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Day 2

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Session Three—Asia–Pacific regional security issues

THE GREAT POWERS IN ASIA: A VIEW FROM SINGAPORE

Wang Gungwu

It gives me great pleasure to be back in Canberra. When I received the invitation to participate in this year's Global Forces 2007, I was attracted to the topic he suggested, 'The Great Powers in Asia: a view from Singapore'. As an historian, I studied the impact of The Great Powers, not least from the perspective of China during the 19th and 20th centuries. For several years, when I was at the ANU, I also attempted a view of the Great Powers from Australia during the middle and second half of the 20th century. But I have never contemplated a view from Singapore. So I was immediately interested. After living in the Republic since 1996, I see that a view from there is different from those of historical and contemporary China and Australia. Here is an island that is a success story as a modern state, located in the midst of a medley of states, with one as tiny as Brunei and another as large as Indonesia. It is an exceptional place from which to look out at Asia today.

I need hardly emphasise that mine is very much a personal view. The official view of the government of Singapore is on record and there have been several studies, both book-length and journal articles, that provide fuller analysis. In addition, there are the memoirs of Mr Lee Kuan Yew as former Prime Minister, the published papers of the former Minister of Foreign Affairs, the late Mr S Rajaratnam, an excellent recent survey of the Singapore overview is the speech given by the Prime Minister, Mr Lee Hsien Loong, at the Shangri-la Dialogue organised by the International Institute of Strategic Studies (IISS) in Singapore last month.

Two premises guide my perspective. The first is, there was a Singapore perspective when it was a British colony from 1819 till 1963 and there is a Singapore perspective since 1965 when the world suddenly found

itself with a new state, the Republic of Singapore. I shall, of course, focus on the post-1965 perspective but will note the continuities from time to time. The second is, in the globalised world we have today, we should distinguish a Great Power from a rising power, or regional, economic, cultural or even military power, not to mention other terms like middle or local powers.

Let me begin with the second. For the past century, scholars have found it difficult to agree what constitutes 'great power'. There have been many definitions of 'great' and the relevant criteria for greatness have been debated for a long time. There was so much argument as to which countries qualified that 'Great Powers' became less great and the really great powers were promoted to superpowers. Then, after the end of the Cold War in 1990, when one superpower lost out and only the other remains, even the term superpower was diminished and some people promoted the sole superpower, United States, to a hyper power. One good example of how standards are being lowered is the way some people already talk of China today as a superpower—I know many who only wish that were true! This grade inflation approach to power identification has become so subjective an exercise that the term 'Great Power' seems to have been kept in use for some countries simply to save face for those that did not want to lose status. No country that had been great once was prepared to admit that it was no longer so.

... I am convinced that today only the United States qualifies as a Great Power. Thus, my topic today, 'the Great Powers in Asia', would consider some Great Powers in the past, the one Great Power today and also look at possible future candidates.

Of course, historians and political scientists might want to keep the term for the familiar list of countries so that they do not have to rewrite their textbooks to explain why so many former Great Powers are no longer great. All they have to do is to push the real Great Powers to a higher level. For my purposes, however, the hyperbole is unnecessary and confusing and Great Powers at any one time should refer only to those that are obviously great and acknowledged by all as great. All others can then be treated as major or minor powers depending on what they are still capable of in their region or neighbourhood, or on how much they can provide in cash, manpower or equipment if they are allies of a Great Power. Sitting in Singapore, I am convinced that today only the United States qualifies as a Great Power. Thus, my topic today, 'the Great Powers in Asia', would consider some Great Powers in the past, the one Great Power today and also look at possible future candidates.

Before modern times, there were all kinds of relatively powerful kingdoms and empires that could qualify to be called 'Great Powers' for their times. That was largely because the resource and technological lead of each of these was never that large and most such powers were comparable. It was after the industrial revolution that real economic and military superiority could be achieved and sustained for a long time. Hence it is not surprising that the term 'Great Power' only came into use on the eve of the Congress of Vienna to describe largely European nations and empires. The term was extended to our part of the world at the end of the 19th and the beginning of the 20th century when Japan was thought to qualify after first defeating China in 1895 and then Tsarist Russia ten years later. The main

criterion then was that of proven military power, but it was understood that this could only have come about after developing a strong economy and a stable political system. Some might add that a united, patriotic and well-organised citizenry that believed in their country's destiny was also an essential condition. For the rest of Asia (and also Africa and Latin America), there were a variety of colonies, semi-colonies and protectorates that did not look like qualifying for Great Power status for a very long time, if ever. Obviously, for most of that time, if there were a view from Singapore, it would have been an angled view from a corner of the British Empire, one that could serve as a reality check on the view from London.

Nevertheless, that imperial factor was an important feature of the subsequent view of the world from Singapore. The island colony had become a key point in a chain of perspectives that linked London with its global empire. It had built up a cumulative record that could, and did, shape its larger world outlook after independence. That extended chain included, at the opposite end of London, key cities in Australia like Sydney and Melbourne and then the federal capital at Canberra. Throughout, Singapore had a special place in the last section of that chain. But there was more to that. At its widest extent, the British Empire had created a complex mesh of global networks that provided Singapore with a powerful institutional memory, and that memory was available to whoever understands the continuities underlying its location. Provided it is not overwhelmed by another power determined to erase that memory, Singapore would always benefit from its multiple historical connections with every corner of the globe.

British expansion had added a number of Malay states that eventually constituted 'British Malaya', but Singapore's position was always distinctive. How the colony, first during the period of decolonisation, and then briefly in the Federation of Malaysia, nursed that perspective of Singapore's place in the world is a fascinating story that so far has only been partially told. This is not the place to tell it. The point I wish to stress here is that, the view from Singapore since 1819 identified only one Great Power, Britain, for more than 120 years. That context is still pertinent to Singapore today. Since its independence in 1965, Singapore had to survive the period when there was more than one Great Power but the world has now returned to the older condition. There was, therefore, a period of transition during which significant changes occurred. The view from Singapore that had hinged on there being the British Great Power was forced to adapt to the world of two Great Powers, the United States and the Soviet Union. But, after the end of the Cold War, it was quick, and relieved, to return the norm of a single Great Power, now only the United States. This remains the key feature of what 'Great Power' in Asia looks like today.

After the British, there was a rupture that began in 1942 when Singapore fell to the Japanese. Great uncertainty followed after the end of the Second World War, and many experiments and adjustments had to be made during the Cold War in Asia. Eventually, this led to the failed amalgamation into Malaysia in 1963–1965 and when Singapore was set adrift by the unexpected separation in 1965, the view from that precarious entity of the larger global struggle of the Cold War between two Great Powers was certainly opaque. Already these two were each leading a cluster of lesser powers and seeking to make inroads among the residue of small powers around the globe. Some of these saw the Cold War as the platform for a virtual imperialism, what I have called Cold Imperialism. The fact that the front line of that struggle in Asia was close by in Vietnam in the 1960s and 1970s was threatening. That 20-year struggle determined how each country in the region would understand 'Great Power' for the rest of the century. Along that front line, Singapore provided a view that could reunite it with the older chain that once served the British Empire. Of course, the view was

different in many respects. It was no longer one that was shaped by territorially based units that were created to support imperial trade. Instead, the new view was embedded in the networks of regions and sub-regions that had become essential to the ambitions of two competing ideologically based economic systems. Furthermore, both systems were backed by decisive superiority in military power the scale of which the world had never seen before. This certainly reinforced the view that it was the economic, technological and political structures needed to produce such power that defined Great Power from then on.

Adjusting to two great powers

From May to August 1965, I was a Visiting Fellow at the ANU, coming here from the University of Malaya in Kuala Lumpur. At a farewell lunch on my last day in Canberra, on August 8th, friends from the Southeast Asia Division of the Ministry of Foreign Affairs, notably the Malaysia desk, were called away because the news had just broken that Singapore had been separated from the Federation. Suddenly, Singapore was on its own with the chance to develop a distinctive view of the world. This was not the usual decolonisation process that the British handled so well, with much fanfare when one flag came down and another going up. Those performances were well rehearsed and there were no surprises. This separation could not have been more dramatic. With no other information about what had happened, the rest of us finished our lunch wondering what the new leaders of Singapore would have to do. That night, in my hotel room in Sydney, I watched Lee Kuan Yew cry on TV. The next morning, arriving at Singapore airport, while reading the local newspapers, I heard strings of loud crackers celebrating the island state's new freedom. We now know from Lee Kuan Yew's memoirs what he and his colleagues had to contemplate on that first day of independence. Other people have other memories. I went on to Kuala Lumpur that morning and, over the next few days, picked up versions of what led to Singapore's abrupt departure. Many questions surfaced. How secure was Singapore's future in the face of Konfrontasi from Sukarno's Indonesia? What will the new state do? What about the thrust of communist armies in the Indochina states? How will it survive as an independent state?

In 1965, the view from Singapore was clear: two Great Powers on the one side and over 100 major and minor nations on the other.

No doubt many more questions were asked. A variety of views seemed possible from Singapore, all of them rather grim. I think I have said enough to remind us of how unstable the world looked like in 1965. There were then only two Great Powers, the USA and the Soviet Union, and each had their allies and satellites. There was the United Nations, with its 115 equal nation-states, and Singapore became an UN member that September. In theory, the five permanent members on the Security Council were Great Powers, but few took that literally. In 1965, the view from Singapore was clear: two Great Powers on the one side and over 100 major and minor nations on the other. Universal membership of the UN ensured that Singapore was in the society of equals, but it was located in an unsafe neighbourhood. Identifying who was family and who could be friends, partners, even protectors, was the fate of all small nations. They had to make hard choices if they were given the chance to choose at

all. In any case, for most such states, each Great Power was too far away to turn to for help, or too great to care, or too powerful to feel safe with. It was essential to find lesser mediating powers that were managing less threatening gatherings of states, varieties of international and regional clubs and associations that a small state could safely consider joining. There had to be careful sifting of the multiple layers and networks that other states had created in order to find the best combinations that could enhance the sense of security in a turbulent Southeast Asia.

Fortunately, separation from Malaysia was amicable and Singapore could immediately join the Commonwealth of Nations as an independent member. This was a valuable club to join because its leader Britain could still claim the status of a historical power as one of the UN Security Council's permanent members. It had the added advantage of being on the side of one of the two Great Powers, the USA, without being under direct US tutelage. This gave Singapore room to manoeuvre in a divided region. Of course, not all regional organisations were helpful. For example, the Non-aligned Movement, created more problems than it could solve. SEATO, The Southeast Asia Treaty Organisation established by the Manila Pact in 1954, was too openly anti-communist. In any case, these had no lasting impact, nor could they assure safety in the face of confrontation by Indonesia. There was also Maphilindo (Malaysia. Philippines and Indonesia), an organisation based on common Malay ancestry, that Singapore could not belong to. In this context, Singapore enjoyed a bit of luck: seven weeks after it became an independent state, the coup in Indonesia removed Sukarno from power, and the way was paved for the Association of Southeast Asian Nations (ASEAN) to be established in 1967. Here was one more safety net for Singapore. With Suharto as the new leader in Indonesia, the Great Power that organisation identified with was the United States.

Was this enough to make the view from Singapore reassuring? Unfortunately not. The image of American power was severely damaged by the Tet offensive in 1968 in Vietnam and the political fallout within the US forced President Nixon to concede victory to the communists. Britain had compounded this by withdrawing its forces from its Singapore base. In 1971, Singapore joined Malaysia in seeking a formal parameter of defence with the support of Australia and New Zealand, and the Five Power Defense Arrangements (FPDA) was signed. This was an alliance partnership with firm and concrete commitments. Taken together with ASEAN and the Commonwealth, the arrangements provided a useful structure from which the new state could rescue its economy and begin to build a nation out of its many ethnic groups.

The neighbourhood, however, did not get noticeably safer. The Vietnamese nationalists and revolutionaries were winning. The only light at the end of the tunnel was the growing division between the USSR and the Peoples' Republic of China (PRC). That led to 'ping-pong' diplomacy, the secret visit of Henry Kissinger to Beijing in July 1971 and President Nixon's visit in February 1972. By that time, the PRC had replaced the Republic of Taiwan on the UN Security Council, significantly about the time when Singapore took further steps to consolidate the Five Power Defense Arrangements. Thus the view from Singapore was that the two Great Powers were both being weakened, the Soviet Union by its increasingly bitter quarrels with China, its Treaty partner, and the United States by defeat on the Indochina battlefields.

But there was no real change in the world that was dominated by two Great Powers. Certainly no power in Asia was in a position to gain at their expense. The spectacular growth in Japan's economy made it very influential, particularly in South Korea, Taiwan, Hong Kong

and Southeast Asia, including Singapore. But Japan was unable to translate its new wealth into power. China, on the other hand, was in the throes of the Cultural Revolution. Although its position in the UN was conducive to making more friends, the disruptive conditions throughout the country actually led China to become more isolated than ever. In any case, it wielded little power in the face of the two Great Powers and was forced to relax its hostility towards the US in order to protect its sovereignty.

Seen from Singapore, the emergence of the PRC as a player within the UN family did make a difference.

Seen from Singapore, the emergence of the PRC as a player within the UN family did make a difference. One after the other, Singapore's neighbours established diplomatic relations with China and this was a grave test to a state with a population that was predominantly Chinese. It raised questions that had deep roots in history, ethnicity and identity politics for the whole region. The very reason why Singapore was asked to leave Malaysia had now to be squarely faced. It was not a question of China as a great power; China obviously was not. The question was how the ethnic Chinese in the region would be treated and how they would behave if China's position in the UN Security Council should make the PRC more powerful in regional affairs. The Singapore Prime Minister visited Mao Zedong and assured him of Singapore's friendship although it could not establish diplomatic relations until after Indonesia had normalised relations with the PRC. Significantly, the five ASEAN members that had been hostile to the communist bloc moved quickly once they were certain that the shift in the US position was not merely tactical but strategic.

A weak China allied to the socialist family of nations from the late 1940s to the late 1970s gave time and opportunity for those of Chinese origin in non-communist states to integrate as nationals of new nation-states and seek to become core members of the business and professional middle classes. Singapore was a focus of attention where earlier perceptions of Chinese as chauvinists or communists were replaced by representations of Chinese as ruthless entrepreneurs who exploited the capitalist economies. After the economic reforms of Deng Xiaoping from 1978, questions pertaining to China's future Great Power status are now regularly raised. Here the view from Singapore identifies the key problem as one of easing a transition during which the sole Great Power, the United States, and major regional powers, including rising powers, adjust to rapid change without unnecessary tension and conflict.

Back to one great power

With that backdrop, what I have learnt from the Singapore perspective point to two principles. The first is,

Accept that there is only one Great Power for the foreseeable future

This is not a rigid position and would have to be monitored, but the relative 'greatness' index is actually not that difficult to determine. There have been recent assessments that point to the challenge of China and suggest that the US will not remain the sole Great Power for too long. China is certainly a rising power, but only a rising regional power and Chinese history

suggests that it would be an aberration for China to reach far beyond the region. Most of the projections of China's 'superpower' or Great Power potential consist of hyperbolic optimism or alarmist pessimism. They are based on assumptions that have no precedent in Chinese history and use modern analogies like the rise of Germany and Japan in the 20th century. These fail to underscore the disastrous endings to both those adventures and assume that the Chinese are stupid and will not learn from history about the dangers of nationalist and militarist power.

The second strategic principle is,

Involve as many international and regional groupings of nations in Asia as possible, including

All UN agencies; The Commonwealth connection where relevant; APEC with its strong Australian-Pacific linkages; The 'East Asian Community/Summit', that is, ASEAN plus 3/ and plus another 3; and the extensive ASEAN networks that are giving the region a pivotal position and also exploring linkages with other organisations like the European Union, the South Asian Association of Regional Cooperation, among others. By strengthening the networks tying the region to other regions, there could be a check not only on the rising regional powers but also on the Great Power itself.

These two principles are central to a mini-'grand strategy' (if one could call it that). Beyond that, there are other concerns that will engage all the nations of Asia. Let me cite two examples here:

Firstly, help the first modern regional power, Japan, to adjust to rapid change

The need for this has surprised me. Having grown up with the image of Japan as a military power that then swiftly converted itself into a global economic power, it is surprising that the Japanese should be fearful of anything. But China's economic performance since the early 1980s and the alarmist speculations about China's future power, with the potential even to challenge Japan's economic status, seems to have rattled parts of the Japanese elite. So much so that even the US–Japan alliance does not seem to be enough to lessen their fears. There seems to be a concern not to be sucked back into Asia that contradicts the urge to ride on Asia's recent economic growth. The contradiction is worrying because it is driving some of the leaders to deny their militarist and nationalist history and provoking reactions that could make their sense of insecurity even greater. This could destabilise the very networks that have been put in place to minimise negative responses of that kind. No one who has read about the astonishing achievements of the Japanese from the Meiji Restoration down to the 1990s could have expected Japan's dramatic loss of confidence during this past decade. Even now, I hesitate to suggest that the countries in the region should see what they could do to help the Japanese out of their bout of nerves.

Secondly, engage the rising power of China, one of the new regional powers

Given the presence of the US as the sole Great Power actively interested in the stability of the region, all the established networks mentioned above are confidently engaging China. This will ease China's efforts to be a responsible force committed to interdependent development. That will help the Chinese leadership face its own uncertainties of rapid growth, including the threats of environmental degradation, social unrest, and the staggering imbalances now apparent within Chinese society. State and nation building tasks are strikingly enormous problems for a slowly reforming Communist Party. The party has to find a new sense of direction in order to lead the Chinese people to tackle the very tough

challenges ahead. China needs the assurance of peace and stability to deal with the rising tide of ecological, social and political damage within the country. It is in the region's interest not to aggravate the conditions that the Chinese leaders face.

Two other points that the Singapore perspective highlights should also be briefly noted before I end. The first is,

Acknowledge India as another new regional power

This is happening and the Singapore perspective has been especially appropriate for recognising this. Perhaps the most important point of concern stems from the fact that India does not have the strong position in the United Nations Security Council that China has. Here India shares Japan's growing disgruntlement about the current international system. It is increasingly clear that both these regional powers in Asia will not be satisfied until they have attained a position at least comparable to that of China. This has become significant because it coincides with American dissatisfaction with the current role and effectiveness of the United Nations organisation structure. It means that the three, unlike China today, are not content with the status quo, albeit for different reasons. That all three share this view at the same time could lead to greater cooperation among them to change the status quo of the international system. There is great irony here because so much effort had been expended during the past decades to push China to become a status quo power. Now it would appear that it is China that wants the status quo to remain. All the same, all countries in the region recognise that India is bound to rise rapidly. Together with Japan, and backed by the United States, India will seek changes. It seems only a matter of time before the international system is reformed to satisfy their interests.

