament. Detractors will say that this doesn't amount to much because governments typically control the numbers in the House of Representatives. Maybe so, but it counters the current trend of governments making major policy statements outside parliament. Statements to parliament force governments to strengthen their policy case by having to consider, for example, the basis of opposition to deployments and having to set out a convincing explanation for their decisions.

A second practice has been for Governments to commit to reporting to parliament on progress in military operations. John Faulkner, a believer in the importance of parliamentary debate, did this in quarterly reports on the Afghanistan operation, which Stephen Smith continued. Julia Gillard has added to the practice with an annual Prime Minister's statement on Afghanistan. With some reinforcement, this practice could strengthen parliament, put governments on their mettle and perhaps even satisfy those who hanker for a Canberra that looks more like Washington than Westminster. Governments would be forced to confront the implications of their policies, test

the adequacy of decisions, give parliamentarians the opportunity to shape thinking through their contributions and ultimately leave a detailed record for later generations to judge. Anyone who says such statements aren't important—or that governments don't care deeply about them—hasn't been involved in developing them. It's up to MPs in their party rooms to demand that similar approaches be used in future.

A third development, albeit a less well established one, has been for parliamentary committees to scrutinise critical aspects of decision-making about military operations. Good policy outcomes can result. For example, the then Joint Committee on ASIO, ASIS and DSD (now the Joint Committee on Intelligence and Security) recommended that there be an independent review of the performance of intelligence agencies' reporting on weapons of mass destruction programs in Iraq. That led to a review by Phillip Flood. Its precursor, the joint committee review, was based on a reference from the Senate and wasn't welcomed by John Howard. The committee produced a sensible, balanced and fair report—a model for what well-chaired parliamentary committees can achieve.

Committees could do a lot to strengthen parliament's responsible assessment of decisions to go to war and of the overall adequacy of defence policy statements. Now would be a good time for a forensic review of the record of deployments in the Pacific since Bougainville in the late 1990s. Equally, there would be no better time than now for a committee to review the lessons emerging from Afghanistan, before the process is hijacked by a variety of interest groups with points to prove. For this approach to work, governments need to show more respect for the value of bringing policy to the parliament. In response, parliamentary committees need to improve their act beyond the poor theatre of the budget estimates process. Everyone would win from that.



# 2. DEFENCE

## Mark Thomson and Andrew Davies

The Australian Defence organisation is an extraordinarily complicated enterprise. Its military operational activities range from routine daily in-base administrative work through to sophisticated foreign intelligence collection and high-intensity combat. Its civilian members manage projects and equipment worth over \$100 billion. Defence's total workforce numbers around 100,000, and they work in countries around the globe.

Given that scale, it's no surprise that there are areas within Defence that don't run as smoothly as they might, and that inefficiencies sneak into the business model from time to time. But some of the problems of Defence are deep and seemingly perennial, and at the moment there's a large structural problem in the forward investment and funding plans.

This paper outlines eight challenges in the Defence enterprise that the incoming government will have to grapple with during its incumbency. Others will doubtless arise, sometimes with very little lead time, but these challenges can be guaranteed to remain 'live':

1. Funding defence: there isn't the money to cover future plans, and probably not enough for sustainment of the capabilities either on the books now or about to be delivered
2. Increasing efficiency in the Defence enterprise: the organisation's become top heavy and reform savings are increasingly hard to come by
3. Matching strategy, resources and capability: the Defence Capability Plan is unaffordable
4. Delivering capability: complex defence projects often run late and sometimes over budget
5. Managing defence industry: Australia needs a defence industry base to support and maintain the ADF, but it needs to be efficient
6. Maintaining and replacing the Collins class submarines: we need to remediate and extend the life of an underperforming submarine fleet while concurrently designing and building a replacement
7. Being ready for the next contingency: the 'default' way of dealing with inadequate funding is to let the force-in-being run down, but the ADF could be called upon tomorrow
8. Maintaining the personnel strength of the ADF: Defence has to manage its workforce as part of the modern Australian economy.

Cultural issues such as harassment, bullying and discrimination aren't on this short list. That's not because they aren't important—they are—but because others are better qualified to analyse them. However, the incoming government will need to show the same qualities to address both cultural issues and the eight challenges detailed here: strong leadership, clear thinking and the ability to challenge established thinking and practices.

## Challenge 1: Funding defence

The key challenges facing defence funding are:

- current and projected funding is inadequate to deliver existing plans for the ADF
- fiscal considerations are likely to place further pressure on defence funding.

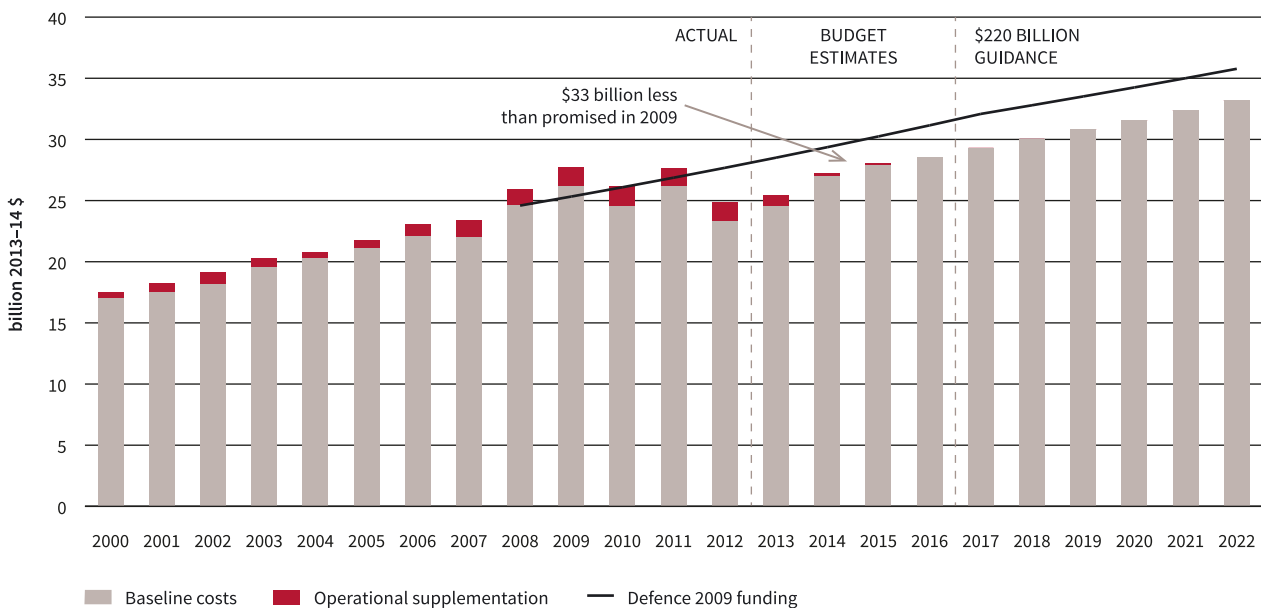
Over the period from 1999 to 2008, windfall government revenues and public concerns about national security delivered consistent growth in defence funding. Then the 2008 global financial crisis refocused public sentiment onto economic concerns and pushed the federal budget into deficit. Nonetheless, the 2009 Defence White Paper further expanded the planned size and sophistication of the ADF and promised consistent funding growth out to 2030.

While the long-term level of funding was probably inadequate to ultimately deliver all that was planned, it was a credible plan—albeit one based on finding \$20 billion of internal savings over the decade to follow. But, like most things that are too good to be true, the surprisingly strong defence funding commitment made during the darkest months of the financial crisis wasn't followed through.

Within two weeks of releasing the 2009 white paper, the government reneged and deferred \$8.8 billion of funding. That was followed by three budgets in which projected defence funding was either cut or deferred in the desperate attempt to deliver a surplus. By mid-2012, around \$20 billion of funding had been either cut or deferred.

The failure to deliver a surplus for 2012–13 opened up the possibility of reinstating some of the lost funds: with a deficit inevitable and debt low in absolute terms, the constraints on spending loosened. Consequently, the *Defence White Paper 2013* and the following budget delivered an additional \$3 billion over three years and promised funding growth out to 2022 (Figure 1). But that funding is off a low base caused by the recent cuts. It will be two years yet before the defence budget rises out of the hole dug in search of a surplus. It's hard to be precise, but the difference between the funding promised in 2009 and 2013 looks to be in the range of \$20 billion to \$33 billion. The latter figure comes from taking the 2009 commitment at face value.

Figure 1: Defence funding, actual and projected, 2000 to 2022



Sources: Defence budget and white papers.

At the same time, the 2013 white paper essentially reconfirmed the capability goals of its predecessor. In fact, it escalated ambitions in a couple of key areas. In the air domain, 12 additional Growler-configured Super Hornet aircraft are now being acquired, and all the 36 Super Hornets will remain in service concurrent with the yet-to-be-acquired F-35 Joint Strike Fighter. As a result, the RAAF will now carry the fixed costs of ownership of two advanced combat aircraft. In the maritime domain, the decision to narrow the options for the Collins replacements has focused attention on the two most expensive and risky options.

With more capability planned but with less money available, it's clear that the 2013 White Paper is underfunded, even if its predecessor wasn't.

With more capability planned but with less money available, it's clear that the 2013 White Paper is underfunded, even if its predecessor wasn't. Given that the medium-term real rate of growth of defence funding (2.5%) is less than historically needed to keep up-to-date ships, planes and troops in a modern armed force on a unit-cost basis (around 3%), there's probably not enough planned funding to maintain, let alone expand, the ADF. In fact, with the new air and maritime platforms already well down the delivery pipeline, the financial situation could deteriorate markedly in the next few years barring a boost in funding. (See challenge 3 for more details.)

But that's not likely. In fact, based on past experience, the situation's likely to get worse. The budget's not yet in surplus, implying that a new round of fiscal tightening is likely sometime in the next three years. Add to this the acknowledged uncertainty over revenues and competing expenditure options, and the result is future downside risk to defence spending.

Questions to ask:

- What's the gap between current plans and funding?
- How long can current plans be maintained before hard decisions become necessary?

## Challenge 2: Increasing efficiency in the Defence enterprise

The key challenges facing the Defence enterprise are:

- top-heavy management
- diminishing opportunities for efficiency savings.

In recent years, Defence has been subject to multiple reviews and consequent reforms. At present, changes to Defence culture, accountability, materiel acquisition, materiel sustainment and shared services are continuing. The last category includes the delivery of personnel management, information technology, financial services and non-materiel procurement.

In each case, the initiatives underway are largely worthwhile and sensible. Some of what's happening began relatively recently. For example, the program to re-engineer ADF culture only emerged following embarrassing personnel-related problems in early 2011. Similarly, changes to IT delivery are exploiting recent technological developments. However, while Defence would be loath to admit it, much of today's reform is about bedding down a business model introduced by the Defence Reform Program in 1997.

That it's taken so long to get around to aligning Defence's business processes to a 15-year-old organisational structure is testament to organisational inertia and the frailty of internal management over that period, especially because the most critical reforms—in materiel sustainment and submarine support—arose only after highly embarrassing public failures. Nonetheless, the problems have now been acknowledged and repair is underway. Critically, the service chiefs are becoming more engaged in monitoring and directing the services they receive from other parts of the organisation.

Current reforms will lead to savings in the years ahead, though by no means on the scale promised by the now defunct Strategic Reform Program, which was conceived on the back of the 2009 Defence White Paper. The program's designers made exaggerated and implausible claims of being able to save more than \$20 billion over the decade to 2018. That said, reforms are about more than savings, so even if the money saved in the current round is modest, they still have the potential to significantly improve the quality of Defence administration and outputs.

With budget pressures looming large, the question is whether additional savings are possible through further reform to how Defence goes about its business.

With budget pressures looming large, the question is whether additional savings are possible through further reform to how Defence goes about its business. The answer is a qualified 'yes'. In the easy-money days of the 2000s, the number of executive and senior management positions (and military equivalents) grew much more rapidly than the size of either the civilian or the military workforce (Table 1).

**Table 1: Defence senior officers (civilian and military), 2000 and 2013**

Category	2000	2013	Increase
Senior Executive Service	103	168	63.1%
Senior officers (EL1 & EL2)	3,317	6,767	104.0%
Total civilian workforce	16,295	21,217	30.2%
Star-ranked officers	120	190	58.3%
Senior officers (MAJ to COL & equivalent)	1,415	2,042	44.3%
Total military workforce	50,355	58,253	15.7%

Sources: Defence PBS 2012–13 and annual report 2000–01.

Of course, the classification creep experienced by Defence over the period is far from unique. Most government agencies are more top-heavy today than in the past. Nonetheless, the streamlining of defence management and command should be pursued as a priority—not just to save money but to deliver better quality administration. Concomitant with that, a better alignment of output delivery and accountability should allow for a more efficient allocation of resources and better governance. In particular, the multi-group arrangement within Defence almost guarantees ponderous decision-making—with resultant opportunity costs to the taxpayer.

Traditional approaches to outsourcing and public–private delivery models are another potential area for further savings. But expectations must be realistic; most of the low-hanging fruit’s been harvested in these areas, leaving only limited opportunities.

