

2017 Foreign Policy White Paper



Australian Government



Opportunity Security Strength

2017 Foreign Policy White Paper

Opportunity Security Strength

Prime Minister's introduction



Change, unprecedented in its scale and pace, is the tenor of our times. These are the most exciting times, the times of greatest opportunity, but they are also times of uncertainty, of risk, indeed of danger.

But in the midst of such change, Australia's values are enduring. We are one of the oldest democracies and the most successful multicultural society in the world.

We are creating the competitiveness and flexibility our economy needs to thrive in an interdependent, fast-changing world. But we must also acknowledge we are facing the most complex and challenging geostrategic environment since the early years of the Cold War. We cannot assume that prosperity and security just happen by themselves.

The 2017 Foreign Policy White Paper is grounded in our national foundations of freedom, equality, the rule of law and mutual respect. Our commitment to those values and the institutions which uphold them gives us confidence and credibility in the global competition for customers, capital and talent. That same commitment serves to strengthen the stability of our region and reduce opportunities for coercion. This White Paper shows how our economic and security interests are converging.

More than ever, Australia must be sovereign, not reliant. We must take responsibility for our own security and prosperity while recognising we are stronger when sharing the burden of leadership with trusted partners and friends.

This Foreign Policy White Paper shows Australia to be focused on our region, determined to realise a secure, open and prosperous Indo-Pacific, while also strengthening and diversifying partnerships across the globe. It shows how we are meeting the challenges of an uncertain future with confidence, open to the world and its opportunities, while resolutely resisting threats to our way of life.

A handwritten signature in black ink, which appears to read 'Mal Turnbull'.

Malcolm Turnbull
Prime Minister of Australia

Ministerial foreword



Julie Bishop
Minister for Foreign Affairs



Steven Ciobo
Minister for Trade, Tourism
and Investment

The 2017 Foreign Policy White Paper sets out a comprehensive framework to advance Australia's security and prosperity in a contested and competitive world.

Informed by our values, it describes Australia's national interests and the Government's international engagement priorities. It is our agenda for opportunity, security and strength.

Over the decade ahead, technological change, challenges to globalisation and the rules-based international order, continued economic dynamism and growth in Asia, shifts in strategic power regionally and globally, Islamist terrorism and climate change are among the significant trends shaping our world.

Some of these developments challenge Australian interests. Others bring opportunity. Australia should respond with confidence. We are a regional power with global interests. Our strong economy and institutions, innovative businesses, educated and skilled population and secure borders provide solid foundations for success.

As this White Paper makes clear, in a complex and uncertain environment we will have to work harder to maximise our international influence and secure our interests.

We will need to keep reforming our economy, boost our competitiveness and resilience, and invest in the other domestic foundations of our national strength.

A framework for the future demands active and determined diplomacy and strong partnerships to help advance a secure and prosperous Indo-Pacific and strengthen the rules-based international order. We must step up our efforts to support a more resilient Pacific. A diverse and evolving set of national security threats requires strong defences at home and resolute action abroad to keep Australia safe, secure and free.

We must guard against protectionism and build robust support for open economic settings by ensuring all Australians have the opportunity to benefit from our growing economy. Our trade and investment agenda will assist by boosting jobs and supporting higher living standards.

It has been 14 years since the last comprehensive white paper on Australia's international engagement. While national interests are enduring, the international environment in which we pursue them has changed significantly, and so too has Australia.

We hope that future Australian governments regularly take the opportunity to engage the Australian community on our place in the world and explain the reasons for our international engagement. For our part, the Government will keep the policy settings in this White Paper under review against a changing external environment.

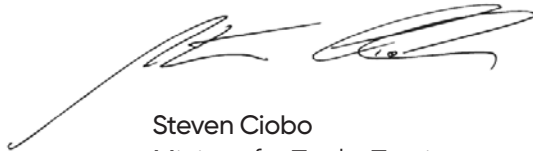
We thank state and territory governments and the many individuals and organisations who made submissions to the White Paper and who engaged directly in our public consultation process.