The second is,

Calibrate responses where the major regional powers overlap

As the overlap is likely to be centred on Southeast Asia, all the ASEAN institutions will have to be enhanced, and the sooner that is done the better. Singapore is in a good position to help strengthen the machinery to measure the pulse of the region with greater sensitivity. Singapore's growing activism has been identified as an important factor in the revived ASEAN. Its officials have involved themselves more than ever in the multiple tasks that ASEAN is now expected to perform. Singapore's most useful contribution may be to connect all the key strategic points in its century and a half history to the expanding needs of the regional organisations now emerging.

Let me end on a note that is particularly relevant to the Singapore perspective. In reflecting on the various powers in Asia, I am led back to the principle of the rule of law. This is not to advocate strict legalistic rules of sanctions and punitive actions between states. That I believe is totally counter-productive. Inter-state relationships are subject to complex factors that are often fluid and unpredictable. If legal issues are over-simplified or codified to be inevitably binding, all the states involved may be doomed to disappointment and a sense of let-down and betrayal. But all efforts at long-term cooperation require an overarching respect for legal procedures that can ease and reinforce cultural and customary, and even moral, concerns. That spirit will be essential to keep the peace in Asia and enable all nations there to regain their autonomy and self-respect.

JAPAN'S EMERGING SECURITY ROLE IN ASIA AND BEYOND

Masashi Nishihara

It is my great honor to be invited to this distinguished conference being organised by ASPI and to be given an opportunity to speak about Japan's changing strategic outlook and its emerging security role in Asia and beyond. I would like to begin by discussing Japan's strategic interests in Asia as well as its constitutional constraints on expanding its security role.

Japan's strategic interests in Asia

Japan is located geographically very close to the Asian continent and thus it was historically affected by the tensions and conflicts on the Korean peninsula and in China before World War II. For this reason, Japan often felt the need to militarily intervene in these two areas to maintain its own national security and generally was able to do so. This changed, however, after World War II, when Japan was defeated.

... Japan's security strategy in Asia has been to achieve political stability by helping build up the region through official development assistance, trade, and investment.

Since then, Japan's security strategy in Asia has been to achieve political stability by helping build up the region through official development assistance (ODA), trade, and investment. Japan calculated that improving the continent's economy was likely to enhance its political stability and promote foreign trade, particularly with Japan. In addition, economic assistance was a politically acceptable means for the Japanese people, who, after being defeated in the Pacific war, renounced the use of military force to settle international disputes. On the whole, this strategy worked. Japan's economic relations with Southeast Asian countries were a success story. Indeed, Malaysia's Prime Minister Mahathir Mohamad even adopted what he called a 'Look East' policy, which urged Malaysians to follow the Japanese model of development.

Northeast Asia, however, has been a far more complicated region for Japan. Even though Japan's economic relations with South Korea and China have contributed to their economic development, political conflicts between Japan and both South Korea and China have only aggravated its relationships.

The volume of Japan's trade with, and investment in, China and South Korea still is enormous. Tourism among the three countries is popular as well. But political tensions over Japan's interpretation of historical events, territorial claims, and the like continue.

To survive, Japan today needs secure supply lines of essential natural resources and industrial goods. Eighty-five per cent of Japan's imported oil comes from the Middle East, and around

25% of its trade is with Europe. Therefore, the sea-lanes between Japan and the Middle East through the Strait of Malacca and the Indian Ocean have always been a major security concern for Japan and the basis of its strong ties with the United States. In fact, Japan's alliance with the United States not only offers a counterbalance to any rising powers on the Asian continent but also helps protect the sea-lanes.

To survive, Japan today needs secure supply lines of essential natural resources and industrial goods.

This is why Japan provides the United States with bases and other facilities and why Japan has sent its ground troops and air units to Iraq and its naval ships to the Indian Ocean. A politically stable Middle East ensures a ready supply of oil for Japan. In return, Washington needs Japan as its key ally in Northeast Asia, to maintain the United States' influence over the Korean peninsula, the Taiwan Strait, China, the Indian Ocean, and the Middle East.

Unfortunately, Japan is surrounded by problematic neighbors—Russia, North Korea, China, and South Korea—and, of course, is a problematic neighbor for them as well. But Japan cannot resolve these problems by itself, so for that reason as well, its alliance with the United States is essential.

At the present time, these neighbors have been stirring up new security tensions. One example is that the Russian Government, under President Vladimir Putin, has hardened its attitude toward the disputed Northern Territories.

In addition, North Korea has threatened Japan with its missiles and nuclear program and its hostile stance toward Japan. Such action is intended both to isolate Japan in the six-party talks and to strengthen its future negotiating position with Japan over war reparations. The nuclear tests that North Korea conducted in October 2006 revived the call in Japan for nuclear armament or the capability to launch a preemptive attack on North Korea's missile sites. The nuclear armament issue died down after US Secretary of State Condoleezza Rice flew quickly to Tokyo and reassured the Japanese Government of the United States' guarantee of extended deterrence. But given the current precariousness of US–North Korean relations, many Japanese worry that the United States will eventually condone North Korea's possession of nuclear weapons. Will Japan then be confronted with a united, nuclear-armed Korea? Japan's relations with North Korea, therefore, represent a new strategic issue.

In recent years, China's economic influence over North Korea through exports of food and other necessities, plus its sizable investment in North Korea's mining operations, has grown and may cause new tensions between China and South Korea.

China is by no means an easy neighbour for Japan either. Its huge consumer market is understandably attractive. But when countries become more economically dependent on China through economic aid, trade, and investment, they also are drawn more closely to China's political influence. Indeed, Beijing has strengthened its political influence in Asia, Africa, the South Pacific, and Latin America. China is clearly trying to enhance both its political and economic presence around the world and to acquire new sources of energy and food. In 2006, it invited forty-nine African leaders to Beijing for a summit conference

and promised large investments and official development assistance. In that year, China also organised similar summit conferences with ASEAN leaders and with the Shanghai Cooperation Organization.

China's intrusion into Latin America is similarly alarming. For instance, it has installed a communications base in Cuba to gather electronic intelligence from US satellite communications. And in August 2006, President Hugo Chavez of oil-rich Venezuela made his fourth visit to Beijing since he took office in 1999.

China has intensified its military cooperation with Russia through substantial arms imports from Russia and joint military exercises. Beijing also has joined Moscow in criticising the United States' global hegemony. In addition, China has an impressive space program, which sent a manned satellite into space and also conducted a successful test attacking a satellite orbiting in space. China is reported to be building aircraft carriers, and there is every indication that it wants to develop a blue-water navy and an offensive air defense strategy to tip the balance of power across the Strait of Taiwan in its favor.

For the past nineteen years, China's defence budgets have expanded annually by more than 10%. In March 2007, China set its defence budget for fiscal year 2007 at about US$45.6 billion, an increase of 17.8% over last year's budget. Even so, its real defence expenditure is estimated to be two to three times as large as its official budget, around US$136 billion, compared with Australia's US$15.1 billion and Japan's US$41.1 billion in 2006.

In the next decade, there is likely to be more tension between China and Russia, on the one hand, and between the United States and Japan, on the other, particularly in regard to missile defence and submarines.

The strategic situation in East Asia therefore has changed with North Korea's acquisition of nuclear weapons and China's growing economic and military capabilities. As a result, Japan may be losing its military edge over China and Russia. Can it maintain the current balance of power? Must Japan accept China's dominance in the Asia–Pacific region? Deciding how to cope with these developments is now Japan's major strategic concern.

Abe's assertive diplomacy

Since Prime Minister Shinzo Abe took office in September 2006, he has taken several strategic measures to address these concerns in East Asia and beyond. In fact, one of his campaign promises was to conduct 'an assertive diplomacy,' and he so far seems to have taken several steps toward this.

First, Abe has improved Japan's relations with China and South Korea by not visiting the Yasukuni Shrine, a Shinto shrine for Japan's war dead that includes fourteen class-A war criminals. Moreover, China's President Hu Jindao today cannot afford to criticise Japan publicly because that may incite anti-Japanese demonstrations inside his country, which may then turn into demonstrations against his own government. Faced with the Seventeenth Party Congress planned for October 2007 and the Olympic Games in Beijing in 2008, President Hu cannot allow any internal political instability. For the time being, therefore, he will contain anti-Japanese debates and demonstrations.

Second, Abe visited Brussels last January to address a NATO meeting, expressing Japan's interest in working more closely with the organisation, which is based in the Atlantic region but has stretched its forces and influences to part of Asia, Afghanistan.

Third, the Japanese Government has advanced the concept of 'an arc of freedom and prosperity' stretching across Northeast Asia, Southeast Asia, South Asia, Central Asia, and Eastern Europe and has indicated that Japan wants to strengthen its ties with the young democracies in this arc.

Fourth, in March 2007 Prime Minister Abe and Australia's Prime Minister John Howard signed a joint declaration of their countries' security cooperation, promoting 'comprehensive strategic relations.' The declaration describes nine areas in which the two countries can cooperate, ranging from antiterrorist measures to responses to infectious diseases. The declaration does not mention Japanese–Australian cooperation in regard to China because it is not a military alliance. The two countries do, however, have a tacit understanding that they should work together more closely as two stable Western Pacific democracies.

Tangible Japanese–Australian cooperation on security issues dates back to 1992 when UN peacekeepers, known as the UN Transitional Authority in Cambodia (UNTAC), began operations in Cambodia. UNTAC was a well-run team led by the civilian head of UNTAC, Yasushi Akashi of Japan, and the military commander of the peacekeeping operations, Lieutenant General John Sanderson of Australia. Japanese and Australian forces also closely cooperated in operations in East Timor. The two forces worked together as well in southern Iraq and in tsunami-stricken Aceh in late 2004. Finally, in 2005 when China wanted to convene an East Asian summit meeting of the ASEAN ten plus Japan, China, and South Korea, Japan counterproposed a meeting of the ASEAN ten plus six, by adding Australia, New Zealand, and India, thereby reducing China's dominance over the meeting and balancing the power relations within the participants of the meeting.

Fifth and last, Abe plans to visit India in August 2007. His trip is intended to be more than just a reciprocation of Indian Prime Minister Manmohan Singh's visit to Japan last fall. Instead, Abe would like to form a strategic partnership with India. Japan, however, is restricted from selling arms and does not fully support the US–Indian nuclear agreement, factors that may well slow the development of a bilateral relationship with India. In any case, the prime minister's visit to India is a new strategic move by Japan.

By promoting close ties among the democracies in the 'arc of freedom and prosperity' and the Pacific region, Japan can help control China's growing influence in the region.

The implications of Prime Minister Abe's strategic steps toward Asian Pacific security and even global security are notable. By promoting close ties among the democracies in the 'arc of freedom and prosperity' and the Pacific region, Japan can help control China's growing influence in the region. In sum, Japan's policy is designed to ensure that the United States will remain a major player in the region and to offset China's influence. In addition, its alliance with the United States will accord Japan more influence.

Constitutional revision and the Abe Government

Whether Japan can play a great, useful role in international security depends on the controversy over its constitution. Japan's current constitution was promulgated in 1947 and

has not been amended since then. But successive Japanese leaders have felt constrained by the impracticality of Article 9 and thus have modified its interpretation. For instance, Article 9 renounces 'the threat and use of force as a means of settling international disputes,' which for many years prohibited the Japanese Self-Defense Forces (SDF) from participating in UN peacekeeping operations. Then in 1992 the government reinterpreted Article 9 to allow its Self-Defense Forces to participate in UN peacekeeping operations as long as their activities were confined to nonmilitary missions such as rehabilitation and humanitarian support and as long as they carried only light arms. That year, for the first time since 1945, Japanese forces were dispatched overseas, to Cambodia.

Abe's predecessor, Junichiro Koizumi, was criticised by opposition parties and antiwar groups for sending troops to the Indian Ocean to assist other friendly nations fighting the Taliban forces in Afghanistan and to engage in humanitarian and rehabilitation activities in Iraq. Koizumi's defence was that SDF troops were sent only to noncombat areas. Although this was a difficult decision for him, his success in bringing about Japan's economic recovery enabled his popularity rate to remain quite high.

Since 1945, Japan has adopted many other self-imposed security policies. For example, it has a strict ban on exporting arms, demonstrating its pacifist position. A resolution by the National Diet limits Japan's use of outer space to only peaceful purposes, thereby prohibiting it from launching an intelligence-gathering satellite.

Japan is slowly becoming 'a normal country' like other democratic countries, but in my view it is still far from a normal country. Although Abe has been in office for a bit less than a year, he already has done a lot to provide the basis for building a respectable Japan, or to make Japan a little more normal country. For instance, he has enacted a new law establishing a Japanese version of a National Security Council and has strengthened the office of prime minister in relation to other cabinet posts. Abe also has elevated Japan's Defense Agency to the Ministry of Defense, a revision that has been needed for many years, but he was the first prime minister to be able to do so.

Abe's next step is to revise Japan's constitution and gradually modify its defence role. Accordingly, the constitutional revision should have been a major campaign issue in the Diet's upper house elections on 29 July 2007. Currently, however, an extensively mismanaged pension system has dominated the campaign.

A challenge for the prime minister thus is when he can actually revise Article 9 of the constitution. The legal procedure for amending the constitution is extremely complicated. Any proposed revisions must be supported by a two-thirds majority in both the lower and upper houses of the National Diet and must receive the support of a majority in a national referendum. Today, Japan's coalition government has a two-thirds majority in the lower house but not in the upper house. How the ruling coalition parties fare in the July 2007 election will influence subsequent constitutional debates.

Abe has organised a task force to examine whether a new interpretation of Article 9 would allow Japan to exercise its right to collective self-defence and thus strengthen its alliance with the United States. The task force should finish its report in the fall of 2007. Japan's constitution is not interpreted to give it a right to collective self-defence. Thus the current government position is that American forces will help defend Japan if the latter is attacked but that Japanese forces cannot come to the aid of American forces if the United States is

attacked. The reasoning is that by assisting American forces, Japan would be exercising its right to collective self-defense. Abe is trying to correct this unrealistic interpretation.

Another example is the future of Japanese–Australian relations. Since the two countries have signed a joint declaration regarding security cooperation, some people may argue that it should evolve to be an alliance between Japan and Australia. Today, Australia's navy and air force can come to Japan for joint exercises, but if they were to seek Japanese support for its operations in Northeast Asia, Japan would have to refuse because it would be exercising its right to collective self-defence, which, again, is currently interpreted as unconstitutional.

Only when Japan has modified its interpretation of Article 9 or revised its constitution can it allow Australia to use Japanese bases and allow itself to support Australia's operations in Northeast Asia. Only then will a bilateral alliance become possible.

Concluding remarks

As I have stated, there are many strategic uncertainties in the Asia–Pacific region, and a key to these uncertainties is the evolution of US, Japanese, and Chinese relations. But I am hopeful that this triangular relationship will become stable, despite the many areas of uncertainty—the Korean peninsula, the Strait of Taiwan, and China's military posture and capabilities. In the future, the rivalry between the US and Chinese navies may become more intense, and the Japanese, Indian, and Australian navies may join them. And new tensions may also arise between Chinese and US and Japanese missile defence systems.

Security issues in the region, however, should not be confined to strategic issues. We must pay more attention to nontraditional security issues such as climate change and transnational crimes, as well as terrorist attacks by non-state actors.

Finally, Japan should engage these issues and allocate more of its resources to them, in order to fulfill more international responsibility for regional and global security.

PANEL: GOVERNANCE AND SECURITY IN THE SOUTH WEST PACIFIC

This session deals with the South West Pacific. There has been continuing instability in New Guinea, coups in Fiji, intervention in the Solomon Islands, constitutional problems in Tonga resulting in the street violence, and continuing issues of corruption in Vanuatu. We've also probably seen the region's first failed state emerge, and that's Nauru. The panel of experts address issues of governance and security in the South West Pacific. Transcripts of the open forum discussion can be found on the ASPI website.

Stewart Firth

1. What are the key influences on political stability and instability?

1. Constitutional status

Some groups of Pacific islands are territories, some in free association, and some independent. Generally speaking, an external constitutional or treaty connection means a higher standard of living and greater political stability. The territories of external powers are heavily subsidised by home governments in Paris, Washington and Wellington.

The freely associated states—Palau (pop. 20,000), Federated States of Micronesia or FSM (110,000) and the Marshall Islands (56,000) with the USA and the Cook Islands (13,500) and Niue (1,600) with New Zealand—benefit from subsidies and from their citizens' freedom to enter, work and live in the metropolitan states that are their patrons. The politics of the territories and freely associated states, then, are conducted within the wider framework of the politics of France, the USA and New Zealand. Once we account for the eight territories (American Samoa, French Polynesia, Guam, New Caledonia, Northern Mariana Islands, Pitcairn Islands, Tokelau, and Wallis & Futuna) and five freely associated states (Cook Islands, Niue, Palau, FSM and the Marshall Islands), we are left with the nine independent countries where most Pacific Islanders live (Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu).

Independence means surviving on one's own. Independent Pacific governments receive aid but their budgets are not permanently underwritten by other governments, nor can their people enter New Zealand or the USA as of right. Living standards are therefore generally lower in independent Pacific countries than elsewhere in the region, and much lower in Papua New Guinea, Solomon Islands and Vanuatu, where the vast majority of people still live a subsistence life supplementing it with cash.

Independence means a greater risk of political volatility. Three of the nine independent Pacific countries—Samoa, Tuvalu and Kiribati—are models of stable democracy and have been so ever since decolonisation. Another four—PNG, Vanuatu, Tonga and Nauru—have a consistent record of changing governments constitutionally but have confronted other problems such as corruption, weak central authority, lack of accountability and social unrest. Two countries, Fiji and Solomon Islands, have experienced coups and Fiji can be said to have developed a 'coup culture'.