The challenge in pursuing further reform and savings in Defence will be to reduce accumulated administrative and command overheads while retaining the momentum of current reforms. Whatever’s done, the resulting savings won’t close the gap between current plans and available funding.

Questions to ask:

- What more can be done to align accountability with control of resources?
- With operational tempo declining, how do we adapt the ADF to peacetime? Do we need as many people in military headquarters as we have today?

### Challenge 3: Matching strategy, resources and capability

Current plans for the ADF exceed the funding likely to be available. That might even have been true before the 2009 Defence White Paper, but the situation became critical with its ambitious plans for a substantial maritime expansion. The challenges are as follows:

- Defence needs increased funding, or some of the current or planned ‘core capabilities’ will have to be scaled back or culled.
- A coherent strategy needs to identify the essential tasks for the ADF and then match the funding available to it.

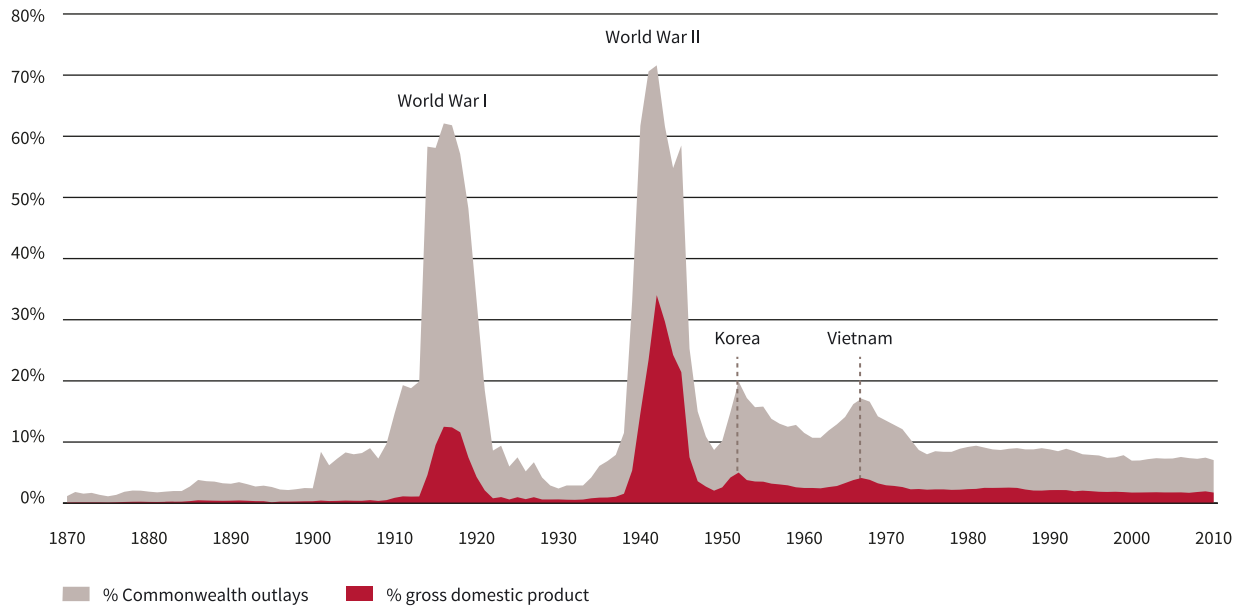
There are two broad ways of matching a force structure and strategy. A top-down approach identifies a strategy suited to the strategic circumstances of the day (and for the reasonably predictable future) and develops a force structure capable of implementing that strategy. A bottom-up approach looks at the extant force and the resources available to upgrade or modify it and then fits the strategy to suit the force.

In practice, we do some of each. When external circumstances demand it, Australian governments will make significant changes in the defence force—and in the budget that supports it. The most recent example was the reaction of the Menzies government to instability throughout Southeast Asia in the 1950s and 1960s, when Australian forces were committed to combat operations in Vietnam, Indonesia and Malaysia at various times. The most dramatic example was in 1939–45, when Australia came under attack from a major power. Figure 2 shows clearly the waxing and waning of Australian defence spending. At times of peak spending, the ADF can change relatively quickly.

But in between those times it tends to be ‘business as usual’, with budgets big enough for the maintenance of the existing force (usually), a slow decline (1990s) or a modest expansion (2000s). The current situation’s unusual. The 2009 Defence White Paper made the case for a significant change in the externalities—the rise of China and the potential for the major power balance in the Asia–Pacific to shift in an unhelpful way. In response, it proposed a significant expansion, particularly of maritime force projection capabilities. So far, so good, as far as matching strategy and force structure goes. The problem is that the money isn’t there to support that approach. We have a plan, but we aren’t willing to pay for it.



Figure 2: Australian defence spending as shares of GDP and government outlays, 1870 to 2010 (%)



Source: Australian Bureau of Statistics figures.

In the current fiscal situation, the incoming government is unlikely to find a significant boost in defence funding to be an appealing option. If that's the case, the strategy needs to be adjusted to suit the force structure that the funding envelope can support. That's going to require some tough decisions.

Despite recent cuts to capital investment, several large projects are underway. The next few years will see the delivery of three air warfare destroyers and two huge amphibious ships to the Navy. At the same time, there's a pressing need to replace the Navy's afloat support ships and patrol boats. Meanwhile, the Air Force will take delivery of 12 new Growler aircraft (the operating cost of which might be an unpleasant surprise) and 10 new battlefield airlifters, and will be bedding in multi-role tanker transports and Wedgetail early warning aircraft. The additional cost of operating and crewing these new platforms will be substantial. The prospect is that sustainment will progressively eat into the defence budget as the new assets enter service. Similarly, without a cut in personnel numbers, the cost of keeping the ADF at the same size will continue to grow in real terms.

The consequence of that, within a fixed budget envelope, is that either the readiness of the existing force will be run down or the share of money available for investment in equipment will decline. And there are at least four \$10 billion plus projects on the books at the moment: the recapitalisation of the Army's protected mobility vehicles and the acquisition of the F-35 Joint Strike Fighter, future submarines and frigates. Defence has described those projects as each being big enough to distort the Defence Capability Plan (DCP)—for which read 'will potentially squeeze out all of the enabling projects that allow the ADF force elements to operate effectively with each other'.

The default for Defence might well be to simply defer decisions, adding to the existing 'bow wave' of unapproved projects out beyond the forward estimates. But that only puts off the reckoning rather than avoiding it, it also increases the amount of risk to capability of requiring the ADF to continue to operate increasingly elderly equipment.

So the fundamental challenge—assuming there won't be a sizeable boost to funding—is to decide which of the planned future high-end war-fighting capabilities we're prepared to live without.

So the fundamental challenge—assuming there won't be a sizeable boost to funding—is to decide which of the planned future high-end war-fighting capabilities we're prepared to live without. That might sound like heresy, but that's where we're already headed. The good news is that the world isn't particularly dangerous right now if you happen to be Australia. (We might feel differently if we were Japan or Vietnam, but geography and distance still count.) As a result, there are more modest strategies that Australia could adopt without significant strategic risk. The critical point is that many of our most ambitious capability plans would only be useful in a larger conflict in which Australia's contribution wouldn't be decisive.

A good starting point for the development of strategy would be a minimalist list of 'must haves'. Here's one possible set of objectives:

1. having the ability to lead or contribute substantial military capability to regional stabilisation, peacekeeping and noncombatant evacuation operations
2. having adequate surveillance and constabulary capabilities to protect our maritime interests
3. having the capability to defeat the force projection and coercion capabilities of countries in Southeast Asia
4. having the capability to provide highly valued contributions to US-led operations in the wider Asia-Pacific theatre and beyond
5. maintaining a critical mass of core war-fighting capabilities to allow for expansion should the strategic outlook deteriorate significantly.

A number of the more expensive projects could be scaled back under a strategy with limited goals. For example, 12 submarines might be more than required, the future frigate needn't be a heavily armed 5,000-tonne vessel, the timing and number of F-35s purchased could be scaled back, and so on.

The ADF that results from a more modest strategy will be less capable as well as less expensive, and future governments won't have some of the military options they'd have if the DCP were delivered as planned. But that would require substantially more money, and the only other option seems to be to allow the preparedness of the ADF to decline sharply, potentially to the point where capabilities aren't available when required (see Challenge 8). No-one's said this is an easy choice.

Questions to ask:

- What's the forecast sustainment budget for the next 10 years, and what proportion of the planned defence budget will it consume? Once sustainment and personnel costs are taken into account, what's left for acquisition?
- Is the DCP realistic within the projected funding envelope (taking into account that it almost certainly underestimates actual costs)? If not, what current or planned capabilities can be cut, scaled back or pursued by less expensive means?
- What's the associated strategy that will guide the DCP revision?

## Challenge 4: Delivering capability

A recent and very good report from the Senate Foreign Affairs, Defence and Trade References Committee, *Procurement procedures for Defence capital projects*, will be useful for the incoming government. The observations in this section reflect ASPI's input into the process that produced the report.

Challenges in the delivery of capability include:

- ensuring robust contestability in the capability development process, including before projects enter into the DCP
- accurately estimating the cost and schedule of projects at first-pass consideration
- efficiently managing the inevitable problems that arise in complex projects after second-pass approval
- streamlining the decision-making process and ensuring responsibility and accountability for major decisions while maintaining the rigour required for good project outcomes
- obtaining objective data on the effectiveness of reforms to the acquisition process.

While it's not usually acknowledged, many defence projects are delivered close to schedule and budget. But enough of them suffer from significant overruns for a series of reforms to have been tried over the years. The reforms have had varying degrees of success, but observable differences in outcomes have resulted and the best points of the reforms should be retained.

While it takes time for data to be gathered—especially for the larger projects, which frequently last over a decade—there's now enough project data since the 2003 Kinnaird Review to draw some conclusions. The two-pass process, first introduced after the review, has resulted in government being presented with a set of much more robust capability options before final decision than was previously the case. However, the extensive documentation required and the committee process to be negotiated have also measurably slowed down approvals—as is clear from the analysis in *The Cost of Defence: ASPI Defence Budget Brief* each year. And it remains the case that the cost estimates presented in the DCP are often much lower than the final project cost.

Two more recent initiatives have improved the management of projects after approval. The first is the Defence Materiel Organisation gate review process, which provides for an independent look at complex projects (independent in the sense that the review is chaired by someone who doesn't have management responsibility for the project). This is similar to the practice of 'red teaming' and is valuable because the day-to-day hands-on management of complex projects can make it difficult to take an objective 'big picture' look at progress.

The introduction in 2008 of the 'Projects of Concern' management process has seen some projects that faced serious challenges remediated (and in a couple of instances terminated). In this very hands-on process, the Materiel Minister convenes a small group of industry and project personnel with the appropriate expertise and stake in the outcome, provides a framework in which decisions can be made and, importantly, ensures that the responsibility for implementing them is clear. Diffused responsibility and accountability continue to be a problem in the wider Defence enterprise, as noted in the discussion of Challenge 2.

The success of the Projects of Concern list shows how things can work.

The success of the Projects of Concern list shows how things can work. And it's not an isolated success in Defence; the Air Worthiness Board and the audit bodies that report to it have done an excellent job of keeping the RAAF's aircraft fleets fit for purpose. The undermanning of a similar body for seaworthiness was identified by the Rizzo review into ship management as a factor contributing to the collapse of availability of the amphibious fleet in 2010–11.

The governance that can be provided by a suitably empowered group—provided it also has the technical and business skills required—can cut through layers of management overhead and provide greater accountability. To that end, one option worth serious investigation is the setting up of an Acquisition Oversight Board, consisting of people with backgrounds in industry, project management and defence procurement, but with no direct responsibility for projects within the DCP. (Similar reasoning led Senator David Fawcett to propose a new governance model along those lines for the wider Defence organisation in his additional comments to the *Procurement procedures for Defence capital projects* Senate report.) Unlike the Project of Concern mechanism, this board would be involved throughout the two pass process and contract signature phase as well.

Regardless of what management structure is in place, the ability to measure progress is important. That ability is hampered by the concurrent management of projects started under essentially all variations in the defence project management framework, as far back as the pre-Kinnaird era. Nonetheless, some assessment of outcomes is possible, such as the aggregate measures of DCP approvals that ASPI publishes each year in ASPI's budget brief, and the Australian National Audit Office's very useful tables and figures in its annual review of defence major projects. The identification of objective measures—and the ability of independent bodies to assess against them—are important parts of performance management.

The challenge continues after materiel delivery. In particular, it's not clear that estimation and budgeting for the cost of sustainment through life is sufficiently accurate. The default at present is to contract for the delivery of an asset with perhaps an initial three year support contract before moving to a series of competitive tenders for sustainment thereafter. There's little incentive for the original supplier to design both the equipment and their manufacturing base to support long-term sustainment. An alternative arrangement in which the original contract includes a substantial follow-on period for sustainment would better align incentives—with the proviso that a robust oversight mechanism would be required to ensure continued value for money.