The development of the White Paper encouraged a wide-ranging public discussion about Australia's place in the world and promoted greater understanding of our diplomatic activities and how the Government seeks to enhance Australia's security and prosperity through foreign policy.

This has been immensely valuable and we will ensure it continues.



Julie Bishop
Minister for Foreign Affairs



Steven Ciobo
Minister for Trade, Tourism
and Investment

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Overview

The Government is publishing this White Paper to chart a clear course for Australia at a time of rapid change. Over the coming decade Australia will need to pursue its interests in a more competitive and contested world.

Our world is now more interconnected and interdependent than at any other time. Scientific and technological advances and the speed with which ideas and knowledge can be transmitted have driven economic growth and helped millions of people live longer and better lives. Australia and Australians will have great opportunities to prosper.

At the same time, concerns about globalisation and levels of political alienation and economic nationalism in many countries are on the rise. The same connectedness that empowers individual citizens increases risk and volatility in the international system. Similarly, it amplifies the reach and impact of non-state actors, including those who would do us harm.

In the Indo-Pacific,¹ the economic growth that has come with globalisation is in turn changing power balances. The United States has been the dominant power in our region throughout Australia's post-Second World War history. Today, China is challenging America's position.

Australia and our regional and global partners face a diverse range of security threats, from North Korea's long-range missile and nuclear programs to Islamist terrorism.

State fragility, demographic shifts and environmental challenges like climate change will continue to shape our world and demand policy responses.

Powerful drivers of change are converging in a way that is re-shaping the international order and challenging Australian interests.

In the decade ahead, Australia will need to be competitive and agile to take advantage of the opportunities that will come from dynamic Asian economies and technological and scientific advances.

In parallel, risks to our interests are building. In particular, the stability of the Indo-Pacific region, which has underpinned its economic transformation, cannot be assumed.

Any significant rise in protectionism globally could create strategic friction, damage economic growth and undermine the rules that support flows of trade and investment.

Similarly, the rules and institutions that help maintain peace and security and guide global cooperation are under strain. In some cases, major powers are ignoring or undermining international law. With many divergent interests and shifts in power between states, it is more difficult to get governments to respond collectively to some security and economic challenges. In the United States, there is greater

¹ We define the 'Indo-Pacific' as the region ranging from the eastern Indian Ocean to the Pacific Ocean connected by Southeast Asia, including India, North Asia and the United States.

debate about the costs of sustaining its global leadership.

In this dynamic environment, Australia must seek opportunity while protecting our interests in the face of complexity and uncertainty.

In a more contested and competitive world, our domestic and international policies will have to work together to maximise our national power and international influence. We will require active, determined and innovative foreign policy built on strong domestic foundations—a flexible economy, strong defence and national security capabilities and resilient democratic institutions within a cohesive society.

These broad themes—opportunity, security and strength—sit at the heart of this White Paper. They recognise that an outward-looking Australia fully engaged with the world is essential to our future security and prosperity.

Foundations for success

The Government's starting point is that we should approach this period of change with confidence. Australia has the strength to shape its own future.

At home, our democratic institutions, open society and strong economy underpin significant defence, foreign policy, border protection, law enforcement and security capabilities. Our economy has grown for 26 consecutive years. We are a member of the Group of 20 (G20). Our standard of living is one of the highest globally. We live in the most economically dynamic region of the world and have the minerals, energy, goods and services sought by growing Indo-Pacific economies.

These are strong foundations for international success. They give us advantages in a period of uncertainty and change that many other nations will not enjoy. Even so, in the decade ahead Australia will have to work harder to sustain our influence and secure our interests.

A strong, competitive economy will be fundamental to our future prosperity. A growing economy helps to maximise our weight in the world as countries in our region gain in strength and influence.

Innovative, outward-looking and well-governed countries will also enjoy advantages in a competitive and interdependent world. Nations with flexible economies and resilient institutions will better withstand occasional systemic shocks. Countries positioned to adapt and innovate will be able to seize opportunities and to support citizens through periods of change.