2. Cultural heritage

Melanesian societies seem peculiarly unsuited to meet the demands of modern nation-state. The cultures of Melanesia outside Fiji are characterised by small-scale societies of related kin, numerous languages (820 in PNG alone), leadership based on achievement rather than ascription, and political loyalties that remain intensely local. In PNG, Solomon Islands and Vanuatu, a sense of national identity has been slow to form, and successful politicians are those who respond not to national needs but to the particular demands of the kin group who voted for them. These three Melanesian countries are states defined by territory rather than by national identity, and the result is ineffective or absent government, amounting almost to state failure in Solomon Islands. They are strong societies (hundreds of them) and weak states. Fiji and the countries of Polynesia and Micronesia, by contrast, were traditionally home to cultures of hierarchy, rank and inherited chiefly authority, often giving rise to larger scale societies that in some cases came to resemble the state. Here there has been a smoother transition from traditional forms of government to the hierarchy and specialisation of the modern state.

3. Colonial history

The colonial legacy differs from country to country. Fiji, Polynesia and Micronesia have a longer history of contact with the outside world than most of Melanesia. Tonga had its own modern constitution by 1875. Fiji's Council of Chiefs was meeting in regular session, with agendas and minutes, by 1876. Yet further to the west in Melanesia developments of this kind did not come until the 1950s. Europeans extended control over New Guinea only slowly, taking until the 1930s to reach the Highlands—home to a million people—and until the 1950s to establish authority over the region. Most PNG Highlanders experienced colonial administration as a transient phenomenon lasting a couple of decades before independence in 1975.

4. Rate of population growth

Population growth influences political stability. The population is growing much faster in PNG, Solomon Islands and Vanuatu than in the wealthier countries to the east. PNG has the highest fertility rate in the Pacific Islands and is projected to double its population to 12 million by 2032. In all three countries cash-paying jobs can be found for only a small minority of young people, and young men in particular are easily recruited to gangs, criminal activities and violent political causes.

5. Access to labour markets outside the region

Access to the best-paying jobs for Pacific Islanders differs markedly from one sub-region of the Pacific to another. These jobs are not in the Islands but in New Zealand, Australia, the USA, the Middle East and elsewhere. Tongans and Samoans have long been able to work in New Zealand and the USA, and Fijians have in recent years worked in large numbers as guards and escorts for security firms in Iraq. Many young men of Kiribati and Tuvalu, similarly, work around the world in the merchant marine. In all cases, Pacific Islanders add to family income by sending remittances, which are major sources of national income in Tonga, Samoa, Fiji, Kiribati and Tuvalu. The people of the poorest Pacific countries—PNG, Solomon Islands and Vanuatu—have comparatively little opportunity to work abroad and earn remittances, yet remittances are not aid, are not channelled through bureaucracies and tend to reduce income inequality.

6. Globalisation

Globalisation is both a positive and negative force in the region. Labour migration, for example, boosts Pacific economies. Changes in trading arrangements, however, can have a negative impact, as we see in Fiji in the case of the sugar and garment industries. Sugar is threatened by free trade with the European Union, ending more than 30 years of special sugar prices, and garments are already declining under the impact of the end of the Multi-Fibre Arrangement in 2005. Inflation is increasing in Fiji and the Reserve Bank of Fiji is struggling to maintain foreign currency reserves, and the reason is not just the coup. There are deeper structural reasons to do with the decline of sugar and garments as sources of export income.

7. HIV/AIDS

In part because the PNG health system is in disarray, HIV/AIDS is spreading rapidly among a population with male-dominant cultures that hinder counter-measures. Unofficial figures in parts of the Southern Highlands suggest HIV infection rates of sub-Saharan proportions—30% and above—among young people, though rates throughout the country are much lower. Where health systems are better, as in Fiji, Samoa and Tonga, HIV infection rates are much lower.

2. What is the present situation in the five Pacific countries that have experienced political instability or social disorder in recent times?

1. Fiji

Fiji is not a weak state. Fiji is a weak democracy.

The Republic of Fiji Military Forces under their commander Commodore Frank Bainimarama emerged from the events of 2000 no longer accountable to government but rather an independent force in Fiji politics. When the government sought to end the commander's employment in 2004, he compelled it to back down. The commander felt increasingly free to comment on government decisions and appointments, and was outraged when the government proposed a Promotion of Reconciliation, Tolerance and Unity bill that would have created amnesties for the coup rebels of 2000. From the end of 2004 until the elections of May 2006 he waged a public campaign against the government on this legislation and other proposed laws and appointments. He purged the military forces of opponents, dismissing senior officers who refused to pledge personal allegiance to him, and eventually declared that he no longer recognised the authority of the government over the military: 'The Military now is on its own and is not answerable to anyone'.

Even before the elections of May 2006, then, the scene was set for another coup; and when the prime minister and his party were returned to office despite the commander's campaign against them, military intervention was only a matter of time. It came on 5 December 2006, and led to the installation of an interim government with the commander as prime minister, the defeated Labour Party leader and former prime minister Mahendra Chaudhry as Minister of Finance and a number of other unsuccessful politicians as ministers. The new government sacked most heads of government departments and state-owned enterprises. A top military officer became police commissioner, and loyal officers were rewarded with promotion to higher rank.

Fiji's latest coup is different from earlier coups, which were all justified as necessary to defend indigenous rights. Bainimarama instead says he is cleansing the body politic of corruption and restoring 'good governance'. International reaction to Bainimarama's action has been uniformly negative, and, under pressure from the European Union and other donor states, the Fiji Government has agreed in principle to holding democratic elections by early 2009. Bainimarama has promised to provide 'a clear mandate' for politicians to follow in the next democratic government, meaning that the military will guide the government from behind. Fiji's newest coup suggests that no future democratic government will be able to govern for long without military approval.

2. Tonga

Tonga is not a democracy. Tonga is a kingdom where the monarchy is under challenge.

The Tonga riots of 16 November 2006 took everyone by surprise, not least the Tongans themselves, whose history since the formation of the modern kingdom in the nineteenth century has been one of notable political stability under a succession of hereditary monarchs. The riots were estimated to have caused losses to businesses in Tonga of more than US$60 million, with 153 businesses affected, 700 job losses and incalculable damage to Tonga's international reputation. In the wake of the riots, Australia sent 50 troops and 35 police, and New Zealand sent a further 60 troops to secure the airport. Emergency powers were declared, and then extended each month, hundreds of rioters were arrested and the authorities have curbed the press.

Signs of unrest were evident in Tonga for years, especially in 2005 and 2006, which were notable for protest marches, unprecedented demands for democratisation, public complaints about the corruption of the royal family, and a major public service strike. The strike, which began in July 2005 and did not end until September, was provoked by a new stage in the government's Economic and Public Sector Reform program and succeeded in gaining a promise of large and unaffordable increases in salaries for employees in the country's over-staffed public service. The reform, which widened salary inequalities and envisaged privatisation of public enterprises, might just have been acceptable in a different political climate. But commoner Tongans were outraged at the salaries being paid to Crown Prince Tupouto'a and other executives of Shoreline, the privatised Tonga power monopoly. And they knew of the wealth accumulating in the coffers of Princess Salote Mafile'o Pilolevu Tuita, chair of the board of Tongasat, which controls the country's nine geostationary satellite orbital positions.

Tonga faces a fiscal as well as a political crisis. Government revenues have fallen, and the country is seeking assistance from new sources, among them China, which committed aid worth 20 million yuan or US$2.5 million to the tiny kingdom in 2007 as part of a general policy of increasing Chinese influence in the South Pacific. Tonga plans to seek a Chinese loan of US$60 million to assist in the reconstruction of the capital Nuku'alofa. The country remained in a state of emergency in mid-2007, but there were signs that political reform would come. A National Committee for Political Reform reported in 2006, and the monarchy is likely to survive in the long term only by making concessions to its democratic critics.

3. Solomon Islands

Solomon Islands remains a weak state, but is much stronger for having had the Regional Assistance Mission led by Australia.

'Building the state' and restoring stability to Solomon Islands is no easy task. Serious riots erupted in Honiara following the elections of April 2006, destroying much of the capital's Chinatown district and forcing the evacuation of hundreds of Chinese who played a key role in its commercial life. The 2006 riots showed that the regional assistance mission, which has no deadline for departure, is likely to remain in Solomon Islands for years to come.

The key problems for the Regional Assistance Mission are:

(i) the ambiguity surrounding its role and authority. To what extent must it respect the sovereignty of the Solomon Islands Government when respect might mean continuing bad governance? The prime minister Manesseh Sogavare has been testing the limits of RAMSI for a year—in the Julian Moti affair, the expulsion of the Australian High Commissioner Patrick Cole and in his attempt to re-arm a section of the Solomon Islands police.

(ii) the political consequences of continued tropical logging by Asian timber companies, which corrupted the elite in the first place. RAMSI needs a new economic policy for Solomon Islands.

4. Nauru

Nauru is a tiny island democracy which has gone bankrupt and is recovering.

The shock of economic collapse in Nauru has produced public pressure for a revised constitution with a popularly elected president, an ombudsman, an independent auditor and strict accounting of all public revenue and expenditure. Nauruans voted earlier this year to elect members of a Constitutional Convention which was expected to make changes of this kind. They key document in Australia's relations with Nauru is the 2005 Nauru–Australia Memorandum of Understanding (MOU) for Development Assistance to Nauru and Cooperation in the Management of Asylum Seekers. The refugee processing centre adds $7 million to the $20 million Australia gives in aid each year, and Australians are now in key line positions reforming the government of the island. Phosphate mining on a limited scale has recommenced.

Nauru is small enough to Australian assistance to be transformative, and poses no regional security problem.

5. Papua New Guinea

Papua New Guinea is a state that is still under construction, the task not having been completed at independence. Papua New Guinea's fate is entwined with Australia's.

By 2007 an estimated 15,000 to 20,000 guns were said to be held in the PNG Southern Highlands Province. Many people carry guns routinely, and safe passage is guaranteed only to those with armed protectors. Selling guns is a useful source of cash for some villagers, who obtain them from soldiers in the PNG Defence Force or across the border in the Indonesian province of Papua. States of emergency regularly declared in the province by the central government have little effect.

Southern Highlands is the extreme case, but government is variously ineffective throughout the country. PNG has about half the number of medical aid posts it had thirty years ago. Most people have no electricity or piped water, and while schools have multiplied since independence, only a minority of children go beyond primary level. Roads are in poor repair, and many villagers' access to markets has diminished.

Since polling in PNG's elections started last weekend, many eligible voters have claimed their names were missing even though they have enrolled. The problem for PNG, once again, is one of capability: the electoral roll misses many voters and includes many twice or more.

PNG matters strategically to Australia more than any other Pacific Islands country, and also confronts the most serious problems of government decay, threats to personal security and HIV/AIDS, even though it is a diverse country with many successful communities. The Enhanced Cooperation Program with PNG is vital to the future of the country, and Australia needs to commit itself to continuing extra assistance beyond the end of that program in 2009.

3. What is Australia doing to help? What else should Australia be doing?

Australia is becoming a hands-on supervisor of governance reform in the South Pacific, not only in Solomon Islands and Papua New Guinea, but in Nauru and other states as well. In Canberra the departments of the attorney general, finance, and treasury have established specialised South Pacific units, and the Australian Federal Police, who are playing an increasingly important role in the region, now have an International Deployment Group. AusAID, the Australian aid agency, has a continuing Pacific focus. The Australian Defence Force has been deployed to Solomon Islands, Tonga and to the waters of Fiji in the last year. 140 troops remain in Solomon Islands.

What else should Australia be doing?

(i) giving more infrastructural aid, and offering less good governance preaching

(ii) giving more assistance to cope with the transition to free trade, especially in Fiji, where new arrangements threaten the sugar and garment industries

(iii) focusing on alternatives to logging for the Solomons economy

(iv) further regionalising engagements such as RAMSI, so that South Pacific states have a stake in security solutions, and also because of the success of Pacific Islander soldiers and police in regional operations such as RAMSI

(v) accepting limited seasonal labour schemes of the kind now being run by New Zealand in both Solomons and Vanuatu

(vi) paying more attention to good bilateral relations, especially with PNG.

Ben Reilly

I'm going to try and follow on from what Stewart was saying. I have to say I think Stewart has done a terrific job in really covering an awful lot of issues of some complexity quickly and well.

I'd like to just talk a little about the governance and political side of the problems in the Pacific and then also say a few words about the strategic challenges for Australia that the region is likely to have for us. Just to give you a bit of a sense of where I'm coming from, I'm director of the Centre for Democratic Institutions, which is the Australian democracy promotion organisation set up by the Australian Government back in 1998, which was the year Suharto fell in Indonesia, and I think that had a lot to do with it. Our mandate is to try to strengthen the fragile new democracies in the Asia–Pacific region and we have a contractual mandate to focus on Indonesia, East Timor, Papua New Guinea, Solomon Islands, Vanuatu, Fiji, which are, of course, the countries that immediately encircle Australia, and to try particularly to strengthen two institutions of democracy in those countries, one being parliaments, the actual parliamentary systems, including working with parliamentarians, and the other, slightly more controversially, political parties. There's a real push at the moment from various avenues to try and build stronger political parties throughout the region. Particularly in Melanesia, parties are almost non-existent in the way we would conventionally think of them. I'll say a few words about the problems that that lack of a stable political order can have for broader questions of governance.

Starting with democracy—and Stewart sketched out the situation—I think it's worth noting that despite the current problems in places like Fiji, the Solomon Islands and so on, if you look at the South Pacific region in comparison to other comparable developing world regions and other comparable countries in those regions—Africa, the Caribbean—the South Pacific has a very impressive record of democracy. Indeed, until the recent transitions in Asia, most of the longer standing democracies were actually found in the south-west Pacific. So you've got a country like Papua New Guinea, for example, it's had over forty years of continuous elections, basically free elections, with many problems, but essentially free; a very free press—incredibly free, actually. You wouldn't want to be on the end of a serve from one of the Papua New Guinea newspapers. It has had functioning and free judiciaries and complete freedom of association in speech and so on. That holds true for most of the Melanesian Pacific, which are the countries of most direct relevance to Australia. It holds less true for the Polynesian countries, particularly Tonga and also, to a lesser degree, Samoa, which are more a New Zealand sphere of influence.

So the countries of immediate importance and relevance and geographic proximity of highest importance to Australia have, for the most part, been democratic. What they have not done is translated that record of democratic government into development, into what we currently term—I hate this term—good governance, and into a better life for their people. This is the fundamental conundrum facing governance in the Pacific.

I'm going to share a little secret with you, nobody knows what to do about it, because it confounds a lot of our conventional explanations of how things are supposed to work. We tend to believe—in fact, we believe it so implicitly that we often don't articulate it—that if you have a system of government that allows regular elections, competition, freedoms of press, freedoms for business and so on, that you will get over time a degree of development, and things will get better.

What we've actually seen in the Pacific is that with all of those basic freedoms and at least the formal institutions of democracy in place, things are getting worse for ordinary citizens.

What we've actually seen in the Pacific is that with all of those basic freedoms and at least the formal institutions of democracy in place, things are getting worse for ordinary citizens. The average citizen in Papua New Guinea now is poorer than they were at independence from Australia, which is just a disgrace, frankly, and you have a similar situation in Vanuatu and in the Solomon Islands.

Economic growth rates have been very weak over quite a long period of time. Interventions such as the RAMSI operation in the Solomon Islands have indeed helped to turn things around, but there's a real question about whether in the longer term when RAMSI finishes up and comes back there will be any fundamental change that's really embedded or whether Solomon Islands politics will just revert to some of the old practices.

So I think this conundrum, if you like, represents the most essential, the most basic security challenge facing the region and facing Australia. And, as I said, I think there are a lot of initiatives going on in the region, but no-one's really quite got to the bottom of why governance is so poor. Stewart did mention the fact that Melanesian societies in their very nature, in their highly tribalised, fragmented, clan-based forms of social organisation appear to be particularly ill-suited to modern statehood. I think that's correct. I actually think the extrapolation from that insight is that these problems are likely to be with us for many decades, because until the social structure that determines a lot of political behaviour in a country like Papua New Guinea starts to become less salient, less influential, I don't think a lot of the broader governance problems that we see are likely to change.

Let me just say a few words about that particular issue, because I think it lies at the heart of the governance problems in the region. We assume, again often implicitly, that if you have a democratic system of governance and you have free elections and you have a bad government—and certainly there have been numerous examples of appallingly bad governments in Melanesia in general and PNG in particular—that those governments will be thrown out, that people will react to the fact that they're getting poorer, that their roads are falling apart, that they can't get a job, and when they get a chance to vote they'll get rid of that government, and at least there's an accountability there. In the Pacific, what happens is that bad governments are no more likely to be thrown out of office than good ones, unfortunately. That's because elections are really not about policy distinctions or competition between party manifestos. They're local level contests normally for clan power and to try to get your guy—and it nearly always is a guy—the guy from your clan into parliament and for him to then get whatever goods he can get his hands on from his probably one term in the national parliament and deliver them back to the clan. Now that's totally different from our way of thinking about how elected democracy is supposed to work. But this has now become—and this is part of the problem of having quite an extensive record of democracy in these countries—a very institutionalised way of politics in these countries. It's the game—it's the way the game works. It means that there's little

in the way of electoral accountability facing particular governments, particular members, and that although there is great demand for improvement in basic services such as health, education, law and order and so on, those demands are extremely hard to articulate through the electoral process. There's an election going on as we speak. There have been no policy debates between different ideologies or different policy positions. Essentially everyone has the same policy in PNG. Everyone is arguing for better development, less corruption, clean government and so on. But there's no real contest for ideas or indeed for policy.

Ethnic and regional ties often matter far more than any others. As a result, governments and the political systems have struggled to deliver public goods of any sort to their constituents.

Another part of the picture, the problem, is that political parties remain incredibly weak. Again, this, I think, comes back to the nature of the societies themselves—little in the way of any clear ideology, historically a great deal of instability in parliament, members shifting from one party to another and then back, which is one of the reasons there's been so many changes of governments in some of these countries, as Stewart noted. Ethnic and regional ties often matter far more than any others. As a result, governments and the political systems have struggled to deliver public goods of any sort to their constituents. The problem is we seem to be trapped. This has become a kind of dysfunctional equilibrium in many parts of Melanesia. You could look at this as a glass half full as well. I think it's very unlikely that the coup and the emergence of Commodore Bainimarama in Fiji could be replicated in a place like Papua New Guinea. I've never thought that that's something that is a major threat because the kinds of divisions that afflict government also afflict the armed services, the police force, and so on. This level of fragmentation along ethnic lines has some benefits as well as creating many problems.