Questions to ask:

- Is there a systemic bias in the cost estimations in the DCP and at first pass compared to the contracted cost of projects after second pass? If so, how can estimates be improved?
- Are through-life costs being accurately estimated at either first or second pass? If not, how can estimates be improved?
- Does Defence have enough skilled project management and systems engineering staff to deliver the DCP as planned?
- What steps are being taken to improve responsibility and accountability in the capability development process? Is an oversight board a model worth pursuing?
- What are the performance metrics and key performance indicators for the capability development program—and who has responsibility for assessing and reporting?
- What's the best contract model for delivery and follow on sustainment?

## Challenge 5: Managing defence industry

The key challenges in managing defence industry are:

- defining and maintaining the in-country industry capabilities the ADF needs
- charting a way ahead in naval shipbuilding.

Although notions of self-reliance still rate a mention in our strategic rhetoric, we're highly reliant on overseas suppliers for the vast majority of our weapons systems and munitions. Where we have some local capacity—as in ballistic munitions—it's dependent on precursors from overseas suppliers. And when it comes to the high-tech precision munitions and weapons systems that determine success or failure on the modern battlefield, we're almost completely dependent on overseas suppliers.

Nonetheless, Australia needs the ability to locally repair and maintain ADF assets and the capacity to replenish and sustain ADF operations. In each case, defence industry provides essential capabilities—in part through local capabilities and in part through its reach back to overseas suppliers. In some selected areas, it's also necessary to have the ability to modify and adapt foreign weapons systems, and here industry also has a role to play.

In a rational world, defence industry policy would focus on two priority outcomes: first, that the ADF receives cost-effective support consistent with its needs; second, that local firms can compete fairly for defence work and, where possible, gain access to export markets by leveraging Defence acquisitions.

To support those goals, a plethora of programs has accumulated over the years. Some, such as the Global Supply Chain program, are of measurable and clear benefit. Others are little better than sops to incumbent firms, handing out money with little realistic expectation of a net return. Worse still, defence projects are often skewed by the desire to 'create jobs' in Australia irrespective of any strategic considerations, resulting in the duplication of production lines and attendant additional costs.

A central part of existing defence industry policy is the Priority Industry Capability (PIC) scheme. Designed to identify and monitor the health of strategically important industry capabilities, the PIC scheme is a sensible response by a monopsony buyer to sustain potentially fragile suppliers. Moreover, Defence has demonstrated its willingness to take action where necessary to retain the industry capabilities it needs within the context of the scheme. Unfortunately, the actual PICs include sectors of industry distinguished more by their incumbency than their strategic relevance. And the PIC scheme receives only modest funding, leaving the priority areas to be largely supported by industry themselves.

The biggest challenge for managing defence industry in the years ahead will arise in the large maritime projects now being planned—the new submarines and frigates. Concurrently with the release of the *Defence White Paper 2013*, Defence produced a shipbuilding plan that's misleading, incomplete and potentially costly to the taxpayer. At that same time, there are increasingly worrying signs that the \$8 billion air warfare destroyer project is in trouble. Much more work's needed to chart a way ahead in the multi-billion-dollar naval construction sector.

Questions to ask:

- What are the recorded costs and measured benefits of the various defence industry schemes, such as Skilling Australian Defence Industry and the Capability Technology Demonstrator programs?
- How well is the PIC scheme doing at assuring the availability of strategically important industry capabilities? Would contractual arrangements under which Defence pays industry to supply the required capabilities result in a better outcome?
- What are the costs and benefits of the various proposals in the future submarine skills plan? (An external audit of the plan by an independent agent would be a valuable step.)

## Challenge 6: Maintaining and replacing the Collins class submarines

There are multiple overlapping challenges in managing the current and future submarine capability:

- maintaining acceptable availability, including reliability and adequate crewing, for the Collins boats during their current operating cycles and planned maintenance periods
- completing the work required to extend the submarines' lives for an additional operating cycle
- defining, designing and building a replacement
- doing all of the above while managing the workflow at ASC Pty Ltd and keeping a continuous submarine capability throughout the period to 2030.

Two factors mean that work's required on the Collins fleet: the expected timeframe before a replacement will be available, and the reliability of the current fleet over the past decade.

The Collins project was given the go-ahead in 1983; the first boat was commissioned in 1996 and the last in 2003. If the future submarine project delivers on the same timescale, the first of the new class would enter the water a full four years after the first of the Collins is retired. And it's likely to be worse than that—the Defence Materiel Organisation's own estimate for the in-service date of a new submarine is 17–22 years from starting serious definition and design work.

Availability continues to be a problem for the Collins, albeit one that seems to have bottomed in 2009–10. Things have improved somewhat since then, with three boats available to Navy most of the time. With a fleet of six, the RAN should be able to have two at sea, two at notice to move at periods of weeks to months and two in deep maintenance, at any given time. The original aim was to have over 1,500 days of availability annually from the fleet—though, to be fair, that would have put them well above the international benchmark of around 1,200 days, as indicated in the most recent Coles report. The best result so far was a little over 1,000 days achieved in 2005–06. That was followed by a steep decline to under 400 days in 2009–10, before a slight recovery to 600 in the following two years. The current level still falls below the international benchmark.

Each Collins submarine has a nominal lifetime of three eight-year duty cycles, with a full-cycle docking between each. On that basis, the first Collins will reach its life of type in 2022 and the last in 2031. That's an impossibly short timeframe in which to design and build a replacement—even an off-the-shelf purchase would be tight, as delivery times are typically the best part of a decade after contracts are signed. If the Defence Materiel Organisation's upper estimate of the design and build time is accurate, this could result in no submarines at all being available late next decade. On that basis, an extension of the life of the Collins for another duty cycle is mandatory.

History shows us the problems that can be caused by a poorly managed transition.

History shows us the problems that can be caused by a poorly managed transition. Delays in the handover from the Oberon to the Collins class had deleterious effects for many years afterwards. Even with a crash program that extended the life of two of the Oberons, a full 20 submarine years were lost to the ADF. That shortfall had implications not only for the management of submarine expertise and workforce numbers, but also for the ADF's antisubmarine warfare capability.

The question then becomes what form the Collins extension work should take. That's hard to judge without detailed technical information. No definitive statements about schedule, scope or cost have been made public, other than that there's no fundamental reason precluding an extension.

The two replacement options on the table for now (the other two having been 'suspended') are an evolved Collins and a new bespoke design. Either would result in a performance better than that of the Collins boats in reliability, capability or both. A new design is the best option if the government wants to meet all the capability goals articulated in the 2009 Defence White Paper and reprised (with perhaps less vigour) in the 2013 version. But it's also the option with the highest chance of failure or significant cost and schedule problems, and it's certainly the most expensive.

The evolved Collins option seems to offer a chance to kill two birds with one stone. Improving the reliability of the Collins will necessarily involve some work on the propulsion system components that have been the Achilles' heel of



the class. If successful, we'd have a boat with proven weapons, combat, sensor and propulsion systems. This is broadly the Japanese model, in which no 'quantum leap' of new hulls at the same time as new internal systems is attempted.

So, before embarking on the new design option, the incoming government should ensure that it's fully apprised of the reasons for the more demanding capability criteria. Key considerations include the degree of strategic independence required, and the role Australian submarines might play in US-led operations under the alliance.

Finally, the costings in the public domain are based on simplistic models (ASPI) or a methodology that fails to account properly for input cost factors (Kokoda Foundation). The government will have to convince itself that whatever numbers are presented to it are robust. The cost escalation for the air warfare destroyer project—from \$2 billion when first conceived to \$4.5 billion when first entered into the DCP to \$8 billion on contract signature—should be a salutary lesson.

Questions to ask:

- What missions would require the future submarine to meet the more demanding capability requirements? Where and why? (Press the point on this one.)
- What discussions have been held with the US on alliance submarine operations, and what's the American view?
- What's the basis for predicted costs, and how do they compare to established trends and industry best practice?

## Challenge 7: Being ready for the next contingency

Challenges in managing preparedness for the ADF include:

- being able to make valued contributions to US- or UN-led operations at short notice
- being prepared to take a lead role in contingencies in our immediate region
- adjusting the force posture as recommended by the recent ADF force posture review
- managing readiness levels in a fiscal environment in which major acquisition commitments and subsequent operating costs are likely to consume an increasing proportion of the defence budget (see challenges 1 and 3).

The incoming government's going to inherit an ADF operational tempo that's lower than at any time over the previous 10 years. The ADF's winding down from a decade of operations in the Middle East and Afghanistan, and the deployments to Timor-Leste and Solomon Islands are coming to an end. However, pressure points remain in both regions.

At the same time, Defence will be trying to square away the mismatch between its budget and capability priorities. Similar pressures in the 1990s saw ADF readiness levels decline and a hollowing out of core capabilities that resulted in under-strength battalions, surface combatants and combat aircraft unsuited for a contested environment, and an amphibious and sealift capability that wasn't fit for purpose. The RAAF was unable to provide requested resources for 'no fly zone' enforcement in Iraq. The INTERFET operation in 1999 required Indonesian cooperation (or at least non-opposition), the RAN had to shuttle a fast ferry for resupply missions, and the Army reached deep into its reserve to keep troops in the field. In short, the government of the day had fewer military options at its disposal than it expected.

Looking forward, international commitments could arise at short notice. The situation in Syria and international concern over Iran's nuclear program mean that we can't rule out a renewal of international (or unilateral American) military action. While we have great discretion in our commitments to those sorts of missions, being unable to contribute meaningfully carries a cost to our standing as an international player and alliance party. A robust assessment of lessons learned over the past decade at the strategic level would be useful: how were Australia's contributions received and what could we have done better? If we're going to make contributions to protect our global interests, then we should make them as effective as we can.

Closer to home, we'll have much less discretion about being involved if there are serious security problems in our near region, and Australia could well find itself in the lead of peacekeeping or stabilisation missions at short notice.

While things are quiet now, demographic pressures similar to those that underpinned the Arab Spring—a ‘youth bulge’ of underemployed people—exist across the region. We can expect international support, but may well have to shoulder a fair fraction of the manpower and logistics burden. New Zealand is a likely willing partner, albeit with limited resources, and we should be ready to work closely together.

It might be worthwhile to define in defence policy or a White Paper the core outcomes that we want the ADF to be able to achieve, which will help define the minimum force structure and funding required. An example might be the capabilities that were required to lead INTERFET—at a minimum the ADF should be able to replicate that.

Finally, and probably less likely, the wider Asia–Pacific region could throw up contingencies from known flashpoints (the Korean peninsula, Taiwan) or current low-level tensions about disputed land and maritime areas could escalate. In such a case, Australia wouldn’t be in a lead role but might want to contribute to broader efforts. Some thought as to which assets we could most usefully contribute, and what would be required to maintain adequate readiness levels, would be worthwhile.

Questions to ask:

- How have Australia’s contributions to operations over the past decade and a half been received by international partners—especially Washington? What could have been done better?
- What neighbouring countries are likely to produce situations in which a military response is appropriate? In each case, what’s the possible scale of the intervention required? (Ask the Defence Intelligence Organisation and the Office of National Assessments.)
- In the light of the answers to those questions, does the ADF have the readiness and depth required? (And what are the plans to maintain readiness as the fiscal situation bites?)
- How well developed are plans for coordination and interoperability with New Zealand?
- What ADF assets could make a valuable contribution to contingencies in the wider Asia–Pacific theatre?

## Challenge 8: Maintaining the personnel strength of the ADF

The key challenge for Defence personnel is recruiting and retaining the people that the ADF needs.

Over the past decade, Defence has often had difficulty maintaining an adequate number of uniformed personnel. In 2009–10 and 2010–11, numbers grew larger than planned, placing pressure on the budget, but more often the challenge has been to have enough people to meet targets. Even when aggregate targets have been met, there are often deficits in specific areas such as skilled trades.

The broader civil labour market influences how easy or difficult it is for the ADF to recruit and retain personnel.

The broader civil labour market influences how easy or difficult it is for the ADF to recruit and retain personnel. Arguably, the overachievement from 2009 to 2011 reflected members’ concerns over the impact of the global financial crisis on employment prospects. Conversely, the difficulty in retaining skilled people was undoubtedly exacerbated by the demand for tradespeople in the expanding resources sector.

Demographics is often cited as a looming issue for the ADF. However, the defence force makes minimal demands on the overall Australian labour force. A force of 59,000 represents only 0.6% of the more than 10 million Australians in paid employment. More importantly, according to the Australian Bureau of Statistics the number of Australians in the prime recruiting cohort of 18–26-year-olds will remain around 2 million out to mid-century. If the ADF can't attract and retain adequate numbers of people, it's not because of a demographic shortage of bodies.

In 2012–13, actual personnel numbers fell 1,900 below target, including deficits of 465 in the Navy, 1,315 in the Army and 145 in the Air Force. Even taking into account the larger size of the Army, the shortfall is disproportionately large in that service. It's likely that the operational drawdown from operations in the Middle East and East Timor has been a factor in the falling numbers. Until recently, there were around 2,350 and 390 personnel, respectively, deployed in those operations.

Military operations offer ADF members professional fulfilment and substantial financial benefits. For many, the reduction in operational tempo will reduce the attraction of military service. One only has to look at recent ADF advertising campaigns to see that overseas service is seen as an enticement for young people to serve.