In the decade ahead, strong diplomatic, defence and national security capabilities will be essential to shape events to our advantage. Our development assistance will support efforts to build a stable and prosperous world, with a focus on the Indo-Pacific.

Our dynamic commercial sector, the stability of our policy settings, our reputation as a reliable trading partner and the excellence of our institutions and standards magnify our international influence.

Australia's values are a critical component of the foundation upon which we build our international engagement. Our support for political, economic and religious freedoms, liberal democracy, the rule of law, racial and gender equality and mutual respect reflect who we are and how we approach

the world. They underpin a strong, fair and cohesive society at home and are a source of influence for Australia internationally.

A framework for opportunity, security and strength

The policies described in this White Paper serve the national interest by advancing the prosperity of Australia, the independence of our decision-making and the security, safety and freedom of our people. They provide a framework to guide the deployment of our resources and capabilities in pursuit of our highest foreign policy priorities.

We identify five objectives of fundamental importance to Australia's security and prosperity. The Government will:

- promote an open, inclusive and prosperous Indo-Pacific region in which the rights of all states are respected
- deliver more opportunities for our businesses globally and stand against protectionism
- ensure Australians remain safe, secure and free in the face of threats such as terrorism
- promote and protect the international rules that support stability and prosperity and enable cooperation to tackle global challenges, and
- step up support for a more resilient Pacific and Timor-Leste.

Collectively, these priorities and the policies that support them provide a clear-eyed and active agenda for Australia's international engagement. They are bound by a common thread—each seeks to respond

to the opportunities and uncertainties of a contested world. In many instances, they build on current policy settings with new approaches and higher levels of activity and ambition.

While the Indo-Pacific is of primary importance to Australia, these priorities also reflect the global scope of our national interests and foreign policy.

Planning for an uncertain decade is inherently difficult. In the current environment, it is possible that some of the trends identified in this White Paper will move against Australia's interests in ways that require further responses. Agile policy and regular reviews of our foreign, defence and national security frameworks will be important.

A stable and prosperous Indo-Pacific

Australia's interests are clear as the distribution of power in the Indo-Pacific changes. We want peace to help sustain the growth that has brought the region to the centre of the global economy. Equally, we want a region where our ability to prosecute our interests freely is not constrained by the exercise of coercive power.

For Australia, the stakes could not be higher. The Indo-Pacific encompasses our most important economic partners and its dynamism supports economic growth in Australia, creating jobs and increasing our standard of living.

Our cultural, educational and people-to-people links are also deep. The region is the source of many of our biggest migrant communities, which are vital to our modern, vibrant nation.

Navigating the decade ahead will be hard because, as China's power grows, our region is changing in ways without precedent in Australia's modern history.

North Korea's destabilising nuclear and missile programs also raise the risk of a conflict that would dramatically re-shape Asia's security landscape and have severe economic and humanitarian consequences.

The starting point is to be clear about the kind of Indo-Pacific region we want. We set out our vision for a neighbourhood in which adherence to rules delivers lasting peace, where the rights of all states are respected, and where open markets facilitate the free flow of trade, capital and ideas.

Our alliance with the United States is central to Australia's approach to the Indo-Pacific. Without strong US political, economic and security engagement, power is likely to shift more quickly in the region and it will be more difficult for Australia to achieve the levels of security and stability we seek. To support our objectives in the region, the Government will broaden and deepen our alliance cooperation, including through the United States Force Posture Initiatives.

The Government is committed to strong and constructive ties with China. We welcome China's greater capacity to share responsibility for supporting regional and global security. We seek to strengthen our Comprehensive Strategic Partnership for the benefit of both nations.

To support a balance in the Indo-Pacific favourable to our interests and promote an open, inclusive and rules-based region, Australia will also work more closely with the region's major democracies, bilaterally and in small groupings. In addition to the United States, our relations with Japan,

Indonesia, India and the Republic of Korea are central to this agenda.