On the positive side, I think I'm a little bit more optimistic about PNG in particular than Stewart. I think one of the things we've seen in PNG in the past couple of years is serious attempts to reform the system internally. These are much more important than anything that external actors like Australia can do, I think. So there have been major changes to the electoral law to try to create more representative members being elected and possibly also lower levels of electoral violence. There have been major changes to try and force political parties to start acting in a more disciplined way both in parliament and in the community as a whole. Despite, I think, widespread reservations about Michael Somare as a prime minister, the fact is his government was the first that there's ever been in PNG to last a full term of parliament without being overthrown on the floor of the house.

So I think there are some encouraging signs in PNG, in particular, about indigenous attempts to reform the system and push things in a slightly more positive direction. Whether these are enough to turn things around I think remains an open question, and whether we'll get similar kinds of reforms, which I think are sorely needed in places like Solomon Islands, as well is also an open question. One thing that always strikes me working in the Pacific region is that there's far more capacity for talented people to come through the ranks in,

say, Papua New Guinea, partly because it's such a big country, than there are in some of the smaller Pacific countries, where really there is a basic problem of enough talent.

So if I had to give an overall prognosis in terms of the governance situation facing the region, I would say that Melanesia is stuck in a kind of strange, dysfunctional equilibrium that has now become embedded, institutionalised and therefore very difficult to change. The style of politics that has emerged has seen local culture and introduced institutions merge into something that's outwardly familiar—elections, parliaments, people going through the machinations of government—but that don't actually produce any of the public goods that those institutions are designed to deliver and assumed to deliver.

However, despite this, I think it's also unlikely that we will get a Fiji style coup as a circuit-breaker. So really we're looking at muddling along. If you go back and look at I think a strategic analysis of the Pacific say ten years ago, you would have heard something not so dissimilar.

Finally, what are the broader strategic challenges for Australia in the region? Well, in one sense, you know, I think the fact that Melanesia, in particular, is trapped in this dysfunctional form of politics is obviously a huge problem for Australia. On the other hand, we've so far managed to actually insulate Australia from a lot of the direct consequences of these problems. We chose to send the troops into Solomon Islands after a number of requests from the Solomon Islands Government, but we didn't have to. The spectre of a terrorist group or something setting up in the Solomons aside, there really were few direct threats to Australia from the precipitate decline in governance in that country.

Similarly in PNG, I don't see major serious challenges for Australia coming about directly because of the governance problems there. I think we're more likely to see challenges to Australia coming for other reasons. Stewart mentioned one of them, the population explosion in PNG. PNG is a big country and getting bigger very fast. It's already twice the size of New Zealand. If it does indeed have 10 million people in another decade or two, that is going to put all sorts of pressure on not just internal services; it's going to put a huge amount of pressure on the maritime border between Australia and PNG. That border, by the way, is the dog that didn't bark in the night. Given the wealth disparities between Australia and PNG, that relatively narrow maritime border, which can be crossed relatively easily in a small boat—some people claim it's even swimmable—should be like the US–Mexico border. And it's not. There is some movement across it, but nothing like the vast numbers of illegal immigrants that the US has. That may well change given what's going on in PNG, because PNG is likely to become both much more populous and poorer. That's a dangerous combination.

The second strategic challenge for Australia—hard to believe why anyone would want to, but there are external powers that are interested in the region. Two things are going on in the Pacific at the moment in terms of major external powers. One is that the US has for all intents and purposes taken off. It's closed a number of its embassies, it's pulled out a lot of its scholarships. This is not a part of the world that is accorded any kind of priority by the Americans—for obvious reasons; they've got plenty of other problems. In fact, I don't know if we have any of our American experts here, but I think it would be hard to conceive of a part of the world that has a lower strategic priority for the Americans than the South Pacific. Anyway, we're down the bottom of the list.

At the same time the Chinese are coming in. Chinese business interests are coming in. The Chinese Government is coming in—it's coming in for a variety of reasons. It's coming in to fight with Taiwan for diplomatic recognition. It's coming into places like Papua New Guinea because, like Africa, there are lots of resources in PNG. China just opened its own nickel mine in PNG and I think we'll see many more resource-based developments coming from China, in particular. And I think there's also a broader longer term strategic issue for China. The South Pacific is nowhere near the top of the list for China either, but it is in China's broader backyard and I think as an emerging Asia–Pacific power China wants to have a presence in the region and has been extremely successful diplomatically in establishing a presence in a pretty short period of time.

... we're facing this difficult situation where we're putting more and more resources in from government while at the same time the average citizen has less and less connection and I think often less and less interest in the region.

The final problem facing Australia—again Stewart alluded to this a little bit—we now have so many government agencies involved in the Pacific, so many initiatives—we're talking about doubling the Australian aid budget, a great deal of which will inevitably go to the Pacific, various bits of ANU and so on. There's an enormous focus on the Pacific from government, but this focus is not complemented by a similar degree of interest and engagement from the general public. Anyone who has worked in the media and tried to get media stories on PNG or somewhere else in the Pacific knows this. I mean, it's just not a region that the average person on the street engages with. I think this is partly generational. People of my father's generation would often have worked in PNG or somewhere similar, have spent time there. That's just not the case anymore. So we're facing this difficult situation where we're putting more and more resources in from government while at the same time the average citizen has less and less connection and I think often less and less interest in the region. I think that's a very difficult, problematic situation for Australia.

Finally, there is the conundrum of aid itself. Obviously we need to be putting aid into this region for a whole range of reasons. But more money coming into the Pacific does not necessarily equate to better outcomes, and in part because of this weird kind of dysfunctional democratic politics that has emerged in the Pacific, quite often more money coming in simply becomes another resource for politicians to try and grab and feed back to their own tribal or ethnic groups and not really use for the development of the country as a whole. So I think we in Australia have to be very careful—we've got a booming economy, we've got a growing aid budget. Clearly the Pacific is beset with many problems, but I think we have to be very strategic about how we put more money into the Pacific, because people who work there today will tell you that a lot of the time the money that goes in, a lot of the time it does good, but a lot of the time it gets diverted for other purposes as well. If we're talking about doubling the amount of money we're putting in, I think we'd have to have a very hard think about getting the sorts of results we want out of it.

Elsina Wainwright

I would like to talk about the challenges for Australia of assisting with governance and security in the South West Pacific, and I will focus in particular on Australia's involvement in Solomon Islands and Papua New Guinea. Some of these challenges have become ever more apparent over the last eighteen months, with the post-election riots in Honiara and ongoing tensions in the Australia–Papua New Guinea relationship.

The first challenge is the scale of the task, both in terms of complexity and duration. In terms of complexity, we have heard from Stewart Firth and Ben Reilly about the profound, multilayered weakness of some states in the region, with weak institutions of governance, poor human capacity, young unemployed populations, and law and order problems. In terms of duration, leading researcher Paul Collier has also done some interesting work on how fragile states remain fragile for around fifty years. So this is a very long-term kind of enterprise that Australia has sought to embark upon.

There is also the problem of critical mass. These are small countries—although their populations are growing rapidly—and they have small economies when you compare them to the rest of the world. Solomon Islands, for example, has a population of around 520,000. The Regional Assistance Mission to Solomon Islands (RAMSI) can fulfil all of its objectives as it seeks to maximise the Solomon Islands economy and still there is a real risk that it might not be enough to make the Solomon Islands economy a going concern.

The second problem is the challenge of promoting good governance in these countries. The promotion of good governance is a focus of Australia's aid program, as it is a focus of most of the traditional donors worldwide at the moment. Accordingly, a lot of money is going into the promotion of good governance in the South Pacific and around the world. But it has thus far been hard to prove that this money has had great effect, and assistance with political governance has proved particularly fraught.

The third challenge is that of fractious bilateral relationships, for example the problems the Australian Government has had with its relationship with Sir Michael Somare, the Papua New Guinea Prime Minister, and the ongoing tensions between Australia and Solomon Islands Prime Minister Manasseh Sogavare. Problems with these relationships at the highest level have clearly affected Australia's efforts at assistance. It has been very difficult to revitalise the Enhanced Cooperation Program with Papua New Guinea, and the Australia–Solomon Islands tensions have been distracting for RAMSI.

The fourth challenge concerns a heightened level of Chinese and Taiwanese involvement and rivalry in the region. Chinese engagement in the South Pacific has increased in the last few years, as part of China's worldwide push for influence and resources. Aid from China and Taiwan has invariably come without conditions attached, which has clearly affected governance in South Pacific states.

The last challenge is that of high population growth rates. The Melanesian populations are growing quickly, and the young men in the streets with nothing to do often contribute to instability and are easily manipulated by political forces.

Given all these challenges and complexities, it is worth, in a forum such as this, going back to first principles and asking whether Australia should even be involved in the region. But then I think you can quickly move to the answer that, yes, Australia should. Our interests

are engaged, including our strategic interests, as the Prime Minister observed yesterday. I agree with Ben Reilly that we cannot be complacent about our border with Papua New Guinea. There is no history of significant people movements, but the increasing HIV–AIDS infection rate and governmental decline in Papua New Guinea mean strategic policy makers cannot take that for granted. Australia also has a degree of neighbourly obligation towards the states of the South West Pacific. And notwithstanding the problems and challenges of assistance, there is evidence that well-crafted assistance and engagement benefits recipients and assisting states far more than withdrawal.

RAMSI is a model of its kind, and officials and analysts from the US and elsewhere are interested in the lessons Australia has learned from grappling with the issues of our immediate region.

I would also make this observation about the global context. We are not alone in dealing with the problem of fragile states—far from it. But Australia is at the forefront of how to respond. RAMSI is a model of its kind, and officials and analysts from the US and elsewhere are interested in the lessons Australia has learned from grappling with the issues of our immediate region. Australia's expertise is clearly a function of necessity: we are surrounded by this group of rather troubled states to our immediate north and north-east. And unfortunately there are no templates out there as to what we should do and no-one has better answers as to what to do.

I will end by making a couple of observations as to how to respond to some of these challenges. Firstly, it seems to me that we need to respond to the complexity of the task in a comprehensive manner using many policy instruments. The Australian Defence Force and the Australian Federal Police are clearly important parts of the answer, as stability and security are necessary for progress on all other fronts in these states. But they are only part of the answer. Aid, assistance with economic growth, and dealing with underlying state weakness are also critical. Little will be gained by just stabilising a situation if you are not also seeking to deal with the underlying tensions which fuel security flare-ups. In the case of the law and order crisis in parts of PNG, for example, the lack of economic activity to occupy unemployed young men helps to fuel the problem, so addressing this lack of employment and assisting with economic growth will need to be part of the answer.

As to the issue of duration, the long-term problem of state fragility clearly requires a long-term commitment. As the ABC journalist Graeme Dobell once wrote, you can't exit from your own neighbourhood. Australia is the largest power in the South West Pacific and it needs to have a long-term engagement with the region.

In the last few days we have had a reaffirmation of bipartisan support for such engagement. But we are in times of economic plenty. If and when the economy turns, there might be some questions as to whether this significant commitment of money and personnel is a worthwhile investment. These are questions advocates of sustained engagement will need to be prepared for.

My second point concerns the challenge of helping to promote governance: what can best be done? This is a very hard question to answer, but I think that part of the answer involves focusing on the demand side: to build up the demand in these states for better governance. That has to entail support for civic education programs and the media in these countries, to help generate a culture of complaint. So people in a Papua New Guinea village don't just think 'Well, that's my lot ' when faced with failing service delivery, but they realise that it's a problem affecting many other PNG villages, something must be done about it, and they should hold their national political figures to account.

If you ask countries in the region what more Australia can do to assist, their response will often include the provision of scholarships. Offering the states of the South West Pacific more scholarships to study in Australia, to bring promising young people to Australia to build up their expertise, will be a big part of a long-term answer. There has to be good program design so most of these people then return to their own states, but that is doable. And when they do return, they will help to usher in reform in their countries.

The third challenge, that of fractious bilateral relationships, is a tough one, and goes to Ben Reilly's point about Australians not being terribly interested in the South Pacific anymore. It seems to me that we might be able to lessen the degree to which bilateral relationships are vulnerable to tensions at the top by broadening the relationships: by strengthening people to people links, institutional links, academic links and business links between Australia and the states of the South Pacific.

Fourthly and briefly on the challenge of underemployed young men: any response needs to involve the promotion of economic growth and to explore the issue of labour mobility.

I will end with this observation: events in the South West Pacific over the last eighteen months have demonstrated the limits to how much one power such as Australia can assist another. Much has to come from within the states, particularly political will. So the challenge for Australia will be how to work with these states to gain and maintain that local political will.

Session Four—Australia's priorities and options

AUSTRALIAN FUTURES: SOCIETAL SECURITY AND IDENTITY

Bob Birrell

In his address to the 2006 ASPI Conference the Prime Minister, Mr Howard, said that 'the maintenance of social cohesion in Australia is both our great national achievement and our greatest national challenge for the future. We rightly celebrate our cultural diversity—but this must never be at the expense of the greater importance we attach to the common values that bind us together as one people'. Mr Howard's implication is that social cohesion is a factor in Australia's national security and that this, in turn, is influenced by the level of cultural diversity (or the lack of it). I share Mr Howard's views on this matter; a nation whose residents share a strong sense of commitment to and identity with their nation is in a better situation to defend itself (other things being equal) than one which does not. I intend to provide some general comment on this proposition. I will not be mining down like an anthropologist within Australia's diverse communities to identify those (if any) which contain elements that might be regarded as security threats.

For a number of years during the nineties I addressed Australian army officers who were studying at the Army's Queenscliff facility in Victoria prior to taking up higher level appointments in the service. My task was to discuss Australia's population resources. They wanted to know whether young Australians were prepared to support the defence of our country and, in particular, what factors shaped their willingness to enlist in the defence forces. They were concerned about the overall low interest in an Army career, and why it was that that they found it very difficult to attract recruits from Non–English-Speaking-Background (NESB) communities.

One of the consequences of these meetings was they gave me access to their unpublished survey data. A couple of major surveys had been

done (in 1997 and 1998) on attitudes of young people towards serving in the Australian military. One of the questions put to the young people surveyed was: 'If I was called on to go to war to defend Australia, I would do so'. Only 39% of those surveyed responded that they would be prepared to serve under these circumstances. And all they had to do was tick a box! This response seems to be a good starting point for thinking about the relationship between social cohesion and national security. It implies that we have a problem on this front in Australia.

The starting assumption is that a society is most likely to be responsive to national security concerns where the citizenry is relatively homogenous and share a strong sense that they consist of a bounded community, with common beliefs, aspirations and, in particular, traditions. That's a complex way of saying that the more patriotic the community, the more its members are likely to want to defend it. The psychological processes involved flow from the interlinkage between national and personal identity. Persons with a strong sense of national belonging when asked the question 'who are you?' are likely to give an answer emphasising their Australian identity. In these circumstances their sense of self and their national identity become intertwined. When the nation is challenged, so too are they. This is not just because of any material interests that might be threatened but also because any loss of national standing is experienced as a personal loss. We know from Australia's military history that volunteer Australians have been prepared to die in the service of their country. I suspect Mr Howard had these ideas in mind when he made the statement quoted above.

In the contemporary globalised environment it is clearly difficult for nations to maintain a high level of cultural homogeneity within their populations.

In the contemporary globalised environment it is clearly difficult for nations to maintain a high level of cultural homogeneity within their populations. Some, however, are more successful than others. In Australia's case, the commitment of successive Australian governments to high migration programs means that it is especially difficult. Over the period 2001 to 2006 there was a rapid expansion in the migration intake. After taking account of permanent and long term movements in and out of Australia, the Australian Bureau of Statistics (ABS) estimates that there was a net growth from international movements over this period of about 600,000. The 2006 census identified some 755,691 overseas born people who were not in Australia as of 2001 but were resident here as of August 2006 (the census date). Of these, 501,346, or 66%, were born in NESB countries. By 2006 about 22% of Australia's population was born overseas, some 60% in NESB countries.

Migration is thus making Australia more culturally diverse. Most migrants are now drawn from developing countries. The largest single source country for those arriving in Australia between 2001 and 2006 and settling in Sydney was China and in the case of Melbourne, it was India. There is also a high propensity for NESB migrants to concentrate in Sydney and Melbourne. Our calculations from unpublished 2006 Census data indicate that 30% of all adults living in Sydney (defined as aged 25 plus) were born in NESB countries and 27% of all adults living in Melbourne.

We cannot conclude from these statistics that social solidarity in Australia is at an end, only that with so many people from non-western backgrounds that they pose a considerable challenge. Most immigrants who regard their stay as permanent are interested in integrating with the host society. But if the cultural divide with this society is great and their lives tend to revolve around their particular ethnic community the integration process may be slow. Furthermore, as argued below, some ethnic community leaders have an interest in arresting the integration process. And in some instances, even though the migrants intend to stay, they may not wish to integrate.

The challenge of integrating migrants from diverse backgrounds is also being felt in some of the most unlikely places. The United Kingdom, for example, is famous for the uncompromising stand taken against overseas migration during the Thatcher years. Yet in recent times the United Kingdom has become major country of migration. This was no accident. Under the leadership of Tony Blair, the British Government took a flexible stance on the issue, based on the premise now common amongst social democratic leaders, that success in a globalised world requires not just open markets but open borders as well. In a retrospective published in the *Economist* on 2 June 2007, headed 'What I've learned during my period as Prime Minister' Tony Blair said, 'Nations do best when they are prepared to be open to the world.' By that he meant not just trade, but also immigration.

During Mr Blair's watch Britain took in hundreds of thousands of asylum seekers (most of whom stayed on regardless of the success of their applications), large flows from Eastern Europe (from new entrants to the European Union) and facilitated skilled migration from other regions. After decades of slow population growth (0.3% per annum or less) the UK grew by 375,100 in 2004–05 or 0.6%. Most of this growth was due to expansion in the net migration intake.

This growth may well have contributed to the dynamism of the British economy. Another consequence, however, has been further growth in the overseas-born population, including the Islamic community. London has been dubbed by a trenchant critic of these developments as Londonistan on account of its status as a centre of Islamist activists, many of whom entered the UK as asylum seekers.[1] This London community appears to have played an important role in the dissemination of radical Islamic doctrines. Arguably, Britain is now reaping the harvest, most spectacularly with the July 2005 London bombings. So migration, although it may serve important economic purposes, can challenge social cohesion.

Australia is in the frontline of this challenge, given the very high proportion of the population drawn from developing countries.

Australia is in the frontline of this challenge, given the very high proportion of the population drawn from developing countries. Needless to say, the problem of how to create a cohesive community from this diversity has long been at the centre of public policy in Australia.