It's hard to judge the extent to which scandals and 'cultural' issues in the ADF have acted as a disincentive. In any case, it's important to follow through on the current round of cultural reform to ensure that the ADF provides a work environment fully consistent with community expectations and legal responsibilities.

Problems with recruitment and retention have occurred in the past. A consistent failure to meet personnel targets gave rise to an external review of ADF recruitment and retention in 2006. The lessons then are likely to be applicable today. First, the ADF has to actively compete for people by investing in advertising and adopting efficient recruiting practices. Second, to attract and retain the people it needs, Defence has to make an attractive employment offer in terms of pay, benefits and conditions of service. In 2007, this meant investing \$3 billion over a decade in recruitment and retention initiatives.

Maintaining adequate numbers of people in the ADF will certainly demand adroit policy and probably additional targeted funding.

Questions to ask:

- How has spending on defence force recruitment and retention changed in recent years? How much is being spent on recruitment advertising?
- What's the cause of the recent ADF personnel shortfall, high separation rates and low recruitment?
- What are departing members saying when they decide to separate from military service?
- For previous recruitment and retention initiatives, what were the key performance indicators and were they relevant and realistic?

## Conclusion

It would be a very optimistic incoming Minister for Defence who thought that the challenges set out here could be settled once and for all. Some of them will need hard decisions in the next few years—not least in the submarine project—but others will always be works in progress. For example, as the business of Defence evolves, opportunities for efficiencies will evolve with it. And the steadily increasing cost and complexity of defence equipment will ensure that management of the DCP and of major projects will always be challenging.

Finally, planning in Defence is always subject to externalities, sometimes of the most dramatic kind. Australia will determine its strategy and allocate its resources in response to the strategic environment, hoping to hedge against bad outcomes and shape good outcomes. But if our comparative advantages continue to decline as Asia grows economically and in military strength, we'll need to do more with comparatively less. Having robust planning mechanisms and business systems in place will become ever more important.

# 3. HOMELAND SECURITY

## Anthony Bergin and Kristy Bryden

The term ‘homeland security’ describes the actions that governments, businesses, other organisations and individuals take to manage ongoing threats to public safety, including natural disasters, terrorism, serious and organised crime, border intrusions and cybersecurity breaches.

Homeland security is part of the national security jigsaw puzzle, but it’s not the same as national security.

The current government’s *Strong and secure: a strategy for Australia’s national security*, released in January 2013, sets out our national security objectives as:

- to ensure a safe and resilient population
- to protect and strengthen our sovereignty (the independence of our decision-making and our authority over our territory and resources)
- to secure our assets, infrastructure and institutions (including physical facilities, supply chains, intellectual property, information technologies, communication networks and Australia’s natural wealth)
- to promote a favourable international environment (to influence and shape our regional and global environment to be conducive to advancing Australia’s interests and values).

This chapter outlines 10 critical homeland security challenges facing the next government. An 11th challenge, cybersecurity policy, is covered in chapter one.

The recommendations are interdependent (so the listing here isn’t meant to imply any priority order) and recognise the constraints on public spending that the next government will face.

To implement these recommendations will require strong political leadership and broad partnerships across all tiers of Australian government, the private sector and the broader Australian community.

## Create a Minister for Security and Resilience

While it’s clear which ministers speak to defence and foreign policy issues in Cabinet, it’s not always clear who’s responsible for broader domestic security. It’s mainly the Attorney-General, but that minister has around 60 portfolio responsibilities, and only about half of those are directly relevant to homeland security.

The Minister for Home Affairs, who’s also the Minister for Justice, has some domestic security responsibilities, but he isn’t an ex officio member of the National Security Committee of Cabinet, where those areas are normally the job of the Attorney-General.

A Minister for Security and Resilience at Cabinet level would provide unity of command in areas related to counterterrorism, organised crime, border security, cybersecurity and emergency management.

A coordinated system needs someone with the authority to oversee the entire homeland security jigsaw and the time to place the pieces in the right places. Agencies such as the Office of Transport Security, with responsibility for waterfront security, should be brought into the new minister's portfolio.

The new minister shouldn't play second fiddle to the Attorney-General. The new position would provide a single focal point for assessing and developing the wide range of elements that comprise homeland security, from counterterrorism to cybersecurity and combating organised crime. It would have the Australian Security Intelligence Organisation (ASIO) and the Australian Federal Police under its wing as well as the Australian Customs and Border Protection Service. The Attorney-General could then focus on their role as the Commonwealth's first law officer.

The Minister for Security and Resilience wouldn't require a new bureaucracy. The Attorney-General's Department could support them, just as the Department of Foreign Affairs and Trade supports two ministers.

This step will provide better coordination, cooperation and central direction and move us closer to security and greater resilience on the home front.

## Build an all-hazards resilience approach for national preparedness

Security isn't just about bombs and bullets, but includes dealing with natural hazards and cascading infrastructure failures. We should take an all-hazards approach to it.

Our overall approach to extreme events should be similar to our approach to other homeland security challenges, including terrorism: assess the risks, develop capabilities to minimise harm, absorb damage and quickly return everything to normality.

Management across all hazards has received limited attention at senior levels in the Australian Government, even though natural disasters are frequent and are estimated to cost Australia an average of over \$1 billion a year.

Given that major disruptive events will certainly occur in the future, we should be putting in place arrangements that will help to ensure that we can endure the very worst hazards.

Resilience is critical. Neither the federal or state governments nor the military can be in all places at once to protect us against all threats, so our community resilience needs to be community-linked.

Our homeland security policy should work to implement the national disaster resilience framework...

Our homeland security policy should work to implement the national disaster resilience framework to provide a unifying mission for the many government bodies involved in protecting Australia from threats at home.

And resilience shouldn't be understood as merely 'bouncing back'. It's also about being stronger after the crisis than before. It's aligned with Australian values of independence and self-reliance, and building it should be the main theme of our homeland security efforts.

Capacity building with volunteers provides a great potential approach to building community resilience, but we need to try harder to attract and retain them. Reinvigorate and replacing our ageing volunteer emergency workforce and getting young people to step up are key challenges.

The next government also needs to take mitigation seriously. In 2002, a Council of Australian Governments report advised a strong commitment to disaster mitigation. The Howard government accepted the advice but the report has since been buried. After more severe fires and floods, it's time we focused sharply on mitigation. It should be a key part of Canberra's micro-economic reform program. Research puts the return on such investments at 15%. It could be much higher.

## Boost health care preparedness

Horrific acts, such as we saw at the Boston marathon this year, happen all over the world. And it's not clear how we'd go in this country mounting an effective medical response if faced with a challenge on a similar scale.

How rehearsed are we to deal with the mass casualties of a terrorist bombing, natural disaster or major industrial accident?

We pay too little attention to the problems of medical 'surge', avoiding emergency department overcrowding, and conducting rigorous no-notice disaster drills in hospitals to test our ability to handle a large number of casualties.

Are we ready for a mass casualty attack? They were in Boston, but here we're just hoping that we'll rise to the occasion. That's a huge gamble.

National minimum standards for dealing with mass casualty disasters should be set. Our hospitals would then know what they're reasonably expected to be able to cope with. They could plan and resource appropriately.

Setting standards would make clear the gap between what we're spending and what we need to spend.

We should improve Australia's limited aeromedical and aeroretrieval capability. We lack available air assets and retrieval teams across Australia that would be able to provide support and respond to mass casualties. We lack dedicated planes that can carry more than two patients at a time.

With minimal investment and agreement with Qantas and Virgin, we could configure up to four aircraft with the requisite kit, when required, for medivac use as part of the commercial fleet on the east and west coasts.

We need to establish a national aeromedivac and aeroretrieval plan to identify and coordinate all required assets—the specialist medical skills as well as larger aircraft and sound positioning. It's not a matter of whether we'll need that capability, but when.

## Establish a national warning body

The government should develop a more effective national approach to community warnings. We lack effective arrangements to deliver community warnings to provide clear and timely information about threats.

Just as the Bureau of Meteorology is responsible for Australia-wide weather forecasts, a national warning agency could alert Australians and our emergency agencies to natural disasters and other emergencies.

It would operate around the clock and have staff in all states and territories to liaise with local emergency services and police. It would need to be able to act quickly: rivers can rise and bushfires can change course almost as quickly as a terrorist can self-detonate.

One of the tasks of a national warning agency would be to gather its own data to estimate the risks and issue warnings independently of response agencies.



## Develop national disaster leadership

In the face of more extreme, climate-induced weather events, there's a strong case for the Australian Government to take a greater leadership role in emergency management, in the same way that it's done for counterterrorism.

While emergency management is mainly a matter for the states and territories, the Australian Government's role in crisis coordination and disaster response, performed by Emergency Management Australia (EMA), is much more passive than the role played by the Federal Emergency Management Agency in the US.

The EMA should be the main vehicle for the Australian Government's national disaster response coordination (not command or control).

The EMA should be the main vehicle for the Australian Government's national disaster response coordination (not command or control). And it should be responsible for the development of national disaster response and recovery strategies.

To do that, the EMA needs more than the current case-by-case acceptance of its role by other federal and state agencies.

The EMA needs a mandate from Cabinet to lead the government's response to crises. This will give it the power to ensure that all national agencies are properly monitoring, testing and exercising their emergency response plans as part of the government's broader crisis response obligation and to ensure that duplication of effort is minimised.

At the jurisdictional level, the EMA should be given a mandate to coordinate state and territory resources when the requirement for disaster response exceeds any jurisdiction's own capacity and support from other jurisdictions is needed.

The EMA also needs to agree with the states and territories about what capabilities it could deploy during times of international crisis. Urban search and rescue is a good example. Currently, AusAID coordinates this capability. But this is an example of how a national need can be developed into a deployable national and international capability. That capability would be best placed in the EMA.

## Strengthen our counter-radicalisation strategy

Terrorism will be a permanent homeland security challenge for the foreseeable future, so it would be foolhardy to ignore its threat. However, when it comes to public safety, we should be careful in a policy sense not to over-correct, to either the left or the right.

Just as Neighbourhood Watch programs promote security at the local level, all Australians can make a contribution to promoting security at the national level. The next government will need to work closely with the community in this area to be clear about their different roles and the perceptions that government activities may generate.

An expert should be appointed to be directly accountable to the Prime Minister for effective efforts to challenge and counter extremist narratives, especially in cyberspace: the internet's figured prominently in an overwhelming

number of cases of home-grown radicalisation. We need someone who's consistently working on the crucial grassroots task of outflanking the extremists.

Cyberspace has become a breeding ground for violent extremists. Terrorists are still using websites for incitement and radicalisation, but now those responsible for extremist websites are increasingly turning to social media.

Countering online radicalisation should be a priority in the Australian Government's efforts to counter violent extremism. The government should spread community information about online radicalisation, encourage counter-narratives, take down any website publishing material that may be illegal under Australian law, and use the material online for strategic intelligence. Promoting online communities of young Australians motivated to discuss and act against online hate speech should be a priority.

We need to lift our investment in interdisciplinary research to plug gaps in our knowledge: we still don't have a good picture of what's happening in some of our most vulnerable neighbourhoods. At the regional level, we need to send legal advisers to our missions in Bangkok, Jakarta and Manila to strengthen justice sector capacity to fight terrorism. They'd focus on rule-of-law capacity building, all the way from investigations through to rehabilitation.

## Maintain Australia's counterterrorism legislation and monitoring system

The status and relevance of the Independent National Security Legislation Monitor (INSLM) is diminished by the fact that the government isn't required to provide a response to the recommendations he makes. The next government should respond to the INSLM's recommendations within six months of receiving his annual report. The response should be tabled in parliament and made available on the INSLM's website.

The INSLM's 2012 annual report made the case that control orders under Division 104 of the Criminal Code are justified for people who've been convicted of a terrorism offence and present an unacceptable risk after their release. In recommending the repeal of Division 104, the INSLM suggested its replacement with provisions authorising control orders for such people if they're 'shown to have been unsatisfactory with respect to rehabilitation and continued dangerousness'. Division 104 should be repealed only if it's replaced with such a provision.

In a little over three years, the sunset clause on ASIO's special powers will expire. It isn't time to take the axe to these powers just yet. But neither is it appropriate to make them a permanent fixture of our national security legislation. The sunset clause in the ASIO Act (and in the Criminal Code if divisions 104 and 105 aren't repealed) should be maintained, but for no more than five years.

Intelligence and law enforcement agencies can make an excellent case for why these powers are still necessary, but that doesn't mean that they'll always be needed. The focus should be on achieving circumstances in which they're no longer required. Until that time, ASIO's special powers should not remain static. In fact, the incoming government should ensure that all components of Australia's counterterrorism legislation are reviewed at least once every five years.

The INSLM's recent review focused on the questioning warrant and questioning and detention warrant provisions of ASIO's special powers. The INSLM said that 'no scenario, hypothetical or real, was shown that would require the use of a questioning and detention warrant where no other alternatives existed to achieve the same purpose' and said they weren't 'a justifiable further intrusion on personal liberty'. He recommended the repeal of the questioning and detention warrant provisions and the amendment of the questioning warrant provisions to permit arrest or detention where there is a risk of non-compliance, tipping off or jeopardy to evidence.