As competition for influence in the region grows, the Government will increase Australia's efforts to ensure we are a leading security, economic and development partner for Southeast Asia. We will also reinforce the regional forums that promote economic and security cooperation.

We will work to ensure regional trade, investment and infrastructure building are inclusive and based on market principles. We want an open, outward-looking regional economy strongly connected to global markets. This will maximise economic growth and help guard against protectionism and strategic rivalry. Our long-term vision is for a region-wide free trade area that includes all major economies.

Australia will boost defence engagement to enhance the capacity of our regional partners to manage security challenges. Our development assistance program will help to support stability and prosperity. We will promote high-quality Australian regulatory models.

Australia will continue to work with others to impose the strongest possible economic and other pressure on North Korea to stop its dangerous behaviour. North Korea's actions underline the importance of the United States' extended deterrence to Australia's security and the security of the Republic of Korea and Japan.

Maximising opportunity in a globalised world

In the decade ahead, the linkages between globalisation, technological change and new forms of production, consumption and

trade will shape economies and societies in profound ways.

For Australia, there will be significant opportunities. We will use science and technology to improve our productivity and harness new sources of economic growth including in the digital economy.

Australia will continue to benefit from the complementarity of our economy with those of our neighbours. Asian economic growth, urbanisation and expanding middle classes will sustain or increase demand for minerals and energy, premium agricultural products, and services. We are also building stronger economic partnerships with—and finding new opportunities in—Europe, Latin America, the Middle East and Africa.

Equally, there will be challenges to manage. Globalisation, greater use of digital platforms for trade and business, and further advances in automation will bring competitive pressures on many industries. The nature of some jobs will change even as new jobs are created.

Responding to these changes, especially if they occur rapidly, will be a focus for communities, businesses and governments globally. In some countries, weaker public support for free trade and doubts about the benefits of openness could further fuel economic nationalism and trade tensions.

Australia's policy response must prepare the country to seize opportunity and manage risk. Our domestic and international approaches will need to reinforce each other. Policies to strengthen the resilience and competitiveness of our economy and enable communities and businesses to harness innovation, science and technology to drive growth will be essential.

The Government will continue to work

hard to ensure community support for our openness to trade, investment and skilled migration. Australia's open economy improves our competitiveness, generates more and better paying jobs, gives us access to new ideas and technology, supplements our pool of domestic savings and lowers prices for consumers and producers.

We balance this approach with policies, such as our migration and foreign investment screening regimes, that maximise the benefits to Australia of openness. Our policies will also assist workers through change and help ensure all Australians have access to the opportunities offered by our growing economy.

The Government will be a determined advocate for an open international economy. We will stand against protectionism and promote and defend the international rules that guard against unfair trade actions and help resolve disputes.

At the same time, because comprehensive deals in the World Trade Organization (WTO) are unlikely, we will pursue new opportunities for our companies and strengthen trade rules through bilateral and regional free trade agreements (FTAs). We will work to support the competitiveness of Australian businesses and to advance our commercial interests in overseas markets.

The Government will continue our strong commitment to international economic governance. In a world of considerable systemic risk, the engagement of all major economies in institutions such as the G20 and International Monetary Fund (IMF) is essential to a stable international monetary system and an open global economy.

Keeping Australians safe, secure and free

The Government's first duty is to do everything possible to keep Australians safe and protect our freedoms, our way of life and our values.

Australia remains one of the safest and freest countries in the world. Our democracy and our institutions are robust and transparent. The risk of direct military threat to Australia is low. The security of our nation supports our prosperity.

Even so, globalisation and technological change, including the reach and vulnerabilities of the internet, state fragility, and environmental stresses, will at times amplify a range of threats to Australia's people, borders, economy and infrastructure.

These threats will endure for the foreseeable future. In some cases—such as Islamist terrorism, cyber attacks and transnational organised crime—the threat could worsen over the decade ahead. Australia and other countries must also deal with challenges from efforts to interfere in democratic decision-making and to shape public opinion through misinformation, including through the use of new technologies.