The first point to make about this dilemma is that for most of those analysing it there is no agreement that the objective of creating a tightly bonded community marked by a

patriotic ethos is either possible or worth pursuing. This tends to be the case with Australia's intelligentsia, defined here to include those who have university qualifications. It is most definitely the case for the fraction of the intelligentsia who are social professionals (teachers, lawyers, social workers, journalists etc). In the main, their aspiration is for Australia to develop as an internationalist and cosmopolitan community. They place a high valuation on the presence of diverse communities within Australia, and thus prize the idea of an active policy of promoting multiculturalism as a mechanism for handling Australia's diversity. They tend to be hostile to local patriotism, not just because it is inconsistent with promoting the virtues of diversity but also because they regard it as backward looking and confining, in the sense that they see demands made in its name as restricting individual or ethnic community autonomy.

This is not to say that Australia's intelligentsia reject any notion of Australian nationhood, but rather that, to the extent they do support such a notion, Australia is defined in proceduralist rather than in patriotic terms. They tend to see the Australian nation as a framework, providing the scaffolding within which a law abiding, democratic and tolerant society can function.[2] Proceduralists are quite happy to think of Australia as a nation of different communities, as long as these communities conform to the norms shaping the overall national scaffolding.

Bob Hawke—a well-known advocate of this position—put it as follows: 'An Australian is someone who chooses to live here, obeys the law and pays taxes.' There is obviously a vast difference between this procedural view of Australia on the one hand and the patriotic view on the other. To the extent that the procedural view prevails, it raises serious questions about how social cohesion based on a widely and deeply shared identity with Australia can be sustained.

In practical terms it seems that, until recently, the proceduralist view has prevailed in public discourse. A case in point is the legal definition of citizenship. There has been a gradual dilution of the criteria applicants must meet before gaining Australian citizenship. Consistent with the proceduralist ethos, the trend has been towards making Australian citizenship more accessible and less demanding in terms of exclusive loyalty to Australia.

Key milestones in this process were that in 1986 persons taking the citizenship oath were no longer required to renounce other allegiances. In effect, they could henceforth maintain their previous citizenship or perhaps multiple citizenships. Australian citizenship no longer embodied the notion that residents owed exclusive loyalty to Australia.

Then in 2002, the Coalition government abolished section 17 of the Citizenship Act. This was the provision stipulating that, where an Australian citizen took out another country's citizenship, they automatically lost their Australian citizenship. So after 2002 Australian-born citizens who took out citizenship in another country were granted rights similar to migrants taking out Australian citizenship after 1986. They too could be citizens of other countries and, by implication, embrace multiple identifications and multiple national loyalties. As indicated below, this trend in citizenship law has recently been arrested in the context of renewed concerns about national security.

There is some interesting public opinion data which allows a test of intelligentsia ideas about defence. My colleague Katharine Betts made use of the ANU post-election survey data to explore answers to two questions about defence.[3] One asked whether people thought Australia would be able to defend itself if it were attacked, the other whether the Australian Government should spend more or less on defence. She categorised respondents

according to whether they were very blasé, blasé, confident, concerned or very security conscious about defence. The very blasé comprised respondents who thought Australia could not defend itself but yet thought defence expenditure was about right or too much. The blasé were those who were not sure whether Australia could defend itself yet thought defence expenditure was about right or too high. Some 30% of the intelligentsia (those with university education) fitted into the very blasé group and other 20% into those classified as blasé. This is an arresting finding. Around half of the university educated, drawn from a scientifically constructed random sample, were not prepared to endorse an increase in defence expenditure despite believing that Australia was not in a secure position to defend itself. Dr Betts did not explore why they took this stance because there were no further questions on defence matters. Some may have felt that the task of defending Australia was so difficult that no feasible level of expenditure would suffice. Another possibility, consistent with the present argument, is that some thought that increased defence expenditure was inconsistent with their internationalist ideals or maybe that such increases would promote an institution associated with outdated patriotic ideas.

Most other respondents did not share this intelligentsia viewpoint. Only a minority of other respondents fell into the very blasé or blasé camp. The great majority either thought Australia did not need to spend more because it could already defend itself, or if they were concerned that this might not be the case, favoured an increase in defence expenditure.

Table 1: Attitudes to defence, university educated persons and all persons, Australian voters, 2004 (%)

Attitudes to Defence	University educated	Total
Very security conscious	5	8
Concerned	30	42
Confident	13	10
Blasé	21	15
Very blasé	30	21
Missing	1	4
Total	100	100
Total N	**395**	**1769**

Source: K. Betts, People and Place*, vol. 15, no. 2, 2007 p. 42*

There are also significant links between the intelligentsia's attitudes to Australian nationhood and the evolution of multiculturalism in Australia. First and foremost, it is unlikely that multiculturalism would ever have achieved its status as the dominant mode of accommodating ethnic diversity in Australia if it had not been for the enthusiastic support it has received from within the ranks of the intelligentsia. For example, in 1994 an Irving Saulwick Poll found much higher support of multiculturalism among university graduates than among migrants themselves.[4] This support stems from their attachment to internationalism, cosmopolitism and the value they ascribe to diversity described above.

But multiculturalism has not evolved as many of its supporters anticipated. To understand why requires some brief background. The support for a redefinition of Australia as a multicultural society in the 1970s and 1980s stemmed from the dissatisfaction persons from ethnic backgrounds, particularly those from southern Europe, felt about the prejudice directed at their communities from within mainstream Australia. These concerns were acute amongst the university educated, including many who had been born in Australia. Many of these people had been successful in gaining university credentials in Australia and in

gaining professional and managerial position. Yet despite this, they still carried the burden of negative Australian stereotypes about their Italian, Greek, Yugoslav or other origins.

The resulting tensions fuelled the ethnic community support for multiculturalism. The leaders demanded that the mainstream Australian community pay them and their communities and cultures the same respect as the host community. The Australian Government responded, beginning in the 1970s, by rejecting older conceptions of Australia which demanded that migrants drop their cultural baggage and become 'new Australians'. Instead Australia was to become a multicultural society in which all the migrant community cultures would be accorded equal dignity. A consequence of this stance was that Australian governments had to give some support to the establishment of ethnic community institutions—though always qualified by stern statements that migrants should give overarching loyalty to Australia and would respect procedural values. Policy makers hoped that multiculturalism would diminish prejudice against ethnics and thus help remove barriers to their integration within Australian society. As indicated, this policy won enthusiastic support within the intelligentsia; indeed some were crucial in developing and promoting it.[5] They imagined Australia as community in which all Australians could intermix free of prejudice, all sharing these respective cultures with each other. This is not the way it has turned out.

Ethnic community leaders are usually not interested in this kind of diversity. They want to build their own community institutions and culture and, having done so, to maintain it. This is partly because of their pride in their community but partly also because their leadership positions depend on the continuity of their community. In order to maintain their community they must try to strengthen the internal solidarity of their constituents and where possible erect borders limiting out movement. This motive applies across the spectrum of communities, from Greeks to Indochinese to Muslims and to Jews. To varying degrees they have established educational and parish institutions designed to promote the social life of their community and to minimise intermixing outside it. Most seek to discourage or even proscribe out-marriage.

Some form of multiculturalism was justified in Australia, since it was the case that prejudice against many NESB communities was once rife. The insistence that such prejudices were illegitimate was an important step in allowing migrants to feel that they could participate freely in Australian society if they wanted to. However the form that multiculturalism has taken has gone well beyond this objective. To the extent that Australia has become a community of many communities this inhibits the strength of identity with the larger national community which is conducive to security goals.

Now I want to turn to the impact of immigration on Australia's current demographic situation. As we have seen, around 21 to 22% of Australian residents are overseas-born, the majority of whom are from NESB countries. They are not distributed evenly across Australia. As far as ethnic diversity is concerned there are two Australias. The first consists of Sydney and Melbourne, where there are high concentrations of NESB migrants. The second is composed of the rest of Australia where such residents are scarce. This second Australia includes Perth. Though Perth is the capital city with the highest proportion of overseas-born persons in Australia, more than half of these are born in English-speaking countries. By contrast most of the overseas-born persons living in Sydney and Melbourne are from NESB countries.

The 2006 census reveals that 24% of the total population of Sydney was born in a NESB country, or almost one in every four persons. Another 8% were born in a English-speaking country (mainly New Zealand, South Africa and Britain). The situation is similar in Melbourne.

Recently arrived migrants from NESB countries tend to concentrate in those parts of the city where their family or community members are already located. Partly because of this pattern, and partly because former Australian-born residents tend to move out, there are now very substantial concentrations of NESB migrants in particular parts of Sydney and Melbourne. Table 2 documents this observation for Sydney. It indicates the proportion of the total adult male population aged 25–64 who were born overseas of the total male population in this age group for each of the localities listed. The reason for restricting the table to adult men is that they give the best indication of the cultural impact of migration on the community in question. Many of the younger Australian-born people in the communities listed are the children of migrants and thus more representative of the ethnic community than of the mainstream Australian-born population.

Table 2: Sydney Local Government Areas with more than half males aged 25 to 64 years born overseas, in 2006 and comparative figures for 1991, 1996, and 2001

	% born overseas			
Area (LGA)	**1991**	**1996**	**2001**	**2006**
Fairfield	70	73	73	74
Auburn	66	73	73	73
Sydney—Inner	43	35	49	70
Strathfield	55	58	63	67
Canterbury	67	69	67	65
Burwood	61	60	61	63
Rockdale	56	57	56	56
Liverpool	44	49	53	56
Parramatta	43	47	50	55
Botany	63	61	57	55
Holroyd	43	46	50	54
Bankstown	43	48	52	54
Ashfield	65	61	55	54
Hurstville	38	42	46	50
SYDNEY Total	**42**	**43**	**42**	**44**

Note: Excludes those who did not state their birthplace.

Source: Customised Census Data, Centre for Population and Urban Research

As is evident from Table 2, there are remarkable concentrations of overseas-born persons in the localities listed, peaking at 74% in Fairfield, which is the main settlement point for Indochinese-born persons in Sydney. All the areas cited are in south and south-western Sydney. With the partial exception of Fairfield, each is notable for the diversity of birthplace groups living within its borders. However there are patterns of concentration. The two largest settlement points for Lebanese-born persons in Sydney, for example, are Bankstown and Canterbury. The settlement focus on south and south-western Sydney also reflects the fact that these areas of Sydney are just about the only areas where immigrants from developing countries who are not professionals or managers, can afford to live. The more

affluent skilled migrants who are professionals, such as those from Malaysia or Hong Kong, tend to locate in the northern suburbs of Sydney.

Concentrations such as those shown in Table 2 have facilitated the build-up of ethnic community institutions—religious, educational, commercial, various parish type institutions—which cater for particular ethnic groups. The establishment of community schools, one of whose goals is pass on the cultural heritage of the ethnic community in question, is a good indicator of the intent of community leaders. If they were interested in integration they would encourage their young people to join the public school system. The Jewish community has established its school network and the Muslim community is in the process of doing so, with some twenty-nine Islamic schools now in place across Australia.[6]

There is a great deal of controversy in the literature about the longevity of these ethnic community institutions. Some argue that they are a transitional phenomena. This is largely true in the case of the post-war southern European communities which concentrated initially in inner-city areas. These concentrations have gradually dissipated. The key solvent to these originally tight-knit communities was upward mobility via the Australian education system. As the younger generation made a successful entry into mainstream middle class positions, this drew them out of the ethnic community and into the wider community. The same thing will probably happen with the newer developing country communities. However the pace of integration may be slower, because some of these communities are starting from a very disadvantaged situation. Most of the original Muslim adults from Lebanon, for example, came to Australia in and after the 1970s with limited resources and have struggled ever since to find a niche in the Australian labour market. This has limited their capacity to invest in their children's education.

From this perspective Australia's ethnic diversity is not seen as a problem—rather it is something to endorse because of its alleged fit with the need for Australia to engage with the world economy and with Asia in particular.

The discussion indicates that from a social solidarity perspective there is a substantial constituency of opinion leaders within the Australia's intelligentsia who do not support any objective of promoting or sustaining a tightly bonded and patriotic Australian community. Rather, their preference is for a loosely connected nation where the common elements are largely procedural and could apply to any developed society. From this perspective Australia's ethnic diversity is not seen as a problem—rather it is something to endorse because of its alleged fit with the need for Australia to engage with the world economy and with Asia in particular. This view of Australia is supported by ethnic community leaders, if not all of their constituents.

Now let's now turn to the mainstream. How strong is the support for patriotic conceptions of the Australian nation, and thus for tough national security policies within the larger community? There is strong support for such policies. This may come as a surprise given that public debate about issues of national identity in recent times have been bedevilled

by controversy over whether it is possible or even proper to denote any particular values, cultural practices or traditions that are distinctly Australian.

It seems that this controversy has not had much impact on ordinary Australians. They appear to have little doubt that Australia is distinctive and they are proud to identify as Australians. The confidence seems to derive from a vigorous folk culture embedded in ordinary Australians' mode of speaking and expression, their democratic manners and Australia's rich sporting history. Neither visitors to Australia nor Australians visiting overseas and noticing how they differ from their overseas counterparts (even the English) seem to have any doubt about Australians' distinctiveness.

This sense of identity has direct implications for social solidarity and for national security. Most Australians are concerned about maintaining their community and about controlling its borders. A striking illustration was the response to the arrival of thousands of asylum seekers without visas in 2000 and 2001, particularly the Tampa event of August 2001. The Coalition government responded at the time by interdicting refugee boats on the high seas and transferring the people to islands outside the jurisdiction of the Australian legal system. The question detailed in Table 3 asked Australian voters their opinion about turning boats carrying asylum seekers back. This notion was regarded within intelligentsia ranks as monstrous. From an internationalist point of view Australia should extend sympathy to people seeking asylum here—not rejection. Yet as Table 3 indicates, a majority of Australians were prepared to take a very tough line on this issue. Further analysis of this response (not shown in Table 3) indicates that there was indeed a sharp division of opinion on this question between university educated voters and other voters.

Table 3: Level of agreement with statement: 'All boats carrying asylum seekers should be turned back', Australian-born and Overseas-born voters, 2001,%

	Australian-born	Overseas-born
Agree or strongly agree	63.7	56.5
Neither agree nor disagree	16.4	21.4
Disagree or strongly disagree	19.8	22.1
Total	100.0	100.0
Total N	**1387**	**444**

Source: Australian Election Study 2001, Social Science Data Archives, 2002

This strong public support for tight border management provided the foundation necessary for the Coalition to pass very strict border control legislation at the end of 2001. Whatever one's views about the legitimacy of this legislation, the fact is that it has proved to be an important part of the Australian Government's success in controlling unauthorised entry to Australia of asylum seekers.

Nonetheless, despite its tough attitude to asylum seekers. the Coalition government has pursued a very expansive migration policy. It has not been without controversy. Australia, like Western Europe is experiencing security problems amongst its Muslim community in the post September 11 environment. Community divisions linked to the areas of high migrant concentration in Sydney have never been far from the front page. The Cronulla riots in December 2005 brought these tensions to a head. As a consequence issues about how the social tensions deriving from a high and diverse migration program should be managed have attracted the attention of political leaders.

One response has been a renewed interest on the part of the Coalition government in policies promoting social solidarity in Australia. It has chosen citizenship policy as a key focus for this objective. There has been a striking reversal from the trend described above towards a more inclusive and less demanding legal expression of citizenship in Australia. The government has introduced legislation to establish a compulsory citizenship test, the requirement of a pledge to Australia, and an English test, all of which an applicant must pass before being granted Australian citizenship. Its proposed legislation also requires a minimum of four years residence in Australia rather than the two years required until recently.

This legislation is largely symbolic. It will not have much practical effect on the lives of those who enter Australia with permanent residence visas. The symbolism lies in the legislation's expression of a tougher line on who belongs to the Australian community and its emphasis on boundaries between citizen residents of Australia and the rest of the world. It is an assertion of a more bounded view of Australia than that which has prevailed within intelligentsia and ethnic community ranks in recent times. My colleague Katharine Betts went through 158 submissions to the government's recent discussion paper on citizenship. The vast majority of those coming from humanitarian, religious, ethnic and internationalist groups vigorously opposed the proposed citizenship test.[7]

In contrast the 1486 submissions from individuals were mostly supportive and the public opinion data reported in Table 4 also shows that most Australians support the government's position. The split between the two categories of submission and these polls, like those on border protection in 2001, provide further demonstration of the opinion divide on these issues in Australia.

Table 4: Attitudes to proposed citizenship test and English requirement, Newspolls, 2006 (%)

	September 2006 Attitude towards a 'formal citizenship test'	December 2006 Attitude towards the requirement of an English test
Strongly in favour	53	64
Partly in favour	24	21
Total in favour	**77**	**85**
Partly against	9	6
Strongly against	10	6
Total against	**19**	**12**
Uncommitted	4	3
Total	100	100
Total N	**1200**	**1200**

Source: K. Betts and B. Birrell, People and Place, *vol. 15, no. 1, 2007, p. 53*

Where does that leave us? The answer to the Prime Minister's question about the strength of social solidarity is that, notwithstanding the challenges described above, there is a solid community base for such solidarity. It is based in the continuing patriotic identity of ordinary Australians with their nation. This identification is an important pillar of support for the defence forces and for policies directed at combating internal and external challenges to Australia's security.

The challenge lies in inviting and persuading Australia's substantial immigrant population to share this identification, and in gaining the support of a significant proportion of intellectuals and opinion leaders for such a project.

Endnotes

1 Melanie Phillips, *Londonistan,* Gibson Square, London, 2006, Chapter 1.

2 See for example evidence in K. Betts and B. Birrell, 'Making Australian citizenship mean more', *People and Place*, vol. 15, no. 1, 2007, pp. 45–61.

3 Katharine Betts, 'Who cares about defence? Attitudes of Australian voters and of candidates infederal elections', *People and Place*, vol. 15, no. 2, 2007, pp. 30–48.

4 See I. Saulwick, 'Opinions about multiculturalism', *People and Place*, vol. 4, no. 1, 1996, pp. 65–66.

5 See M. Lopez, *The Origins of Multiculturalism in Australian Politics 1945–1975*, Melbourne University Press, Melbourne, 2000.

6 *The Weekend Australian*, December 9–10, 2006 p. 6.

7 See Betts and Birrell, 2007, op. cit.

AUSTRALIAN FUTURES: ECONOMIC SECURITY

Christopher Caton

There are, I am sure, many different ideas of exactly what economic security implies. A common definition appears to be **the freedom for a nation to pursue its economic goals without interference from external sources**.