ASIO's special powers come about as close as we're going to get to legislating for the unpredictable. Not being able to provide a hypothetical scenario doesn't mean that one doesn't exist—just that one can't be predicted from what

we know now. Australia needs to meet its international human rights obligations, but it's unacceptable not to be able to prevent the subject of a questioning warrant tipping off others suspected of terrorism offences or destroying or tampering with evidence. The questioning and detention warrant provisions should be repealed only if the questioning warrant provisions are amended as per the INSLM's recommendation.

Australia currently relies on telecommunications industry players' commercial self-interest to protect their networks and consumers' information and privacy, but telecommunications security is vital to our national security and economic prosperity. It can't be hostage to vague policy and strategy. Obligations and enforcement must be legislated.

The Parliamentary Joint Committee on Intelligence and Security recently recommended that the *Telecommunications Act 1997* be amended to create a framework that would oblige the telecommunications industry to protect infrastructure and information, and to assist in the assessment of national security risks to infrastructure, with powers of direction and a penalty regime to encourage compliance. This is difficult and necessary legislation, and an exposure draft should be a priority of the next government.

Telecommunications interception provides vital support to intelligence and law enforcement operational and investigative work and can't be replaced by other capabilities. The *Telecommunications (Interception and Access) Act 1979* is old legislation for old technology. The incoming government should produce draft legislation to modernise the Act as a matter of priority. The law should include a data retention regime that will allow law enforcement and intelligence agencies to maintain their investigative capabilities in this area despite developments in technology and communications methods.

The proposal for a data retention regime was one of the most controversial aspects of the Parliamentary Joint Committee on Intelligence and Security's recent inquiry, but the purpose and nature of the regime were only briefly mentioned in the inquiry's discussion paper. Law enforcement and intelligence agencies are already permitted access to some telecommunications data under existing legislation. However, as telecommunications companies move towards billing based on data usage rather than volume or length of communications, some of this data is no longer being kept. The Attorney-General's Department informed the joint committee that there was evidence this was already diminishing the capability of intelligence and law enforcement agencies. A data retention regime wouldn't necessarily mean an expansion of the existing powers, but would simply require telecommunications agencies to retain the data for a period.

The joint committee faced difficulties beyond a lack of information from the government. Its wide-ranging terms of reference and the absence of any draft legislation made it hard for the committee to consider the merit of the reforms and for interested stakeholders to respond effectively.

Any future legislative reforms would best be accomplished by producing draft legislation with explanatory memorandums. While circulating a discussion paper might tick the 'democracy' box, it has significantly delayed the reform of some of our most important national security legislation.

## Develop a risk register

Securing Australia at home will involve trade-offs in national security spending. As part of that process, the Australian Government should develop a planning capability for national homeland security preparedness to guide allocations within the government and to the states.

That requires an assessment of homeland security threats and gaps and an examination of the means to protect ourselves, including budget allocations to federal agencies for all-hazard planning and preparedness.

The Australian Government could develop a national risk register, as the British Government has done. The register captures the range of emergency incidents that might have a major national impact.

A similar Australian assessment would enable the public to evaluate relative risks realistically and allow governments and communities to deploy resources to the most likely threats. It would also ensure that we don't over- or underinvest in homeland security.

## Get down to business

Up to 90% of our critical infrastructure—airports, ports, bridges, water and power systems—is owned and operated by the private sector. The next government should work with the sector to protect it against catastrophic failure.

Business will be pivotal in ensuring that safety and security measures are factored into the construction of new infrastructure. As far as possible, it must be resilient to all threats, whether from terrorists, hackers or climate change.

Businesses also have the resources, technical expertise and planning capabilities to perform some disaster-response roles more efficiently than government. Private sector capabilities should be incorporated into disaster response planning by developing public-private sector partnerships.

## Elevate the importance of transnational and serious and organised crime

We need to focus much more on transnational and organised crime as a strategic threat. This isn't just about cops solving crimes, but about building and integrating the tools we need to turn crime into a manageable public safety problem.

The prosperity of the Asian century has a dark underbelly: the proliferation of sophisticated and adaptive organised criminal networks. If there's no effective response to disrupt their activities, the region could stumble.

We need a better understanding of domestic organised crime and its links to regional crime organisations.

We need a better understanding of domestic organised crime and its links to regional crime organisations. There are links between transnational crimes, such as money laundering, and the funding of terrorist activities.

The UN Office of Drugs and Crime indicates that organised crime—in the form of illicit flows of goods and services—is thriving in our region, with a combined annual income of nearly US\$90 billion. We'll need to cooperate with regional partners to tackle this problem.

Our companies, citizens and money are highly attractive targets for organised crime syndicates, which cost us at least \$15 billion a year. For example, thousands of Australians have been victims of organised investment fraud operations in recent years.

Australian Crime Commission estimates suggest that at least \$10 billion a year is money-laundered in and through Australia, but there's been a decline in our agencies' resourcing in the face of this rising threat. The commission's budget has been cut by 15% from levels four years ago, and it's lost more than 100 staff since 2006–07, at a time when its work to prevent, understand and discover new criminal entities is more critical than ever.

There's a need to ensure a full sharing of criminal intelligence across agencies, with appropriate safeguards. This would underpin sound decisions about how to focus our combined resources to reduce the most dangerous organised crime threats.

We should require government agencies to produce organised crime impact statements with major new national policy proposals. When developing large government contracts, agencies should draw on our criminal intelligence agencies in the same way that Defence draws on the Defence Intelligence Organisation.

Proper resourcing of the agencies will also return income. Over seven years, Project Wickenby (a multiagency taskforce led by the Australian Taxation Office) has prevented \$700 million from being diverted into offshore tax havens. The Tax Office's Attero national taskforce is scrutinising the tax affairs of members and associates of the Rebels motorcycle gang.

Because public corruption is a major facilitator for serious and organised crime, the Australian Government should examine measures to shore up anticorruption measures at the federal level. This might require additional resources and powers for the Australian Federal Police, the Australian Commission for Law Enforcement Integrity (which only covers a small number of agencies) and the Australian Securities and Investments Commission. The need for a dedicated national anticorruption agency should be considered.

To elevate the political and security dimensions of organised crime, a senior post should be created in the Prime Minister's Department to work on policy and operational aspects of the issue.

# 4. FOREIGN POLICY

## Russell Trood

But for the attention certain to be given to the issue of asylum seekers, it is unlikely that foreign policy will play much of a role in the forthcoming election campaign. That's regrettable, as there are several international issues and relationships that could well be handled differently depending on who wins the approaching poll. The full extent of the differences is difficult to articulate as neither Labor nor the Coalition has yet released its policy platform, but already there's been enough in various statements by the leaders, ministers and shadow ministers to indicate that there's certain to be a measure of product differentiation.

While policy change is likely, there's often strong continuity in the conduct of Australian foreign policy. Incoming governments inherit a policy legacy and are also successors to an Australian foreign policy tradition—a national style of acting in international relations. The legacy and the style can change over time, but initially they can act as constraints on policy innovation and reform. The style is by definition more enduring, so we can expect the incoming government to act in some wholly familiar ways. For example, it will remain committed to Australia's strong tradition of alignment in international affairs; sustain a wide network of relationships across the globe and in multilateral organisations; emphasise the importance of engagement with the countries of the Asia-Pacific; and seek to address global and regional problems practically as a contribution to problem solving. It will also demonstrate, in JDB Miller's rich morsel of a phrase, a certain 'dogged low-gear idealism'—in more recent parlance, good international citizenship in the conduct of our foreign relations.

This paper, however, is less about trying to predict the things an incoming government might do than seeks to explore the issues that arguably should receive priority on the foreign policy agenda. Central among them are:

- restoring the Department of Foreign Affairs and Trade (DFAT) to organisational and budgetary health
- consolidating key relationships in Asia
- responding to change in the Pacific
- advancing the stalled trade agenda
- reconsidering priorities in AusAID.

## Department of Foreign Affairs and Trade

DFAT's a department in organisational and budgetary distress. At a time when governments have to rely more, not less, on the effectiveness of their political and economic diplomacy to protect and advance their national interests, one of the key agencies of Australia's national security community continues on a path of steady, seemingly ineluctable, decline. Addressing the department's budget situation shortly after taking over as DFAT's new Secretary late last year, Peter Varghese commented unsentimentally and rather ominously that 'we've reached the end of the line' with the 'magic pudding' idea that DFAT should do more with less: 'If we get less, we are going to do less.'



Indeed, the situation is now so parlous that even Defence Department officials concede privately that DFAT needs more resources.

DFAT's budgetary squeeze began well over a decade ago, has continued virtually unabated and is now having a broad impact on the department's capacity to continue serving Australia's foreign policy interests in its traditional fashion.

First, it's forcing a further contraction in Australia's representation abroad. We now have the smallest diplomatic network of all G20 countries, and our 95 missions are way below the OECD average of 135. This means:

- fewer resources for representational activities, particularly bilaterally but also in international organisations
- a struggle to support consular services (one of DFAT's fastest growing responsibilities)
- a reduction in political and intelligence reporting (the very stuff of good policy back home)
- less public diplomacy (an increasingly significant area of diplomacy)
- lost opportunities to advance Australia's economic interests (the key to our prosperity in the 21st century).

Second, the decline seriously threatens DFAT's ability to provide the government of the day with sustained, high-quality policy advice. Good foreign policy demands contestability of ideas and sound policy options, and few perspectives are more critical than those provided by our professional diplomats. DFAT is now struggling to retain core skills and policy expertise. The erosion of a traditional strength is not only alarming, but a precursor to dysfunctional policymaking and eventually to policy failure.

### DFAT officers in Canberra now have less and less time for strategic policy reflection...

DFAT officers in Canberra now have less and less time for strategic policy reflection as fewer and fewer of them struggle to respond to incessant demands for information from overseas and the bureaucracy at home. Not surprisingly, DFAT's efficiency, credibility and reputation for sound policy advice and for creative solutions to challenging problems are leaching away. Entirely predictably, as its skill base erodes its capacity to justify more resources becomes more tenuous and its case less persuasive.

Third, the underfunding of the department is having a serious impact on the morale of its staff. This might be a less serious issue if DFAT were not a frontline agency and Australia's public face to the world, but its role is critical. One of the reasons it's been such a great national asset is that its employees are almost without exception extraordinarily able, well-trained, highly dedicated professionals committed to doing the best they can in difficult circumstances.

They're working longer hours, under greater pressure, sometimes in dangerous environments, with fewer opportunities for promotion, more limited prospects for overseas service and, overall, less job satisfaction. Staff are leaving the stressful DFAT environment and moving to better opportunities in other agencies. That DFAT is able to perform as effectively as it does is testimony to the work ethic and professionalism of its people.

Central to DFAT's problems has been a refusal on the part of successive governments to decide, other than by way of budgetary austerity, whether DFAT should continue its traditional role as the key policy agency in the conduct of Australia's foreign policy. Holding back resources suggests a significant shift in sentiment, one that accepts DFAT playing a less influential, more marginal role in policymaking and largely assuming the status of a service delivery agency. Yet there's been no formal decision to that effect, nor, it seems, any reduction in expectations that it will continue to provide all of the advice and service that it's traditionally delivered.

This is unsustainable, certainly poor public policy, and a reform challenge the incoming government should confront. A careful and systematic review of DFAT's role and responsibilities within the context of Australia's wider national security community would be one approach. Alternatively, the government might consider producing a new foreign policy white paper—there have only ever been two, the last in 2003. This larger, more ambitious enterprise could look closely at DFAT's resourcing and managerial challenges. It would also offer an opportunity to review the implications of over a decade of sustained change in international affairs and its impact on the conduct of our foreign relations. In particular, it would enable the incoming government to examine comprehensively all of Australia's foreign policy interests, not merely those focused on the Asia–Pacific. This is long overdue.

Addressing the challenges facing DFAT is a task that governments have consistently resisted. It's now so critical that it should no longer be avoided.

## The Asia–Pacific or, perhaps the Indo-Pacific?

One of the more useful things a new foreign policy white paper could do would be to examine rigorously the utility of the 'Indo-Pacific' concept as a key organising principle of Australia's foreign relations. The *Defence White Paper 2013* argued that extending our thinking on the Asia–Pacific to the broader Indo-Pacific 'adjusts Australia's priority strategic focus to the arc extending from India through Southeast Asia to Northeast Asia.' The white paper thus appears to elevate the Indo-Pacific concept to a new status as the foundation for Australia's strategic planning.

This is truly grand and creative strategic design, but is it to be preferred over the more widely accepted Asia–Pacific formulation in defining Australia's primary region of strategic interest? The two concepts may be similar, but they imply different policy priorities. Having different agencies of government use them interchangeably and simultaneously is a recipe for confusion and incoherence both in the making of policy and in its conduct. If the Indo-Pacific concept is the new normal in Australia's security thinking, there are very good reasons for it to be closely aligned with our foreign policy thinking. At the same time, if it's to be of any value as a foundation for defining key interests and a guide to policy development, the incoming government will need to invest it with substance and ensure that its implications for the crafting of Australia's foreign relations are spelled out more clearly.