If this is accepted as a good working definition, then it is immediately obvious that we don't wish to maximise our economic security per se; we could certainly try to do this by minimising contact with the rest of the world, but even if we were successful at that there would be a huge price to pay. **A fundamental precept of economics is that agents benefit from trade, both within one's own country and with the rest of the world.** Australia benefits hugely from contact with the rest of the world, at the potential cost of imported economic and financial volatility.

We may normally think of economic security as protecting ourselves from economic volatility or damage caused by the policies of other nations. But in today's world it is clear that our economy can also be harmed by the actions of non-States. The increased climate of terrorism is one such example, and so also is the risk of a pandemic. While these can have serious economic effects, they are probably better handled elsewhere in a comprehensive discussion of security issues.

So I suppose the short-run question is: how do we maximise the benefits of involvement with the rest of the world while minimising the costs. And the long-run question is: how will Australia's economic future evolve given global realities, and what can/should we be doing about that?

Let me first show you some of the ways in which a humble macroeconomist thinks about the rest of the world and its effects on us.

Chart 1 shows the extraordinary correlation between our economic growth cycle and that of the US in the past quarter century or so. It is noteworthy that there is a far closer relation between us and the US than, say, between us and an appropriately weighted measure of our major trading partners' GDP. This suggests that at least some of the links from the rest of the world to us are not trade, but financial.

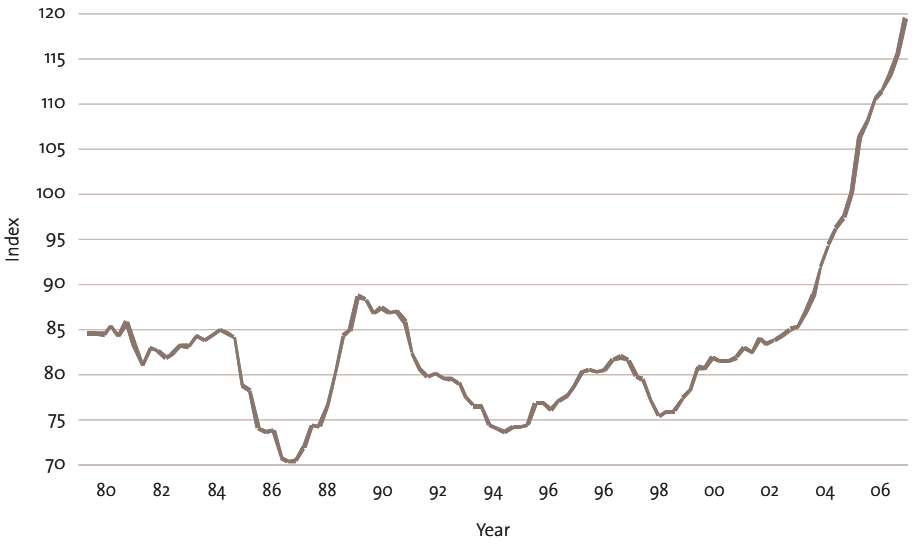
A look at the chart also suggests that the link may be weakening; the most recent data, for example, show Australian economic growth accelerating while that in the US slows.

The world (and China in particular) has done us a big favour in recent years, via the commodity price boom. Chart 2 shows one indicator of the extent of the boom; Australia's terms of trade (the ratio between our export and import prices). There isn't another developed country in the world that has had such an extraordinary gain in its terms of trade in recent years; the boom since the early years of this century is worth about $3000 for every man, woman and child in the country, and has been a major source of finance of the now-annual income tax cuts.

Chart 1: Real GDP growth in Australia and the US

Source: Datastream

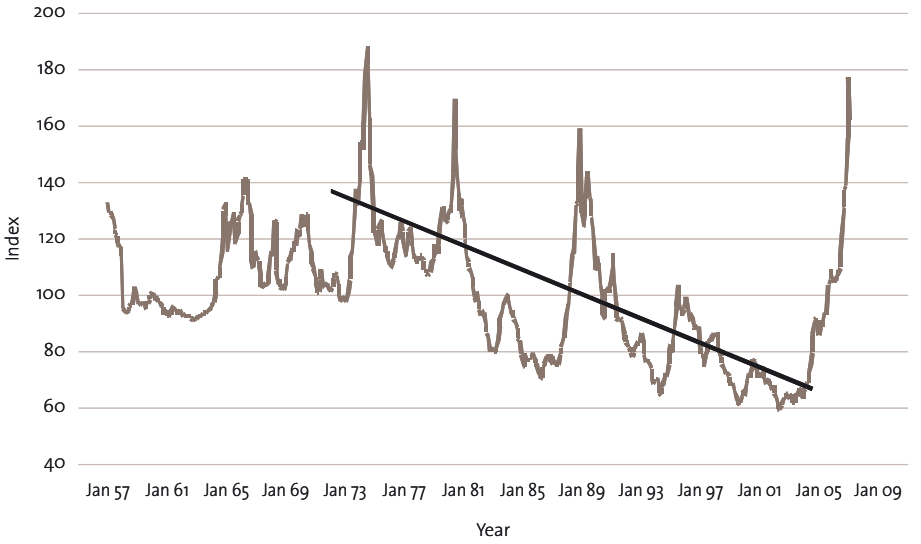
Chart 2: Terms of trade



Source: Datastream

Chart 3 puts the commodity price boom in a slightly different perspective. It shows an inflation-adjusted index of base metal prices over the past half-century. If history is any guide at all, it suggests that there is a large fall in commodity prices awaiting us some day (like so much else in economics it is easier to say that it is going to happen than when!). When this occurs, it won't be pretty, but the going up has clearly been worth the likely coming down. Economic welfare is higher despite the volatility inherited from the rest of the world.

Chart 3: A long-term look at commodity prices (Real base metal prices*)



* Base metal prices relative to output PPI ($US)

How have we handled economic relationships with the rest of the world? What are the issues, and what, if anything, should we be doing differently in the future?

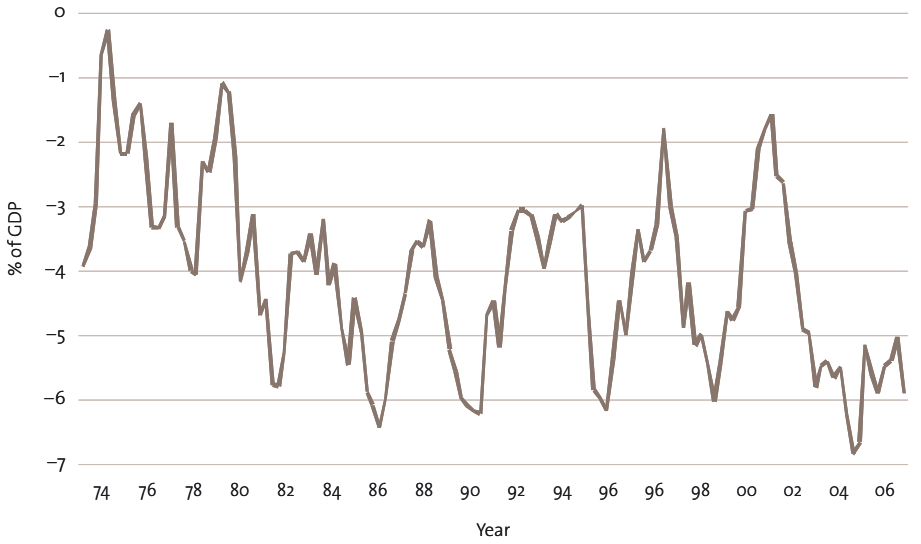
Perhaps the clearest example of loss of economic security in recent years was the Asian financial crisis of 1997. Until then, Asia could do no wrong. It grew rapidly for many years, and it was not uncommon to hear talk of the 'Asian miracle'. In 1997, some of the strains of this growth began to show. In many countries, governance levels were poor, cronyism was rampant, and, it turned out, foreign exchange reserve holdings were insufficient to prevent a run on the currencies, beginning with the Thai baht.

Australia had, of course, become progressively more integrated with Asia. The economies of our major export markets were in disarray. There was, at the time, serious concern about the knock-on effects of Asia. And yet the Australian economy sailed on, almost completely untroubled. There were reasons for this. First, just as our export markets weakened hugely, domestic demand growth strengthened, not least because the RBA did not follow the example of other countries (Canada and New Zealand, for example) that raised interest rates in an attempt to prevent their currencies being dragged down also. Second, we were free of the problems of misvalued currencies and weak financial systems.

Are we storing up problems for ourselves via our other relationships with the rest of the world? Some would list our chronic current account deficit (CAD) as one such time bomb.

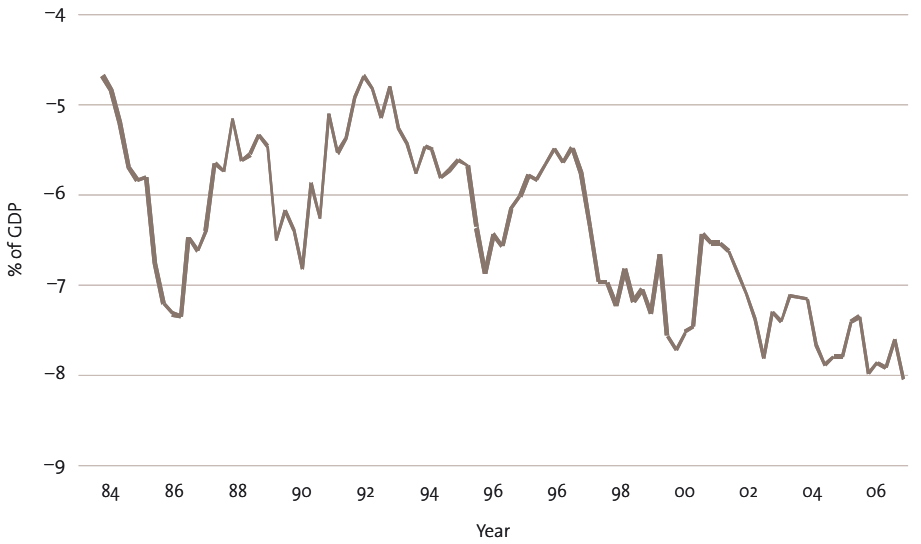
As Chart 4 shows, we have run a deficit for more than 35 years, and if anything it seems to be getting bigger, despite the commodity price boom. There are two ways in which this could be perceived as harmful. First, we could be losing entire industries to foreign competition, and we may live to regret this. At least superficially, this appears to be true; our manufacturing trade deficit, for example, seems to be getting bigger, see Chart 5, with the increase in recent years almost certainly having something to do with the China's entry into the World Trade Organisation.

Chart 4: Current account balance (%of GDP)



Source: Datastream

Chart 5: Manufacturing trade deficit (% of GDP)

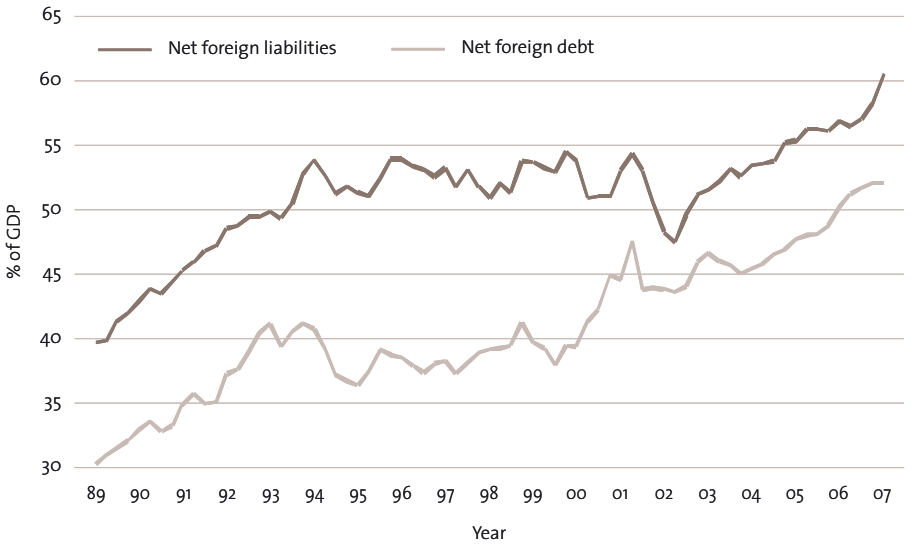


Source: ABS

Second, as a result of the continued current account deficit, what we owe the rest of the world has grown enormously. Will that hurt us one day?

Chart 6 shows that Australia's net foreign liabilities now exceed 60% of one year's GDP, and this ratio is set to grow even further unless and until the CAD falls significantly as a share of GDP. A Treasury paper in late-2005 estimated that we would need to reduce the CAD to 3% of GDP, and to run a trade surplus of 0.5 to 0.75% of GDP in order to stabilise the ratio of foreign liabilities to GDP. This will take a while.

Chart 6: Net foreign debt and net international investment position



Source: Datastream

What then if we can't? The fact that we have such large foreign liabilities has come about because domestic saving has been inadequate to finance all of the capital spending done in this country. There is nothing intrinsically wrong with allowing foreigners to express their faith in the future of the Australian economy by financing part of our capital spending. If we use any increase in liabilities to create an asset that generates an income stream sufficient to 'service' the increase in foreign liabilities, we are clearly ahead. One problem: it's not hard to convince oneself that much of the increase in foreign liabilities has been used to finance capital spending in housing, which does not create such an income stream.

Is there a day of reckoning coming? Not necessarily. In a world of international capital mobility and floating exchange rates (and with Australia having a reputation for solid economic management), any adjustment caused by a large CAD is likely to be gradual rather than catastrophic. Australia would be better off, ceteris paribus, with a smaller CAD, but it is not obvious what policy changes we could make to bring this about. Policies to increase domestic saving would help, and so may adjustments by other countries. It is generally accepted, for example, that the large US current account deficit is part of a worldwide 'imbalance', caused at least in part by too much saving elsewhere in the world (China, other developing countries, and Japan, for example). Adjustment elsewhere—China and the rest of Asia generating more of their growth internally, and currency adjustments—may also help reduce our CAD. Incidentally, one of the reasons why Asia now runs such large current account surpluses is in a bid to avoid any repetition of the 1997 crisis, since the current account surpluses are used to accumulate foreign reserves, which are then lent, on favourable terms, to the rest of the world. The abundance of such capital, and its cheapness, and the effects of that on asset prices and elsewhere, can be construed as an ongoing cost of the Asian crisis.

Let's return to the issue of manufacturing. In the mid-1980s, about 17% of Australian jobs were in manufacturing. That figure is now not much more than 10%. Beginning long before the mid-1980s, we undertook a policy of lowering tariffs on manufacturing. In 1970,

the average level of tariffs on manufactured goods was 37%. It is now less than 5%. Is it a major error to consign ourselves to a future of selling services to each other, while all of the manufacturing is outsourced to China?

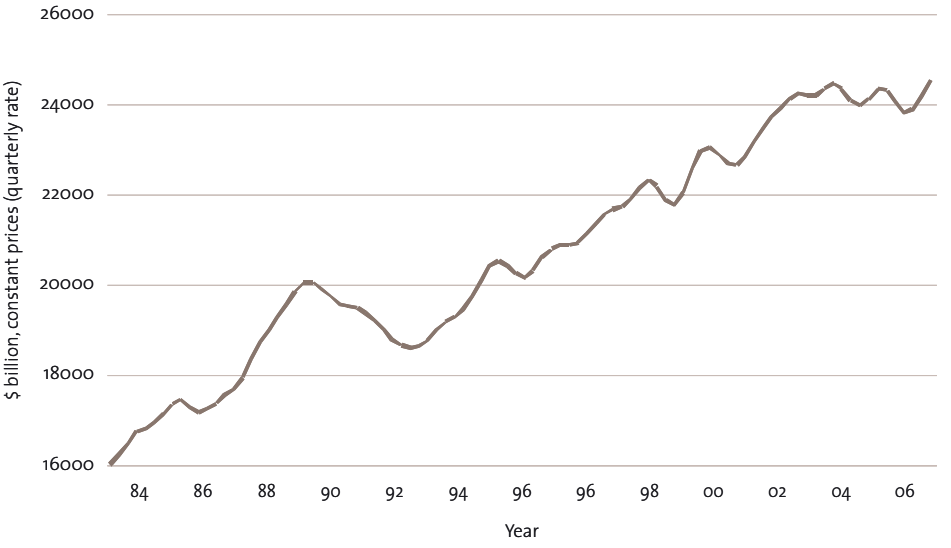
First, this is a very crude description of what has happened. The main reason why manufacturing shrinks as a share of total employment in all developed countries is the same reason why only about 3% of Australian jobs are now in agriculture, compared with about 50% a century ago. As we got richer, our appetites didn't grow commensurately, and we got better and better at providing for those appetites. As society continues to get richer, we divert our budgets away from goods and towards services, so the share of manufacturing jobs in the entire world (including China) goes down. Trade is only a small part of the declining share of manufacturing jobs in Australia, and trying to stem this tide would do Canute proud.

Incidentally, it is a mistake to think that manufacturing itself is going out of existence. Chart 7 shows manufacturing output in constant dollars. It has increased by more than 50% in the past 22 years, although the trend may have changed in recent years.

But what about at a more micro level? Should industry policy be directed to protecting certain key industries (such as motor vehicles) from unbridled foreign competition? Should government be involved in subsidising infant industries that may have the potential to be world beaters once they are big enough to exploit economies of scale? Should we help industries exposed to 'unfair' foreign competition?

In principle, the answer to all of these questions could well be 'yes', but difficulties of implementation emerge quickly. What is a key industry these days? At the time of World War II, it was obvious why any major country would need its own steel industry, its own motor-vehicle industry and its own aviation industry, for example. Now, the technology of war has moved on. The only point to having a completely diversified industrial base would be to offset the effects of short-run embargos or other interruptions to international trade.

Chart 7: Manufacturing output



Source: ABS

The problem with a 'yes' answer to the second and third questions lies in going from the principle to the implementation. Who picks the 'winners'? History suggests that governments are not good at this. Recall the lobbying around 2000 to do something for tech industries in Australia, because 'we weren't high-tech enough'. The case of industrial retaliation is also not an easy one. At the least, it invites progressive tit-for-tat policy making.