### India and the United States

One place where the new government might start to grapple with this challenge is New Delhi. Despite the existence of an agreement to elevate the India–Australia relationship to the level of a 'strategic partnership' in 2009, our relations with India haven't been well handled in recent years. Disappointments, inconsistencies and frustrations have given both sides good reason not to explore their potential. The Indo-Pacific concept, which some Indian leaders find attractive, establishes common ground and a useful rationale, were one needed, for Canberra and Delhi to build on the new partnership.

Indo-Pacific tilt or not, the foundation for expanding this relationship is in place and there's been some progress towards greater cooperation in the energy and minerals sectors with a series of 'action plans'. The task is to find ways to expand collaboration. We'll need patience: opportunities with India may abound, but seizing them and converting them to collaborative activities is notoriously difficult. A constructive starting point for the incoming government would be to strive for an early conclusion to the negotiations for a civil nuclear cooperation agreement—the necessary precursor to the commencement of uranium sales. Another exists in the opportunity for institution building as Canberra and Delhi share the leadership of the Indian Ocean Rim Association for Regional Cooperation.

One risk in the articulation of the Indo-Pacific concept may lie in downgrading the significance of Australia's most important security relationship, with the US. With key strategic and economic interests spread liberally throughout

the Indian Ocean area and Washington's frequently stated view that it's long been, remains and will continue to be a strategically engaged Asia-Pacific power, this anxiety is arguably misplaced. But America's strategic engagement in Asia is a crucial issue for Australia. Aside from everything else that defines the Australia-US relationship, the way Canberra and Washington seek to manage their shared interests in Asia's future will be one of the most important items on their bilateral and multilateral agendas.

Despite this, in all of the Gillard government's recently published statements of policy there's little indication of the serious thinking one hopes is being done about this complex issue. Welcoming the Obama administration's policy of Asia-Pacific rebalancing is little more than the starting point for this work. Further analysis and exploration of collaborative options with Asian allies and partners and the risks they might entail need to follow. One option, as Rod Lyon pointed out recently, might involve reviving the all too long neglected Article 8 of the ANZUS Treaty, which envisages the ANZUS Council as a vehicle for maintaining consultative relations with regional Pacific states and organisations. Whatever the value of this idea, it's an example of the creativity that the new government will need to find to ensure that Australia's most important security relationship can continue to adapt to the transformations shaping its Asian future.

## The China relationship

Given China's sensitivities, this is not without significant challenges. All of Labor's recent policy statements make clear that Australia accepts China's military growth and expanding regional role as a legitimate outcome of its growing economy and broadening interests. Were there to be an incoming Coalition government, it might perhaps be more circumspect in its language, but whether Labor or Coalition, it's hard to overstate the significance and attention the new government will need to give to its relations with Beijing.

The overwhelming need is to place the relationship on a stable, mutually respectful, collaborative foundation, much as the Howard government was eventually able to achieve with its 'common interests and mutual respect' formula. This is unlikely to be easy. For all our shared economic interests, there are profound policy differences which have the potential to sharpen as time goes on and might easily throw relations off course. Managing our future together is an enterprise requiring clarity of purpose and some clear-eyed, unsentimental Australian thinking about the possible limits of the relationship. It will also demand more consistency in policy implementation—something that's eluded both sides in recent years.

For the moment, there's reason to be optimistic as the relationship expands and deepens rapidly beyond economic interdependence. The basis of a new bilateral 'architecture' was established with the new 'strategic partnership' agreed during Prime Minister Gillard's successful visit to China in April this year and the commitment to hold annual prime ministerial dialogues. The challenge for the incoming government will be to invest greater meaning and substance into this embryonic structure, while balancing it against other key national interests. This will be an enduring long-term project for Australian foreign policy, but in the short term it should be high on the post-election prime ministerial agenda.

In acknowledging the importance of the strategic partnership with China, the new government should resist any inclination to see it as a zero-sum exercise relative to Australia's other friends in Northeast Asia—Japan and South Korea. Those countries were our second and fourth most significant trading partners in 2011, and we have extensive political, strategic and societal linkages that have been growing strongly over recent years. We should see those links as the bedrock for a further strengthening of ties. This means looking for new collaborative opportunities with both countries, not just bilaterally but through closer multilateral cooperation. With Seoul in particular, South Korea's simultaneous membership of the UN Security Council with Australia offers a unique chance to explore these prospects.

## Southeast Asia and Indonesia

The Indo-Pacific pivot naturally draws attention to the importance of Australia's relations with Southeast Asia. They're generally in good repair, but for too long have been of only marginal importance. Our aspirations for strengthening them into the future are poorly defined, and almost all of them tend to be hostage to a rather lazy formulation of valuing cooperation but giving it limited effort and low priority in the expectation that it will nevertheless continue. Cooperation could be sustained on that basis, but the rapid changes taking place in Southeast Asia justify a more concerted policy commitment to build linkages and collaborative structures covering mutual interests and, where possible, mutual policy goals. Securing a regional buy-in to combat people smuggling is one such issue, but there are others in trade, finance and other non-traditional security areas. Working collectively with ASEAN to strengthen the regional economic and security architecture is one of Australia's essential interests and while hardly easy, deserves as much commitment, energy and policy creativity as we can summon.

A flexible, differentiated approach to the countries of Southeast Asia enables Australia to recognise Indonesia as uniquely important, both regionally and as a bilateral partner. It's been 25 years since the foreign minister of the day, Gareth Evans, famously remarked that the main challenge for Australia and Indonesia was to bring greater (economic) ballast to their relationship. Much has changed in that time, but perhaps not as much as we think or might have hoped. Indonesia has changed enormously and continues to do so, consolidating its democracy and transforming its rapidly developing economy. Our defence linkages have expanded, we've cooperated in counterterrorism, and our economic ties have developed, although with some problems (the live cattle export trade debacle and the challenge of asylum seekers come to mind).

Nevertheless, the relationship still lacks the wide, deep, strong and shared economic and political foundations we need to ensure not merely cordial relations but more intimate and productive links in the future. On the Australian side, there is certainly need for a more mature and sophisticated understanding of the changes taking place in Indonesia and of the complex political, economic and social challenges it faces. Peter Jennings may well have been right when he noted recently that at least part of the explanation for the lack of progress might be the four 'problem Ps'—priorities, politics, perceptions and Papua. That they continue to be lead in the saddlebags of what should be one of our most important bilateral relationships is deeply troublesome and should concentrate the mind of the incoming government.

Indonesia is on its way to a far more influential role in the region with a capacity to more profoundly affect Australia's interests.

Indonesia is on its way to a far more influential role in the region with a capacity to more profoundly affect Australia's interests. In these circumstances, the Australia–Indonesia relationship requires a serious commitment of policy time and energy and a large measure of sensitivity on both sides about areas where we have clear differences. The *Australia in the Asian century* White Paper's proposal to build a comprehensive strategic approach to the relationship is a useful starting point. As Natali Sambhi from ASPI has suggested, it could blossom into something more ambitious, perhaps along the lines of the Indonesia–US comprehensive partnership concluded in 2010. Equally encouraging is Tony Abbott's declared intention to make Indonesia his first international stop soon after the election if he becomes prime minister—although, if he goes with only a narrow focus on 'turning back the boats', the idea will certainly require more workshopping.

As Hal Hill from the Australian National University pointed out not long ago, the advent of a new government offers the opportunity to push the reset button on the relationship and begin anew, taking the collaborative elements of the relationship to the bank and investing in a broad new agenda of cooperation. We're a long way from where we should be in this relationship, and that's as depressing as it is unacceptable, 25 years on from Gareth Evans' call for more ballast.

## The Pacific

Save for Fiji's lack of support, few regions of the world were as strongly behind Australia's candidature for a UN Security Council seat last year as the Pacific. We are in a unique position of influence in the region, where we're a major economic partner, aid donor (now A\$1.1 billion) and political interlocutor. But the Pacific is our neighbourhood and it's changing and we can't afford to be complacent about the way those changes may play out and affect our interests.

Australia's relations with two regional countries should be high on the next government's agenda—Papua New Guinea and Fiji.

Papua New Guinea (PNG), under the confident leadership of Prime Minister Peter O'Neill, is now more outward looking than in the past. It's seeking new regional and international relationships, and aims to place its partnership with Australia on a fresh, more diverse and more evenly balanced basis. The changes are reflected in former Prime Minister Gillard's recent visit, opposition foreign affairs spokesperson, Julie Bishop's frequent attention to PNG, and the 2013 Defence Cooperation Arrangement between Canberra and Port Moresby which initiates a new phase in the bilateral relationship. But there's further potential for moving this relationship beyond its traditionally narrow, dependent and asymmetric boundaries, and the new government should be prepared to seize that opportunity.

Our relationship with Fiji is arguably more challenging. The Bainimarama administration's interpretation of its interests and their intersection with democratic practice are clearly at odds with some strongly held views in Canberra. That seems likely to continue: even after years of Australian sanctions, some of which are hurting politically, Suva hasn't been cowed into submission. At the same time, the Australian policy stance is at odds with the more pragmatic posture adopted by most of the region's small island states. It's hard to see how the dysfunctional relations between Canberra and Suva are serving the interests of either government or the region more generally.

Suva's movement towards the restoration of democracy (although not all we might hope for) gives an incoming Australian Government the opportunity to move away from our principled, but so far unrewarded, policy and seek constructive dialogue. It won't be easy, as shown by Canberra's difficulties since late last year in trying to secure the passage of the new High Commissioner to Fiji, Margaret Twomey. On the other hand, the conjunction of Fiji's hesitant return to a form of democratic governance and an Australian election creates a historic opportunity too important to ignore. It's worthy of the close attention of the incoming government's foreign minister.

## The multilateral agenda

Australia has consistently relied on multilateralism to pursue some of its key foreign policy interests. We've been a member of the UN and many of its specialised agencies, such as the World Trade Organization, the International Civil Aviation Organization and the International Atomic Energy Agency, since their foundation and our multilateral engagement in the Asia-Pacific region is no less impressive. A Coalition election victory might see the rhetoric of engagement shift from current settings, but it would be surprising if a new Abbott government were to abandon our primary engagement strategies.

One reason is that multilateral diplomacy isn't merely about supporting an organisational mandate. In most cases, it offers potentially important mechanisms to advance key bilateral relationships. This is particularly so in the Asia-Pacific region, where our membership of APEC, the East Asia Summit, the ASEAN Regional Forum and other groups

and our status as an ASEAN Dialogue partner all strengthen our bilateral relationships. Over time, the incoming government will be presented with opportunities (and challenges) related to Asia–Pacific regionalism, but in the short term its multilateral horizons will necessarily be global and some of the earliest foreign policy decisions it might need to make could involve the UN Security Council and the G20.

Against many expectations, Australia won its two-year non-permanent seat on the Security Council last year relatively easily. This was testimony to a strong campaign and the high regard for Australia in the international community. Much that the Council does in the area of international peace and security is reactive presenting Australia with unique opportunities to assist conflict resolution. But Council membership also allows us to offer diplomatic support to Council friends and allies, such as the US, leverage membership in pursuit of our own policy goals and, from time to time, as the Council's president-for-a-month, press one or two high-priority issues of international significance.

The first of these presidential occasions occurs in September this year, the month of the Australian federal election. Adding to the awkwardness of the date, September is usually 'leaders month' in New York—an opportunity for diplomatic profile-raising and agenda-setting at the General Assembly. There are many issues that Australia might seek to raise and press during our time as Security Council president in September—peacekeeping, nuclear nonproliferation and the responsibility to protect ('R2P') among them. The important consideration, however, is that this important diplomatic opportunity doesn't fall prey to domestic partisan political differences. This means that as the election approaches, the government and the opposition must agree on a Security Council policy agenda well beforehand, so that it can be pursued seamlessly whoever claims victory. More generally, the incoming government should be conscious of the high expectations created by our election to the Council among small and middle-sized countries and ensure that it has a well-developed strategy to maintain faith with them.

Australia will be hosting the G20 summit in Brisbane in November 2014, but well before that, later this year, we will be taking over the chair of the G20 from Russia. Its G20 summit will take place at another supremely inopportune time: in St Petersburg in September, possibly within weeks, if not a few days of our election. So far, Australia is the only country to have failed to send a leader to a G20 summit, so it's especially important that the Prime Minister be there, particularly in our chairmanship year.

The G20 chairmanship is a great diplomatic opportunity for Australia, one that needs to be seized with enthusiasm and undertaken with ambition.

The G20 chairmanship is a great diplomatic opportunity for Australia, one that needs to be seized with enthusiasm and undertaken with ambition. It is a chance to show leadership in an arena where other governments are likely to appreciate Australia's particular talent for practical problem solving. Our credentials as a constructive contributor to the G20 agenda were strengthened following the first Rudd government's contribution to energising the organisation's response to the 2008 global financial crisis. Here's an opportunity to build on that contribution. Since the crisis, as Mike Callaghan from the Lowy Institute has argued, the G20 has become burdened by a range of agenda items that detract from its primary role as the main global forum for international economic cooperation. The Brisbane summit would be a good opportunity for Australia to help guide the G20 back to its core responsibilities and to introduce several process reforms, emphasising greater transparency and accountability. By doing so, we would not only bring a much-needed focus on the G20's mandate but seize an opportunity to consolidate our own status as an indispensable member of the group.