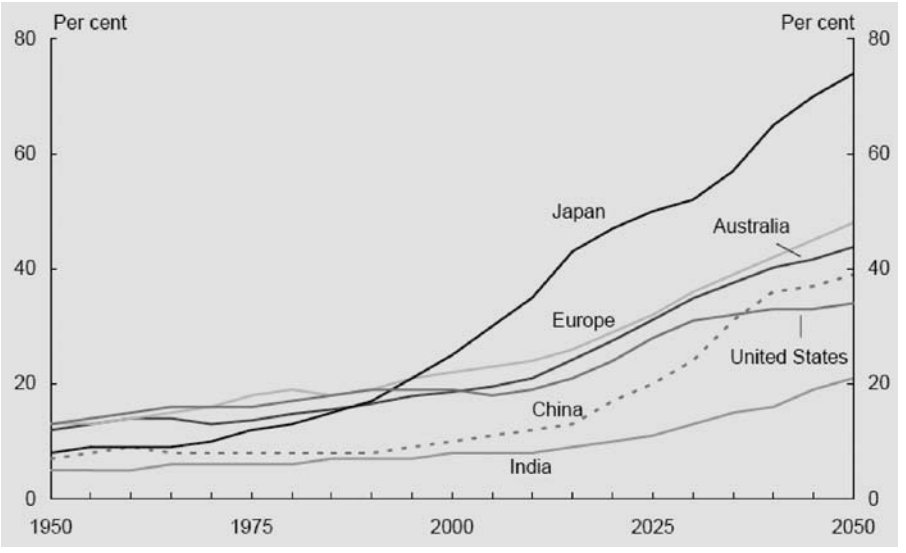
My summary of the story so far would be along the lines of 'the proof of the pudding is in the eating'. In the past 25 years, Australia has engaged progressively more with the rest of the world. At the same time, we have engaged in massive reform of the economy, including lower protection levels, a floating exchange rate, a deregulated financial system etc. Exports have grown from 13% of GDP in 1982 to 21% today (and the fastest growth has been in manufactured exports).

Australia has experienced nigh on 16 years of economic growth, with no recession in sight. Employment has increased by close to 3 million in the past 14 years, and the unemployment rate at a 33-year low. We withstood the Asian crisis, 15 years of moribund growth in our largest export market, Japan, a (mild) US recession in 2001, the tech crash, a worldwide slump in equity markets (the fall in the early years of this century saw the World Developed Morgan Stanley Capital index down by about 50%, while the ASX 200 fell by just 18%), 9/11, and SARS in 2003. Exposure to the rest of the world appears to have been almost all benefit and very little cost.

But that's history (albeit with clear lessons for the future). What of the future itself?

The first point to make is that economic growth in Australia will inevitably slow, as all keen readers of the Federal Government's *Intergenerational Report* (IGR) know. The main reason for this is the aging of the population, a characteristic that Australia shares with the rest of the developed world. Chart 8 shows the ratio of those of retirement age (65 and over) to those of working age in Australia and elsewhere. Briefly, this share will double between now and 2050. Interestingly, despite our impression of Australia as a young country, our line does not appear

Chart 8: Old-age dependency ratios (ratio of over 64-year-olds to 15–64-year-olds)



Source: Treasury projections and United Nations 2006 Revision Population Database, medium variant projections

hugely different from that of Europe (though population growth here will be stronger, and we may get higher labour-force participation from our old and our soon-to-be-old).

This slowing growth is mainly a domestic issue, and government policy is sensibly directed towards offsetting it partially by means of the three 'P's—productivity, participation and population. In particular, the latest IGR, published in April this year, assumed significantly higher migration than its predecessor, released five years ago. So far, there has been relatively little international questioning of apparent 'beggar-my-neighbour' policies of countries trying to offset slower growth by means of higher migration. This may be because the numbers are relatively small, or because the country from which the migrants come can benefit from the outflow (Mexico presumably benefits from Mexican migration to the US, for example). But will this always be the case?

That is perhaps a minor issue at this stage.

At a similar conference to this one in 2005, Chris Richardson, from Access Economics, produced a chart showing Australia's rise and fall in the relative ranking of GDP per head in the 30 OECD countries. This showed Australia slipping from 8th position in 1970 to 18th in 1990, before clambering back up to 8th in recent years. Chris attributed the rise to the fruits of economic reform in Australia, and I have no great quarrel with this. I would also give some credit to our engagement with the rest of the world, which admittedly was made easier by reform, and also to all of the other factors (including luck) that have combined to give us such an impressive growth record in recent years.

It is interesting that Chris, like others, judged Australia in a relative sense. This is only natural, but it does sometimes lead to strange results. The former Clinton-administration official and economics professor, Robert Reich, used to recount offering his students the choice of two worlds. In one, the average US citizen is 25% 'wealthier than now' but poorer than the average Japanese citizen. In the second, the average US citizen is just 10% 'wealthier than now', but well ahead of the average Japanese. Reich reported that a large number of students vote for the second option!

Let's stick with the relative sense for a while. The good news is that, although growth in Australia will be slower in the future, we are still expected to outpace the rest of the developed world, at least for the next decade. Table 1 shows the latest consensus forecasts for GDP growth (and inflation) for the next ten years. Australia leads the way, mainly because of faster labour-force growth.

But the more interesting growth stories are elsewhere, in the developing world. Table 2 shows growth forecasts for the countries to our north, and the growth rates expected in the developed world immediately pale in comparison.

There is nothing that we, or other developed countries, can or should do about this difference in prospective growth rates. Something happened in the past twelve months that hasn't happened before in modern economic history. The developing countries of the world moved past 50% of world GDP, when measured on a purchasing-power-parity basis. (If you don't know what purchasing power parity is, your life is not necessarily poorer than otherwise.) The developing world now accounts for about 70% of world economic growth, and that figure is not likely to go down anytime soon!

Table 1: Global medium-term economic growth and inflation prospects (2007–2017)		
	GDP	Consumer prices
Australia	3.1	2.6
United States	3.0	2.2
New Zealand	2.8	2.4
Spain	2.8	2.5
Sweden	2.8	1.9
Norway	2.7	2.2
Canada	2.6	2.0
United Kingdom	2.4	2.0
Netherlands	2.2	1.9
France	2.1	1.7
Eurozone	2.0	1.9
Japan	1.9	1.1
Switzerland	1.7	1.4
Germany	1.7	1.6
Italy	1.4	1.9

Source: Consensus Economics

Table 2: Asia–Pacific medium-term economic growth and inflation prospects (2007–2017)		
	GDP	Consumer prices
China	8.7	3.2
India	7.5	4.5
Indonesia	6.0	5.4
Singapore	5.5	1.2
Malaysia	5.2	2.4
Thailand	4.8	2.8
Hong Kong	4.7	2.8
South Korea	4.4	2.5
Taiwan	4.4	2.2
Australia	3.1	2.6
New Zealand	2.8	2.4
Japan	1.9	1.1

Source: Consensus Economics

There is no great mystery as to why most poorer countries grow faster than richer countries. They are poorer because productivity is lower, and hence productivity can grow faster provided only that policy doesn't get in the way. If there is a mystery, it is why some developing countries fail to grow faster than elsewhere. Poor policies, questionable property rights, poor governance, and dramatic slumps in the terms of trade (for some 'one trick pony' commodity exporters) all seem to play a role.

We learned in the case of Japan that an industrialising country can outgrow the rest of the world for a period of many years, but it is very very unlikely that it will continue to grow rapidly as its living standards converge on those of the rest of the world. Similarly, China will not outgrow the rest of the world forever, which means that it will be many years (a century or more) before the average Chinese living standard approaches that of the US.

But it won't be nearly so long before the Chinese economy is bigger than the US. Indeed, since there are about four times as many Chinese as there are Americans, that day will come when the average living standard of the Chinese is just one-quarter that of the Americans. Depending on who's counting, that day could be less than fifteen years away. How will the dynamics of world economic and political behaviour change when the US is no longer no 1 in absolute size?

The fact that **the future belongs to the developing world** has some clear implications for what is called 'resource security', since developing economies eat commodities for breakfast. In such a world, being resource sufficient, and an exporter of high-quality resources, as Australia largely is, is not a bad thing.

The topic of resource security is an interesting one. The US, for example, has long had a Strategic Petroleum Reserve, which is designed to enable it withstand a possible blockade/embargo on imported oil. China, as another example, appears to be following a policy of looking to buy the mine rather than the output of the mine. That is, China recognises its long-term dependence on imported resources, and thus looks to lock in the sources of that supply by purchase/investment in preference to establishing long-term relationships with existing commodity suppliers. It may seem that this is only sensible, but is it? Japan, for example, has been content to go the other way, establishing the long-term relationship, and working within that in periodic negotiations.

Such considerations are clearly grist for the mill for the Foreign Investment Review Board. I am no expert in such matters, but my gut feel is that we should try to be as open as possible to direct foreign investment in the Australian economy.

In 2005, Chris Richardson made the point that, having regained the 8th rung in terms of OECD living standards, Australia had peaked and was about to begin a descent again (in relative living standards). I am not so pessimistic. Obviously, the higher you get on the ladder, the harder each individual step up becomes, but that's not the same as stepping down.

Richardson's other point is that Australia will shrink in relative importance (economic power), mainly because of faster growth in the developing world. This is inevitable; it's arithmetic rather than economics. The question is how should we react? It seems to me that Australia's reputation in the global community is high, and we should exploit this. So the best strategy is to remain engaged, to provide and to seek access to markets via Free Trade Agreements, etc. This will make us vulnerable from time to time, presumably more to economic or financial accidents rather than to hostility, but this is a small price to pay for the benefits from engagement.

Of course, not all international connections with an economic slant are about trade and financial linkages. Common problems may necessitate a co-ordinated policy response. Right now, the most prominent common problem is **global warming**. This will eventually become a major economic issue if left untreated, and any remedy will clearly have (short-run deleterious) economic effects. Finding an equitable distribution of the burden of such policies will tax the greatest minds out there. There is merit in the argument of developing economies that the developed world should bear most of the burden. But is merit enough? It is one thing for national leaders to co-ordinate policies; it is much more difficult for politicians effectively to volunteer that their country lead rather than follow. This is particularly so for a small country that could argue that whatever it does is going to make very little difference to the global result.

PANEL: AUSTRALIA'S STRATEGIC CHOICES

Peter Abigail

Ladies and gentlemen, we see this final session benefiting most through interaction so I invite active participation both with the speakers and the group when we move into open forum a little later on. To help us reach that point I'm delighted we have the assistance of two significant players in matters strategic in this country. Paul Kelly is Australia's leading political analyst and commentator with a wealth of knowledge and experience and a grasp of the big picture. Mike Pezzullo lives inside the vortex of Australia's national strategic plans and responses as the Deputy Secretary Strategy, Coordination and Governance in the Department of Defence. He's currently the acting secretary of the department. Mike, we appreciate greatly you making the time available this afternoon to be here with us. Paul and Mike will each give us their views of Australia's strategic choices and then participate in the open forum.

By way of introduction the notion of choices suggests the availability of viable options and the application of priorities and judgments. In the strategic domain this might embrace the relationships between nations and their social, economic and security interactions. It opens up questions about the use of various instruments of national power, including military and other interventions. It encompasses choices about the nature of security forces the nation wants down to the selection of platforms from a range of contenders. It goes to what Rod Lyon has termed the reductionist principles or fundamentals that underpin security and strategic policy.

The flow of security affairs over the past fifteen years has prompted a progressive shifting in Australia's security policy. International and domestic security affairs have converged in response to the rise of non-traditional security concerns. The unholy trinity of threats posed by terrorism, the proliferation of weapons of mass destruction, and fragile states has ascended to the top of the security agenda in company with a range of non-traditional challenges such as people smuggling, illegal resource exploitation and the possibility of a pandemic.

Today defending Australia's northern approaches has more to do with the needs of border protection to safeguard economic, domestic and human security than with the possibility of military invasion. In the more traditional realm of military security, government thinking has moved away from the geographic determinism of the Defence of Australia school of thought to a more overtly outward looking and proactive approach. In many ways this represents a return to our national strategic roots, our strategic culture if you like, which includes preferences for small but capable standing forces, an external focus for the Australian Defence Force, an interventionist approach to threats to our interests, working within a key alliance with the dominant maritime power and defending forward.

This shift has continued with the latest Defence strategic update released by the Prime Minister at this conference. In looking at that update, what strikes me is that while there are some shifts there has been a remarkably consistent trend unfolding since about 1997 in that return to what I've termed our strategic roots.

Australia's strategic program seems reasonably clear, although choices will still need to be made in response to specific circumstances. Certainly prior to the release of the update the

alternative government had declared bipartisan agreement on most aspects of current policy and a commitment to honour decisions taken in implementing the defence capability plan. The three most notable exceptions to this have been Australia's role in the intervention in Iraq and Labor's intentions to establish a coastguard and a homeland security department.

The trends we've been examining over the past couple of days highlight the possibilities for future strategic choices for Australia that might or might not attract bipartisan support. Let me mention just a few, some contemporary, some in prospect.

In the field of proliferation, should Australia move up the nuclear fuel chain by enriching uranium? Should we adopt a full fuel cycle approach by providing nuclear waste storage? Certainly Bob Gallucci would like to see us do that. Should we sell uranium to India?

Looking at climate change, should we adapt our military forces to address the possible implications of this phenomenon? I draw your attention to a report published by ASPI only this week on the implications or possible implications of climate change for the Australian Defence Force. But also, how might we best pursue our national interests in Antarctica, noting that we're back to the stage where Australia's area of predominant defence interest now embraces that southern continent.

In the fight again extremist fundamentalism, when will we withdraw our forces from Iraq and what will we leave behind? How much should we put into Afghanistan and would we take over Oruzgan province from the Dutch? What steps should we take to enhance the resilience of our society against extremism?

Turning to the shifting power balance in our region and north Asia in particular. What is our vision of a good outcome? What do we want to avoid? What are our objectives in the trilateral security arrangements with Japan and the United States? Are Australia's objectives the same as those of the United States and of Japan? Should we support the extension of this framework to a quadrilateral arrangement including India?

Nearer to home, where we acknowledge responsibilities to shape security outcomes in the arc of instability in the south-west Pacific, should our approach be driven by concerns about threats that can emerge from failed or fragile states or benevolent aspirations to optimise human security outcomes for the peoples of these nations? In other words, should we be driven by realist sentiments or our collective liberal conscience? The Prime Minister touched on both, but ultimately, and thinking back to that discussion we had earlier today about the region and Australia's response to it, what should drive that approach? Is it time to move into something bolder when we consider all of those challenges that were outlined to us earlier?

A New Zealand joint standing committee of parliament is involved in a review of South Pacific policy and options, and we had a visit from them some weeks back. One of their members suggested that perhaps there's a regional order solution that needs to be thought about in all of this. Is there some geopolitical structural solution that might be pursued; a South Pacific variant of the EU model or something similar? A lot of what was touched on before lunch had elements of that but the politics and the realities of something like that would be very difficult to progress. Well, there are other possibilities, not only with respect to the south-west Pacific but across a range of other issues, some of which will be raised by our speakers, so it's my pleasure now to invite Paul Kelly to share his views with us.

Paul Kelly

When it comes to choices, Australia's main task is to avoid false choices. We are constantly assailed by them: that we must choose between the world and the region, the economy and the environment, America and Asia. The art of statecraft is to integrate desirable options into an optimal policy structure overall. In these brief comments, therefore, I want to focus on challenges as well as choices. In particular, I want to do two things: look at the comprehensive elements of an Australian national strategy and do some star gazing about the 21st century.

I think our overarching challenge is to create a widely shared sense of national strategy for Australia.

National security in an interdependent world is a more complex concept tied to both domestic and external policy. True security begins at home with a successful society, not a dysfunctional society. The pressures of the 21st century have one sure consequence: they will expose dysfunctional societies and turn dysfunction into potential security risks. I think our overarching challenge is to create a widely shared sense of national strategy for Australia. I mean this in the broadest term—a strategic consciousness that is implicitly or explicitly understood and accepted by most of the people as part of their daily existence and that transcends party political division.

I think we've made progress towards this. Maybe we're not too far away from it. I'd like to give you my 10-point plan for a rounded national strategy.

Point one: A commitment to an open competitive market-based economy geared to a growth rate at the high end of the OECD table for rich countries, with a culture geared towards ongoing economic reform and adaptation required to keep us there, and a market-based, not an industry-based, approach to energy policy when it comes to the changes demanded to combat greenhouse gas emissions.

Point two: A commitment to a strong and diversified immigration program that recognises that rich nations in the coming century will fall into two categories—those that renew themselves and prosper and those that decline to renew and therefore stagnate.

Point three: A decision that population growth is important based on fertility rates and immigration, recognising this is the best course for Australia, and that the environmental and water constraints on this option, as championed by people such as Tim Flannery, represent a false argument.

Point four: An awareness of the potential risks from population ageing and the embrace of strategies to manage this. Witness Treasury Secretary, Ken Henry's three Ps—population, productivity and participation. This demands an awareness of the potential threat from grey power, bearing in mind that Peter Drucker warned not all that many years ago that in political terms grey power would be the most important political event in the West since the emergence of feminism in the 1960s.

Point five: A commitment to innovation, technological enhancement, educational excellence, greater educational investment in breadth and depth, more emphasis on R & D, trade and tertiary education, in recognition that human capital investment will be a more important determinant of national success in the coming century.

Point six: A recognition that Australia's strategic fate is that of a stand alone nation-state. Unlike countries such as the Netherlands it will never be embedded in a regional union like the EU. Unlike Canada, it lacks the geography co-terminus with the world's greatest power. So Australia has to make its own pathway to survival and success as a stand alone operation. The first step, therefore, is to become a state-of-the-art practitioner and exemplar of the globalisation model. This means building as an open economy a network of trade, economic and investment links across all regions of the world, Asia, America Europe and the Middle East. Such flexibility is the essence of good insurance. Witness our performance in the Asian financial crisis.

Point seven: The objective of a cohesive society united by common values. As a compulsory voting democracy, a rare asset in today's world, Australia should be well positioned to achieve and maintain a cohesive society based on internal economic opportunity and shared economic benefits and a common set of values as a basis for integration by new immigrant arrivals, a nation of tolerance yet of united ideas. This is the balance that counts.

Point eight: Successful societies will produce citizens that are both internationalist and nationalists. Both qualities are needed in the 21st century. An international outlook is critical in the globalised age with the ability to span cultures, yet a nation state remains the pivotal instrument in the globalised system and the wellbeing of people will be determined largely by whether or not the nation to which they belong is successful. National consciousness and national loyalty will be of enduring importance.