## The trade agenda

Within the foreign affairs portfolio, trade is another very obvious area of policy needing concerted attention. This imperative has a wider domestic policy resonance as the Australian economy faces some severe structural problems and as competition in key export markets becomes more intense. We've long been one of the most open and least protected economies in the developed world, so trade issues are a matter of immense practical importance to our economic future and demand early action from the incoming government.

At the multilateral level, it's been evident for quite a while that the Doha round of trade liberalisation now has little prospect of succeeding. The embryonic Trans Pacific Partnership has a much smaller group of participating countries and geographical coverage. Nevertheless, with the first and third largest global economies now part of the negotiating group and a focus on the dynamic Asia-Pacific region, it may eventually offer high-level liberalisation benefits and thus deserves strong backing. While those negotiations may take considerable time, the new government should concentrate maximum resources on trying to advance the so far glacially slow talks for bilateral trade agreements with Japan, China and South Korea.

Those negotiations have been going on for seven, nine and five years, respectively, and desperately need a renewed injection of political will and policy creativity. Recent policy developments in Japan suggest that an agreement on that front may be close, although we've been on that path before and little has eventuated. While securing a deal demands compromise on both sides, Canberra needs to do some serious thinking about whether its cautious policy stance and current interpretation of 'high-quality' agreements are the best benchmarks for success, particularly in markets, such as South Korea and Japan, where Australia's competitors are expanding market share at our expense.

The incoming government should consider an immediate audit on all of these negotiations, revisiting their premises and reviewing negotiating positions in conjunction with key industry partners as the precursor to a rapid resumption of negotiations and a commitment to bring them to a swift conclusion.

## AusAID

AusAID now has a budget of \$5.7 billion for multilateral and bilateral aid across the globe, but with a heavy geographical emphasis on the countries of the Asia-Pacific. A few years ago, a bipartisan committee reviewing aid effectiveness made a series of recommendations that have been progressively implemented and considerably tightened the process of aid administration. Aid delivery, however, remains a dynamic area of public policy, and the incoming government should give it a shake-up.

While Australia earns considerable international accolades for its sustained commitment to comparatively high levels of international aid, sustaining that commitment in the current budgetary environment is likely to be difficult.

Several issues are on the agenda. The first is the sustainability of the hitherto bipartisan commitment that our aid program should aim to reach the current government's aspirational goal of 0.5% of gross national income by 2015. While Australia earns considerable international accolades for its sustained commitment to comparatively high levels of international aid, sustaining that commitment in the current budgetary environment is likely to be difficult. A solution would be to maintain increases in the budgetary allocation to at least the level of real growth, but to further extend the deadline to reach the target.

A second issue is the growing movement to integrate aid more effectively with recipient countries' economic and developmental goals and create stronger linkages with private sources of project and infrastructure financing. This places less emphasis on aid as donation and more on using it to leverage public-private partnerships to better achieve sustainable economic growth, and may be a more effective way of spending aid dollars. Although it might demand more complex mechanisms for aid administration and accountability, it's a reform that reflects contemporary better practice and deserves support.

The third issue is the geographical focus of Australia's aid programs and whether more should be directed to our own region and away from recipients in places such as Africa. Policy may be trending this way: the *Australia in the Asian century* White Paper made a strong commitment to the AsiaBound program, and the Coalition proposes a New Colombo plan focused on Asia. Some tweaking of geographical priorities might be desirable to help pay for these schemes, but not before we evaluate the extent to which the proposed recipients, especially among the countries of the Pacific, can effectively absorb additional aid. Similarly, if the debate over targeting anticipates a reduction in Australian aid to Africa, the incoming government should take a very cautious view. The percentage of aid going to African countries is relatively small, effective and well targeted, as the Joint Committee of Foreign Affairs, Defence and Trade concluded in its report on Australia's relations with Africa several years ago. Moreover, it's a modest strategic investment in Africa's rapidly developing economic and political future, is consistent with Australia's considerable mining investments there and has the potential to pay dividends to Australia down the track.

## Conclusion

The foreign policy agenda for the incoming government is lengthy and could easily be expanded further. For example, as Anthony Bergin and others have pointed out recently, our engagement in Antarctica, which has a rich heritage in Australian foreign policy, is being slowly degraded through declining investment and policy inattention. Our status at the forefront of efforts to build greater rigour into the nuclear nonproliferation regime, including through strengthening controls on the supply of materials, is certainly worthy of inclusion on the list. The 2010 proposal for a treaty-level bilateral Framework Agreement between Australia and the European Union to place the relationship on a new 21st century foundation, remains to be concluded and deserves to be pursued. Finally, the burgeoning expansion of Australia's relations with the countries of South America should not be neglected.

Nevertheless, the agenda items detailed in this paper are the most important and most urgent.

If this looks like a challenging agenda before an election, it will probably not become any easier afterwards. All these issues will need to be managed in the almost certain knowledge that however expertly the incoming government plans and approaches the challenges it faces, it will also need to prepare for the unexpected. Another global financial crisis may be unlikely, but unwelcome and unforeseen events and crises have a habit of confounding and subverting the best laid plans for the sound and orderly conduct of Australia's foreign relations.

# 5. ECONOMIC SECURITY

## Ryan Stokes

For Australia, the foundation for a secure future is a strong and prosperous economy. This requires a policy framework that develops Australia's natural resources and infrastructure and the capabilities of our workforce and industries effectively and uses them competitively. The central theme of economic policy must be productivity improvement that delivers flexibility and growth through education and training, innovation, and infrastructure.

We've prospered in the shadows of a financial crisis that has damaged many other developed economies. Our main drivers of economic growth have been a surging Chinese economy and regional growth. That surging growth has slowed considerably.

As a result those drivers are likely to become less strong, and as the other developed economies begin to emerge from their economic malaise we face challenges in our domestic economy and primary export markets. The outlook is more challenged.

The incoming government must prepare for these challenges and ensure that its policy framework supports growth initiatives.

## The importance of the productivity agenda

As a result of global growth, our economy and those of other countries are becoming increasingly interconnected. There's a progression towards a global economic environment characterised by lower restrictions, and the increasing efficiency of trade requires us to see economic security in the geopolitical and globally competitive context.

Policies of free trade and technological advancements have deepened the interconnections between markets, creating opportunities and increasing wealth and living standards in both the developed and the developing worlds.

Developed economies have benefited from increased efficiencies and lower labour costs in the developing economies, but now face stiffer competition. The need to innovate has become a key economic policy focus.

The rate of change has been dramatic, and developing nations are now the main source of global economic growth. Australia's regulatory and policy framework must evolve to ensure that we're competitively positioned to take advantage of global growth in the most effective manner.

To remain productive and competitive in the increasingly connected global economy, we must continue to invest in our strengths and continue to reform, with a focus on productivity improvement as the policy goal.

Policies should remove barriers and regulations that reduce Australian industry's ability to develop and adjust with flexibility to rapidly changing conditions.

According to Charles Bean at the Reserve Bank of Australia conference in 2000, ‘underpinning Australia’s good economic performance over the last decade [the 1990s] has been a high rate of productivity growth, both in historic terms and relative to other countries.’ That strong productivity growth was attributed to the microeconomic and structural reform agenda.

This remains an essential policy agenda item today. According to Reserve Bank Governor Glenn Stevens in a speech in 2011, ‘there is only one source of ongoing higher rates of growth of real per capita incomes, and that is higher rates of growth of productivity.’

Productivity gains are essential to remaining competitive, so productivity must remain at the centre of economic policy and the reform agenda. Reform should create the opportunity to enhance the productivity of all our assets. This requires policy that enables more flexible environments in business to support our areas of strength, and to support the reform of uncompetitive sectors.

## The global context

Over the past five years, growth in much of the global economy has slowed. This is particularly the case in the economies of the developed nations and most pronounced in North America and Europe, which have struggled in the wake of the 2008 global financial crisis. However, growth in developing nations, led by China, has been strong. While the Chinese economic growth has moderated they still remain our largest trading partner.

### An economic overview

While much is made of the financial crisis being global, its impacts in the countries of Asia were limited and short-lived. Actions taken by the Chinese Government in late 2008 to accelerate its five-year plan, speed up its infrastructure and development plan and dramatically increase capital liquidity in the market ensured that the Chinese economy continued to grow.

Countries with strong abilities to support Chinese economic growth prospered and grew through the crisis and many, including Australia, avoided the impacts that affected other developed nations.

The outcome has been a situation in which global growth’s now powered mainly by the developing nations. According to UBS, 70% of all economic growth in 2011 and 2012 was in the developing economies.

Developed countries aligned to this growth can realise significant opportunities and achieve stronger growth in their domestic economies. For Australia, this means developing policies that enable closer alignment to China, Indonesia, India and our neighbouring countries in Asia.

According to the World Bank, developing countries are increasingly less dependent on high-income countries for their export markets. Since 2010, more than half of developing countries’ exports have been to other developing countries.

This supports the proposition that the developing economies are decoupling from growth in the developed economies. It can now be argued that growth in some developed economies is coupled to growth in the developing economies that are their trading partners. It follows that developed economies should continue to align towards developing economies to support their own growth.

For Australia, our alignment to the growth of these nations, and particularly China, has been an important factor in our strong economic performance. It’s an underlying strength that’s seen us through the economic downturn without a technical recession.

## A rising middle class

The growth of the developing economies is driving the rapid expansion of the global middle class. The UN and the Penn World Table define the middle class as those with incomes between US\$20,000 and US\$120,000 (2012 PPP). Using that definition, they forecast the global middle class to expand from 1.5 billion people in 2010 to over 4 billion, or close to 50% of the world's population, in 2030.

Even more dramatic is the shift in where the world's middle class lives. In 1990, 80% lived in developed countries. That's forecast to drop to 33% in 2025. By 2030, more than two-thirds of them will reside in Asia. This will mean a fivefold increase in the Asian middle class.

As the middle class expands, so does its demand for high-calorie, high-protein food. This will drive demand for advanced agriculture and export markets for meat, grain and other food products. Australia's well positioned to meet that demand.

Wealth will continue to expand more quickly in the developing nations, providing opportunities for developed economies closely aligned to their demands.

Wealth will continue to expand more quickly in the developing nations, providing opportunities for developed economies closely aligned to their demands. China, our largest trading partner, has as the central theme of its 12th five-year plan the objective of rebalancing the economy to boost service sectors, equalise development and increase standards of living. Over the five years, some 350 million Chinese will move from rural areas to the cities.

The future economic story will be about the rise of the developing nations in relative and absolute wealth supported with the resurgence of economies such as the US and within Europe. Most of the growth is expected to be in China and India, two countries that we're well positioned to support.

## The information revolution

Technological advances, including the information revolution, are another strong driver shaping global economic growth and deeper interconnections between economies, just as the Industrial Revolution did in the 19th century.

We're now seeing new levels of interconnectivity between markets and connections along the input value chain, radically enhanced by advances in high-speed mobile data processing.

We can expect the information revolution to shape the next stage of economic growth by further eroding barriers between markets and economies and making processes more efficient. However, while it creates new opportunities, this increasingly connected environment also presents threats to existing processes and industries by changing the dynamics of competition.

According to Gartner Inc., in 2013 there'll be more mobile internet connections than PC internet connections. This indicates the radical shift in accessibility and the ubiquity of information, which is empowering a wide range of people to more productively exchange, collaborate, interpret, and produce. It will continue to shape how we work and interact.

New technologies such as 3D printing could disaggregate manufacturing and create new efficient productive capabilities. These trends are key elements of the information revolution underway and we must embrace these new opportunities. Economic policy should support this shift and investment in innovation.

## The confidence effect

The confidence of nations, economies and people is an important driver, particularly where uncertainty would reduce investment and consumption. According to the IMF, the recovery from the global financial crisis could turn out to be stronger than forecast if uncertainty is reduced.

A key priority for the incoming Australian Government should be to implement policies that help to provide certainty and, through that, confidence in the outlook. This will position the economy for the medium- and long-term future.

However, the confidence equation is different for developing and developed economies. While the developed economies have been focused on deleveraging, it's important that reinvestment in productivity enhancing initiatives occurs to stimulate growth in developed economies such as ours. Bolstering confidence and removing uncertainty should be a key priority for our government.

## The US energy revolution

The dramatic development of the American shale gas industry could make the US energy self-sufficient and potentially a net energy exporter for the first time in generations. This will have dramatic impacts on global energy markets.

As a leading exporter of coal and liquefied natural gas, we face new competition for our products. We're already seeing American coal exports competing in our export markets. Because supply has increased, we need to focus on our industry becoming more efficient in order to compete.

While coal and gas provide an income source for the US, the major beneficiary has been domestic manufacturing, which has a cheaper energy supply than its international competitors. For example, the domestic US gas price is less than 25% of the cost in Australia or other Asian markets.