Point nine: The need for a foreign policy based on an acceptance of leadership in the neighbourhood, a deep engagement with the region, maintenance of the United States alliance, and a genuine global outlook with Australia recognising that it needs to leverage its alliances and its bilateral relationships and achieve its goals by working in collaboration with others such as from the United States, Indonesia, Japan, China, India and Singapore among others.

Point ten: A defence policy not too far away from the latest Defence Update, an evolutionary step towards a more ambitious defence strategy, a more formidable ADF, with, hopefully, the budget to match it.

I want to conclude these remarks with five warnings and possible speculations about the coming century.

Point one: It's the age of globalisation and globalisation makes and smashes nations. Some, over the last 15 years, such as Ireland, China and India, have thrived, but others are broken. Globalisation is a fast-forward process. Remember, nations are rising and falling faster in relative terms than ever before. Globalisation identifies the weak point in any nation state and hones in on that weak point. Consequently the need for cohesive and successful societies. The developing world is now split into two: those developing nations which are increasingly able to integrate into the global economy and do well—Vietnam, Malaysia, Thailand, China and India—but another group of developing nations populated by about

two billion people have failed to integrate into the global economy. These nations are making very little progress and some of them are becoming failed states. In a more interconnected world, this spells big trouble in the coming century.

Point two: The age of empire is dead. Empire was based on the ideas of obedience and authority, but obedience and authority in the global system are now being dissipated. They have had their day. They have surrendered in much of the world to the power of nationalism and religion. The 21st century will be heavily shaped by nationalism and religion, particularly in Asia and the Middle East. Nationalism is on the march and religion is on the march. The European mind, with its post-modernist, secular bent, may be ill equipped to handle this and understand it. Whenever I travel in Asia I'm struck by two trends: dynamic economic progress and a rising cultural assertion. For Australia, living in a largely Islamic geography of nation-states, the ability to operate in this new environment of the 21st century will be critical.

Point three: The Western-created post World War II global institutions and system is in deep trouble. Increasingly, these institutions seem unable to manage the challenges they face. Witness the UN Security Council, the WTO, the IMF, the non-proliferation system, new instruments such as the Kyoto protocol and old security alliances such as NATO. For Australia, a nation that has long relied on multilateralism and an effective international system, this poses serious political and intellectual challenges.

Point four. The rise of individual empowerment. One of the great features of the coming century—the power of the individual. It has many manifestations including in asymmetrical warfare. Every individual with a computer and the Internet becomes a prince or princess, ready to challenge authority, assert himself or herself, commit to new ideologies, new streams of soft power, often rejecting the norms of the nation or of the prevailing culture. I think that representative democracy will face a very tough century. The rise of the individual and pressure for direct democracy will undermine political and representative institutions. Indeed, this is one of the major trends we see in our society today. I think what it means is that it will be harder to get effective decisions out of representative institutions and leaders and the consequences of contested policy will be greater than ever.

My final and fifth point relates to warfare and the changing nature of warfare. The capacity of the West and international coalitions to intervene successfully in nations, both in the military and the nation building sense, is now on trial. It's now being tested. In an age of asymmetrical warfare, the foreigner, the intervener, often appears to be the intruder and the insurgent often poses as the champion of tradition and culture. The West in a military sense needs to rethink what it does best, to understand what it does best, to fight on the terrain of its choosing and not to play to the strengths of its opponents.

Michael Pezzullo

Before I start, could I first of all, on behalf of the Department of Defence, thank you and ASPI for organising this conference. It's certainly, I think, met all of your objectives and provided a great venue to look at, to explore and tease out these issues. Could I also say to the staff of ASPI thank you on behalf of the Defence Department. Could I also say how delighted I am that quite a number of young undergraduate and postgraduate students are here with us today. It's tremendously important that people building their intellectual capital in this field are also able to engage with policy makers and to hear from distinguished and esteemed speakers such as Paul, who's just covered the waterfront so very well.

In terms of the topic today, Australia's strategic choices, I'm glad I only need to cover one-tenth of Paul's ten points and one-fifth of his warnings. As a mere humble defence planner I don't have to focus as broadly so I'll go a little more deeply down those two paths.

To make judgments about Australia's strategic choices I need to think, as a senior policy maker and adviser, in terms of what my role is in terms of choice and that is to maximise choices available to the real decision makers, which of course is the government. That's my role, to provide advice, in my case through the Secretary of the department and the Chief of the Defence Force, to give advice to government on how they can maximise their choices in the field of military capacity and capability.

> ... I need to establish in my mind is what are the parameters for defence planners.

In order to do that the first thing I need to establish in my mind is what are the parameters for defence planners. You can't think about choice without thinking about the system in which choice needs to be deliberated. I'm not talking about a closed, fixed system, but a complex and non-linear system. What are its key features? First of all one can appreciate that one of the key parameters will be the nature of the global system in which we have to make these choices. One could imagine that governments of both persuasions will want to stay committed to a path of supporting globalisation, which will involve a stable and peaceful world, with the maximum flow possible of trade, movement of people, resources, capital, goods, et cetera, and where such flows are not inhibited by the threat of coercion or actual coercion. In that respect, fighting al-Qaeda, as we do, is an element in supporting an vibrant, open, globalised system.

Globalisation, of course, has its dark side. The Prime Minister touched on that in his remarks yesterday. It's also a theme of the early part of the Defence Update. Paul touched on it in his remarks. In the same way that communications technology, the Internet et cetera, has dramatically improved economic productivity and our ability to deploy human capital, it's also given people such as extremists, jihadists, the very same tools with which to ply their dark trade.

Another parameter relates to geography. Here I'm not going to open up or get into a debate about so-called geographical reductionism. I'm just simply going to speak the truism that policy makers will inevitably focus on the Asia–Pacific region. It's true when you look at the

empirical data just where ministers travel to where our major relationships are, with whom they mainly engage in strategic affairs. Our focus on Danish strategic affairs, for instance, at the moment is more to do with the princess and to some extent their close partnership with us as a NATO contributor, although not in the same province. But frankly relative to Denmark, the press coverage and the debate and discussion around our relationships with China, Japan, Indonesia, the Pacific states, PNG and the rest, East Timor, the situation on the Korean peninsula, it's self-evidently and empirically demonstrable that our focus is always going to be on the Asia–Pacific region for very good reason. Indeed the Defence Update states quite categorically that our future strategic landscape will be principally determined by the way in which the United States, China, Japan and other Asia–Pacific countries come to deal with each other in the Asia–Pacific and in particular how the US remains engaged in terms of its relationships with the countries of the western Pacific and the broader Asian, western Pacific and Indian Ocean region.

Another parameter relates to values. This is a highly contested space and governments quite properly should be the arbiter of how to express values through the enunciations of foreign policy through diplomacy. Generally speaking I can envisage the key parameters here being support for liberal, open societies, democracy, and also touching into Australia's national compassionate humanitarianism as exemplified in terms of our assistance to the people of Sumatra after the tsunami and of course defence had a role.

Another parameter relates to the nature of force. I absolutely agree with Paul that the nation-state remains the most powerful actor in the international system and will remain for as far as our eyes can see. Therefore in terms of making decisions about defence capability we need to think about the nature of force in two respects: the capacity of state actors, and we need to watch very carefully how military capabilities, particularly in our region, the region I described earlier, evolve and develop. But we also increasingly need to be concerned about the capacity of non-state actors, both terrorists but also I should add criminals, both of whom increasingly are developing military-like capability in terms of some of the weapons systems they can employ, their ability to use positioning and navigational systems, their ability to use communications, including encrypted communications. These are parameters that we need to factor into the system that we're analysing.

And finally capacity—one of the key parameters that configures the system in which we make decisions about how to employ military force relates to our own capacity. Demography is important here. Both the aging of the population—and yes, Chris, I was an avid reader of the intergenerational report, both versions of it; it is an incredibly important resource tool for our department—but also quantum. Twenty million people provides both capacity, but also constraints in how you develop your armed forces. With twenty million people on a continent the size we have, you don't go for choices around mass armies, and we haven't. But also your capacity in terms of industry, technology, science, the nature of your economy, how sustainable growth is, where revenues are trending. I should say in that respect—and the Prime Minister touched on this very strongly in his speech yesterday; he reminded us that in the budget that commenced a mere six days ago the government in cash terms has allocated $22 billion to defence, which represented an uplift of 10.6% in cash terms on the previous year's budget. This represents 2% of national income. And the Prime Minister reminded us that it is the government's policy to sustain a 3% real growth increase in our defence budget out to the year 2016 at least.

But I do point to the fact—and of course government is the beneficiary of this advice—that the unit cost of our systems, our equipment, our work force in terms of our people, communications and the like, tends to grow at a faster rate than that. So capacity and resources and the resource constraints are an important parameter around the system in which you make choices. Those who occasionally write, as they do, that you shouldn't bring the resource parameter to the strategic decision-making table until after you've worked out what your strategy is, all I can say to those good-hearted folk is that they've obviously never had to put a Commonwealth budget together.

... let me highlight the key passages as I interpret them of the Defence Update ...

So having sketched out what I consider to be the key parameters of the complex and rather non-linear system in which we make choices, let me highlight the key passages as I interpret them of the Defence Update, where the government has, in the word used by Paul Kelly before, continued on an evolutionary path of growing our strategic guidance. I particularly turn here to pages 26 and 27 of the update as published. 'It remains the government's policy'—and this is a choice that's been made. It therefore creates an imperative on senior policy advisers such as myself to put up the maximum range of choices within this imperative. It's the government's policy that our armed forces 'must be able to defend Australia without relying on the combat forces of other countries. We must be the sole guarantor of our own security and it's not healthy for a country to become dependent on another for its basic defence.' And I draw your attention to the adjective quite deliberately chosen there and approved by government, 'its basic defence'.

The passage goes on to say that that situation would not be good for Australia or indeed its allies, and further if Australia was ever to be directly threatened, 'our allies may well be engaged elsewhere and unable to assist'. Of course, at this stage that may sound unlikely but it's a hard-learned lesson from the Second World War.

That passage then leads into the key description of our defence policy settings at the same two pages. Our defence policy in terms of force development principles turns on two key chosen parameters. There is the area in which Australia has chosen as a matter of policy to lead militarily. Again I quote: 'We must be able to limit the options of potential adversaries in our area of paramount defence interest.' The document goes on to describe our area of paramount defence interest in the terms that Peter Abigail touched on and a few other speakers have touched on. It includes the archipelago, the maritime approaches to Australia to our west, north and east, the islands of the South Pacific as far out as New Zealand, our island territories and the southern waters.

Secondly, the government's defence policy indicates that beyond that area of paramount defence interest, consistent with our interests and the pressures of our deployments, Australia should be prepared to contribute significantly in some cases where our national interests are closely engaged. The passage goes on to describe the circumstances and parameters there.

I draw then a close around this key point. When you look at the balance of investment, the actual empirical date available publicly, the balance of investment in terms of our capital budget, and of course the supporting recurrent ongoing costs that we fund underneath that capital budget, and you look at the major items of acquisition, I would argue that Defence has provided government with choices consistent entirely with its policy choices as articulated in that description that I've just given you of Australia's defence policy.

The balance of investment over the next ten years in terms of the approved defence capability plan will go to the joint strike fighter, as a replacement for our F-111 and Hornet fleet; our submarines, which you heard the Prime Minister describe as now world's best in its class, that is to say conventional; our air warfare destroyers recently decided by government through a tender process has been based on the Navantia 48-cell destroyer design; our intelligence, surveillance and reconnaissance systems built around the Australian developed over the horizon radar system, but other systems as well, some well known and some rather more sensitive. And added to that, in order to ensure that we can maximise government choices within that policy framework I've just described, an uplift in the strength, hitting power and depth of our land forces, which has been ongoing since the late nineties, as well as an increase in our lift and mobility capabilities and our ability to sustain those leadership operations that I described earlier in terms of building up our logistics capacity, communications capability and command and control.

If you don't have the wherewithal that I've just described towards the end of that description, there's no point having elite fighting forces—they won't have logistics, they won't have comms, they won't have food and they won't be able to get where they need to go. So we are filling out the force based on the resources that government has been providing to us over the time period that I've just described.

Contributors

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Dr Bob Birrell is the Director of the Centre for Population and Urban Research (CPUR) and Reader in Sociology at Monash University. He is also joint editor, with Katharine Betts, of the quarterly demographic journal *People and Place*, published by CPUR.

Dr Birrell has a degree in economics from Melbourne University, in history from London University (first class honours) and a PhD in Sociology from Princeton University. Most of his academic work has been at Monash University and since 1991 this work has focussed on running the CPUR. He has acted as an advisor on immigration issues to both Labor and Coalition governments and was a member of the Commonwealth Government's National Population Council from 1987–1993. He was a member of the independent *Review of the General Skilled Migration Program* which reported in May 2006.

Dr Birrell has explored the implications of Australia's migration program for this country's workforce, economy and society. The latter includes analyses of the social divisions generated by migration. Relevant recent publications include (with Ernest Healy) 'Labour's shrinking constituency' (*People and Place*, June 2005), 'Birthplace: the new political divide' (*People and Place*, December 2002) and (with Katharine Betts) 'Making Australian citizenship mean more' (*People and Place*, March 2007). His volume *Federation: the secret story* (Duffy and Snellgrove, 2000) examines Australia's political and cultural origins.

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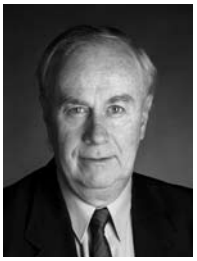

Mr Paul Kelly

Paul Kelly is Editor-at-Large of *The Australian*. He was previously Editor-in-Chief of *The Australian*. He writes on Australian and international issues and is a regular commentator on ABC television.

Mr Kelly holds a Doctor of Letters from the University of Melbourne and a Bachelor of Arts from the University of Sydney. In addition, he has honorary doctorates from the University of New South Wales and from Griffith University. He is a 2002 Shorenstein Fellow from the Kennedy School of Government at Harvard University and has been a visiting lecturer at the Weatherhead Center for International Affairs at Harvard University.

He is a Fellow of the Academy of Social Sciences in Australia and in 2005 he delivered the Academy's annual Cunningham Lecture on governance in the Howard era. In 2006 he was a Visiting Fellow at the Lowy Institute for International Policy where he wrote a research paper on ten years of Howard's foreign policy.

Mr Kelly is the author of six successful books, *The Unmaking of Gough* (1976), *The Hawke Ascendancy* (1984), *The End of Certainty* (1992), November 1975 (1995), *Paradise Divided* (2000) and in 2001 he presented the five part television documentary for the ABC on Australian history and character '100 Years—The Australian Story' and wrote a book under the same title.

He was Graham Perkin Journalist of the Year (1990) and a double Walkley award winner for excellence in 2001. Paul Kelly has covered Australian governments from Whitlam to Howard. In 2003 he co-edited with Peter Dawkins, the former Director of the Melbourne Institute, the book *Hard Heads, Soft Hearts* on a new domestic reform agenda for Australia.

Mr Michael Pezzullo

Mr Pezzullo took up the position of Deputy Secretary Strategy, Coordination and Governance in the Department of Defence in January 2006. In this role, he is responsible for defence strategy and planning, the strategic policy aspects of Australian Defence Force operations and Defence's international security relationships, and delivering national security programmes in areas such as export controls, counter-proliferation and Defence cooperation with other countries.

Mr Pezzullo joined the Department of Defence as a graduate in 1987. He worked in Defence until 1992 in a variety of strategic policy and intelligence positions. He then transferred to the Department of Prime Minister and Cabinet, where he worked in the International Division. In March 1993, he joined the staff of the Foreign Minister, Senator the Hon Gareth Evans QC. He remained in Parliament House until December 2001, including serving 5 years as Deputy Chief of Staff to the Leader of the Opposition, the Hon Kim Beazley MP.

In February 2002, he rejoined the Department of Defence as an Assistant Secretary in the Corporate Services and Infrastructure Group (now Defence Support Group). In March 2004, he was promoted to the position of Head Infrastructure. In July 2004, he was transferred into the newly formed role of Chief Of Staff Australian Defence Headquarters and Head of Coordination and Public Affairs Division.

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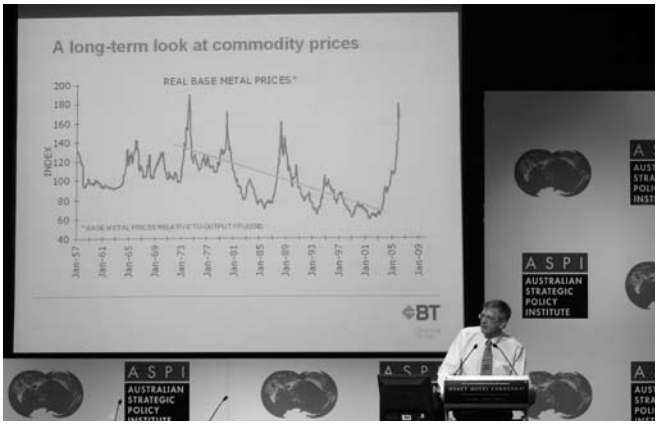
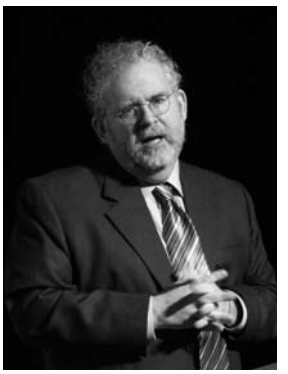
Dr Elsina Wainwright

Dr Elsina Wainwright is a Visiting Fellow at the Australian Strategic Policy Institute (ASPI) and an Adjunct Associate Professor at the Centre for International Security Studies (CISS) at the University of Sydney. She is a member of the Defence and National Security Advisory Council, which advises the Australian Defence Minister. From 2002 to 2006 she was the Strategy and International Program Director at ASPI. Before joining ASPI, she was an Associate with the management consulting firm McKinsey & Company and a consultant political analyst for the International Crisis Group in Bosnia. She is a Rhodes Scholar, completing both her Masters and Doctorate in International Relations at Oxford University. While at Oxford, she was a Stipendiary Lecturer in Politics at Oriel College.





Photos from the conference.

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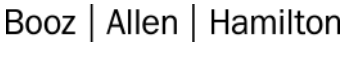

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