The other great advantage for the US economy has been the flexibility and adaptability of its workforce, which have led to higher investment in domestic manufacturing and other industry. American firms' competitiveness has been underpinned by the readiness of skilled workers to migrate within the US, efficient energy supply and transport infrastructure, and competitive cost structures.

Investment in domestic capacity is occurring with companies establishing new facilities in the US to take advantage of these strengths. The combined outcomes are showing positive signs of economic growth.

When the incoming Australian Government looks at the productivity agenda, it should examine the success achieved in the US and work out how we can replicate it using our particular advantages. The domestic supply of skilled labour, workforce flexibility, and energy and transport infrastructure all play key roles in building competitive advantage.

## Australian economic issues and challenges

Australia's been fortunate to have a strong trade relationship with the growing Chinese economy and to have benefited from the strong growth in other developing economies in our region. Our export sectors, particularly the resources sector, have been able to increase their alignment with regional growth.

We're now seeing these economic drivers shift, and our resource exports are likely to come under continued pressure. We run the risk of having slowing growth. For the core commodities of iron ore and coal demand growth has moderated.

The Chinese economy is still delivering growth, and across a much larger economic base than before. The political focus in China has shifted from industrial growth to the development of a services economy. In 2012, for the first time, the services sectors overtook the industrial sectors in their contribution to GDP. At 46%, the services economy still has a lot of growing to do to match traditional developed economies.

While the opportunity's available, we must ensure that we have policies that enable effective and efficient delivery, including into the services sectors.

The economic environment is increasingly competitive, and without effective reform and policy direction the risk remains that our long-term economic position in relation to other economies can be undermined. In this environment we must ensure our relationships with our trading partners are deeper and stronger than just the transaction.

There are some key challenges that should remain at the forefront of the incoming government's assessments of the economic landscape.

## A strong currency

The growing confidence in the Australian economic story, along with our export-led enhanced terms of trade and strong foreign investment, has supported significant highs in the A\$ exchange rate compared to other currencies in the developed world.

The high dollar has put competitive pressure on our economy and challenged our productivity compared to other developed economies. The recent correction helps, but the strong dollar still presents a competitive challenge for our domestic economy, including our mining industry.

We should expect this to continue and while the dramatic move will put short-term pressures on areas of the economy to adjust in the medium and long term it is a very positive outcome for our competitive position.

## China and the developing region

The economic outlook for Australia is closely aligned to the growth of China and our region. According to UBS, China accounted for 30% of global economic growth in 2011 and 2012. China also takes 30% of Australia's exports. This significant demand on our resources sector has supported our economic expansion.

The China growth story is remarkable. In the five years from 2007 to 2011, its economic output more than doubled from US\$3.5 trillion to US\$7.3 trillion. This has fuelled the economic growth of the region and linked our economic prosperity more closely to China. Australian exports to China in 2011–12 amounted to \$76 billion. Beyond resources, which accounted for the largest share, other significant exports included education, of which China accounted for \$4 billion.

### Developments in China bring new challenges for us.

Developments in China bring new challenges for us. Its transition to more services-based growth has meant declines in industrial economic growth, slower energy demand growth, and constraints on capital within the economy. All these factors have impacts on the traditional drivers of our own economic growth.

According to the World Bank, developing countries such as China also face home-grown challenges, including managing the transition from today's extremely high investment rates to levels more compatible with long-term growth. China must also manage to distribute growth across its society.

Despite such challenges, the economic outlook for China is positive. It has a strong manufacturing sector, an urbanising population (supporting domestic growth and greater productivity), large investments in infrastructure, and foreign currency reserves of more than US\$3.3 trillion (almost three times the reserves held by any other country). Even with moderating Chinese growth, Australia should have confidence in the long-term outlook for China and its positive impact on our economy.



Current policies are stated to target more responsible and sustainable growth. China is managing its economic development to this plan. While this changing growth profile will be felt more directly in Australia the objectives are to ensure growth is sustainable for the long term.

For us to benefit, our policies need to ensure that our resource economy can remain world leading, and we must remove any inefficiencies that undermine our ability to be competitive. These are going to be critical steps to ensure the competitiveness of our resources sector.

## The resources and energy economy

Australia's enjoyed a mining boom for close to a decade. Billions of dollars have been invested in the sector, creating new jobs and fuelling massive growth.

According to the Bureau of Resources and Energy Economics, the value of metals and mineral exports has grown from \$71 billion in 2007–08 to \$108 billion in 2012–13. This growth has come after significant capital investment to increase production to meet rapid growth in Chinese demand. In the space of 10 years our exports to China have grown almost 10-fold, from \$7 billion to \$65 billion.

Our overall resources export earnings grew from \$75 billion in 2002–03 to \$195 billion in 2010–11, and those sectors now employ more than 250,000 people. This growth has underpinned our economic position and supported the country's development.

The long-term growth prospects of the developing economies will further support the resources sector, as we can expect their per capita minerals consumption to increase.

However, this outlook has to be tempered by acknowledging the rapid rise in global resources supply and the slowing of China's growth, particularly the significant slowdown in demand growth. We're already seeing the resource economy come under increasing pressure.

This will mean that our future economic policy direction shouldn't assume that we can continue to rely mainly on the resources sector for economic growth and prosperity.

## A growing imbalance in the domestic economy

Australia's economic growth in recent years hasn't permeated all sectors of our economy. When the resources sector's excluded from the data, our economic growth is significantly lower. Manufacturing and other labour-intensive businesses are under growing competitive pressure.

Policies to address this imbalance should take into account the strong links between our economy and those of the developing countries of our region, and recognise that the growth dynamic of those countries is a long-term trend.

## Migration-led population growth

Australia has one of the fastest growing populations among the developed economies. This growth has been effectively supported with skilled migration for the growth sectors. With low unemployment and a shortage of certain types of specialised labour, skilled migration has been a key support.

Our visa system has been critical in supplying labour from the international pool. This is particularly the case in the resources sector, where employment has increased from 80,000 in 2002 to 242,000 in 2012, a 200% increase in 10 years. This has occurred alongside increased investments in training.

Continuing these policies will help to ensure continued and economically efficient growth.

## Policy priorities and opportunities

A strong and secure economy requires an economic policy framework to drive reforms to ensure that the economy remains competitive, to promote the efficient deployment of capital and labour to the highest valued uses, and to increase productivity.

Policy priorities and initiatives should deliver true productivity gains that allow our workforce to adapt to evolving demand, should focus investment and should support key areas to underpin growth.

Australia's well positioned to support and benefit from growth in the emerging economies of Asia. Fully realising that potential calls for a policy agenda that promotes economic drivers linked to the rising middle class in the region. Beyond resources and energy, the focus should include education, tourism and food production.

We must maximise our natural resources and human capital advantages.

We must maximise our natural resources and human capital advantages. This will require policies that deliver flexibility, development and mobility (both geographically and between industrial sectors).

### 1. Prioritise productivity improvements

Increasing economic productivity should be the incoming government's most important policy agenda item. Successful productivity policy will result in Australian businesses delivering more product per unit of input.

Productivity enhancements should be based on exploiting our advantages and be assessed according to how much they improve our competitiveness.

They will necessarily include improved labour efficiency, effectiveness and flexibility, but also investments in the productive infrastructure needed to enhance performance, such as technology, transport and equipment. This investment in productive infrastructure becomes an even more important priority as the growth drivers slow.

A critical step would be to reduce the regulatory timeframe and regulatory burden to accelerate project timetables.

### 2. Labour reform for productivity

We should continue to advance reforms to develop our workforce's skills and make it more flexible and mobile. The policy framework must include truly measurable indicators of productivity growth that improves our competitive output. Two areas warrant particularly close attention.

Our ageing population means we face a demographic challenge: longer life expectancy and our stable retirement age will create pressure on public resources. Policymakers should explore systems that reward people for extending their working lives. Tax incentives offer one route. The government should also encourage employers to offer more flexible arrangements and supportive conditions.

We must continue to develop the skills and capabilities of our workforce and ensure that they're focused in areas of demand. Government policy should support private sector investment in training and development and foster closer collaboration between private sector initiatives and the work of our public institutions. This extends beyond the trades to the professions, in which Australia can play a leading role in the development of our region.

### 3. Enhancing trade and foreign investment

Our trade and investment policies must align with the development of our trade relationships and encourage Australian industries to compete in a global environment. We must look at measures to support industries that are vulnerable to short-term movements that can destabilise our position before there's a reasonable time to adjust.

Free trade is fundamental to the strength of our economy, so the government must continue to encourage it. While multilateral trade agreements are important objectives, we must also work harder on bilateral trade agreements, particularly with key trading partners in our region.

Australia relies on foreign capital investment to support our growth. Continued support for foreign investment, including foreign direct investment and investment in our banking sector, requires stable and consistent policy. The Foreign Investment Review Board should continue to publish its guidelines and enhance the transparency of the review process.

### 4. Agricultural and primary resources

Australia's agricultural sector requires investment to support skills development and training.

Focused policies could also leverage Australian expertise to support the sector's development. Regional initiatives, such as the Ord River scheme, will open up new opportunities to meet the growing food demand of developing economies. Another policy objective should be developing coordinated approaches and initiatives to assist the development of trade and access opportunities to international markets in Asia.

### 5. Tourism infrastructure

According to the Australian Bureau of Statistics, China has become our main source of tourists. Numbers have grown 15% since 2010, and nearly 600,000 tourists from the People's Republic spent \$3.7 billion here in 2012.

The growth of the middle class in the developing economies of Asia creates a renewed opportunity for tourism growth in Australia. We've the advantages of proximity, our natural environment and quality infrastructure to attract tourists. Luxury hotels and gaming are important drivers.

The incoming government should streamline visa processing for these countries to encourage more frequent travel.

### 6. Education export development

Australia has a strong tertiary education sector that's attracted many international students, making education one of our largest exports. According to the Australian Bureau of Statistics, education's contribution grew from \$4 billion in 2000 to \$18.6 billion in 2010. However, it dropped back to \$16.3 billion in 2011.

The global education market is highly competitive, with many factors in play. We must ensure that our policies are focused on the continued expansion of this sector, which is important not only for our balance of payments but also for the future supply of much-needed skills and capabilities.

### 7. Skilled migration and population growth

Population growth and skilled migration should be part of a synchronised economic policy platform. Increasing the population while keeping our focus on our specific skills requirements will result in stronger economic growth.

Our policies for skilled migration should allow a dynamic response to demand in the economy and quick responses when particular skills are no longer needed. This active management of immigration should ensure that we can manage demand growth in our region.

## 8. Research and technology investment

Focused investment in research and technology has enabled many great innovations to be created in Australia. There should be a concerted effort in policy reform to support the innovation sector and encourage private investment in initiatives that make us more competitive.

While the CSIRO has been very effective in driving innovation, policymakers should find additional ways to broaden the innovation platform. We need policies designed to encourage private sector innovation initiatives that align with this work.

## 9. National infrastructure program

To support economic growth, the nation needs focused investment in productive infrastructure and the rapid removal of inefficient processes that delay progress.

While the need to develop our national infrastructure is compelling, that task's proven difficult for the Australian Government because of the requirement for it to work with the states and local governments. We have major bottlenecks in our road, rail and port infrastructure and long lead-times from project planning to completion. Policy should support private sector investment in productive infrastructure and streamlining to reduce project timeframes.

## Conclusion

The Australian economy is in a fortunate position because of our resources base, our proximity to growing demand, and strong management that's allowed us to retain a low debt-to-GDP ratio and avoid the worst consequences of the 2008 global financial crisis.

At our doorstep we have the developing economies of Asia, which are now the engine powering global growth and the platform for our own future development.

While we can expect the global economic centre of gravity to continue to shift to Asia, we shouldn't take our fortunate position for granted. Our ability to compete in our traditional areas is under increasing pressure.

New producers of minerals and energy are now competing with us in many of the markets that have powered our long mining boom.

In particular, our manufacturing sector has suffered from high exchange rates and competition with newly industrialising economies with low labour costs and low barriers to entry.

This requires Australian policies that align our long-term productivity objectives with rising demand in Asia. The aim must be to make the Australian economy flexible enough to adjust quickly in order to seize opportunities in these markets.

We must continue to drive productivity improvement as a core policy of labour reform. This requires government and private sector investment in technologies, training and capabilities to allow us to compete more effectively. Investment decisions will be based, as always, on confidence in returns, so the incoming Australian Government must provide policy stability to support and enable that investment.

The result will then be not only a steady income stream from our minerals and energy resources, but growing revenues from food exports, education and tourism. And an economy that can respond to opportunities that we've not yet even imagined.

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# ACRONYMS AND ABBREVIATIONS

ADF	Australian Defence Force
APEC	Asia–Pacific Economic Cooperation
APS	Australian Public Service
ASEAN	Association of Southeast Asian Nations
ASIO	Australian Security Intelligence Organisation
DCP	Defence Capability Plan
DFAT	Department of Foreign Affairs and Trade
EMA	Emergency Management Australia
GDP	gross domestic product
INSLM	Independent National Security Legislation Monitor
NSC	National Security Committee of Cabinet
PIC	Priority Industry Capability
RAAF	Royal Australian Air Force
UN	United Nations



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