Our national strengths and international partnerships give us the confidence and resources to deal with these threats. Our strategies in response must be long-term and flexible. We will need to safeguard community cohesion and the resilience of our society.

The Government will continue to ensure Australia's law enforcement and security agencies have the legal authority and funding to enhance safety and security at home. We will work closely with a

wider range of international partners in our region and globally to address threats at their source. Our cooperation with Five-Eyes intelligence partners (the United States, the United Kingdom, Canada and New Zealand) and others will remain critical to our ability to address terrorism and other threats. In the period ahead, we will place particular importance on strengthening counter-terrorism cooperation in Southeast Asia.

For some issues, including in cyberspace, our ability to deter others will be enhanced by a willingness to use offensive capabilities to respond to threats.

International rules and cooperation protect Australian interests

We have entered a period of sharper challenge to the rules and principles that underpin international cooperation. Anti-globalisation, protectionism, changes in the balance of global power and geopolitical competition are testing the international order.

These challenges present risks to Australia's national interests. Our security and prosperity have been supported by US global leadership, an increasingly open world economy and the development of international institutions and rules.

It is difficult for countries like Australia, even working with others, to influence an international system that is predominantly shaped by the actions of much larger nations. At a time of challenge, we could choose to narrow our global vision and ambition. Such an approach would not, however, serve Australia's long-term interests nor align with our values.

Australia will work with others to protect and promote those elements of the international order that help ensure that all states can pursue their interests securely. We will act on the principle that Australia will be safer and more prosperous in a global order based on agreed rules rather than one based on the exercise of power alone. Such an approach is complemented by the development of Australia's own defence and security capabilities and our alliance with the United States.

Australia will also act to preserve a world in which all countries enjoy access to the sea and the air as provided for under international law. We seek to ensure that new domains, such as cyberspace, are governed by rules that reinforce stability, support openness and facilitate trade.

Similarly, in an interdependent world, a system that promotes collective responses to problems that cannot be solved by countries acting by themselves best serves our interests. For example, we support cooperation to stop the spread of weapons of mass destruction, address climate change and promote the 2030 sustainable development agenda. We will continue to work internationally to respond to global health and humanitarian crises.

Australia will continue strongly to support US global leadership. The Government recognises there is greater debate and uncertainty in the United States about the costs and benefits of its leadership in parts of the international system. We believe that the United States' engagement to support a rules-based order is in its own interests and in the interests of wider international stability and prosperity. Without sustained US support, the effectiveness and liberal character

of the rules-based order will decline.

It is strongly in Australia's interests, therefore, to support US global leadership, including by maintaining the strength of our alliance, keeping our commitment to increase defence expenditure to two per cent of GDP and contributing to coalition operations in support of global and regional security.

Beyond the United States, our cooperation with like-minded partners is also increasingly important to collective efforts to limit the exercise of coercive power and support an open global economy and a rules-based international order.

Australia will support reforms that give new and emerging powers a greater role in the international system. Some change to institutions and patterns of global cooperation is inevitable, necessary and appropriate to reflect the greater weight of countries such as China, Indonesia, India, Nigeria and Brazil.

Reform should be a shared project. Australia is a willing partner. At the same time, Australia's national interests are best advanced by an evolution of the international system that is anchored in international law, support for the rights and freedoms in United Nations declarations, and the principles of good governance, transparency and accountability.

A shared agenda for security and prosperity

Australia will remain committed to working with Papua New Guinea, other Pacific island countries and Timor-Leste to support their economic growth and governance, and to strengthen our

cooperation. Their security and stability is a fundamental Australian strategic interest.

The Government is delivering a step-change in our engagement with Pacific island countries. This new approach recognises that more ambitious engagement by Australia, including helping to integrate Pacific countries into the Australian and New Zealand economies and our security institutions, is essential to the long-term stability and economic prospects of the Pacific. Our partnership with New Zealand will be central to advancing this agenda.

New Colombo Plan is designed, in turn, to support young Australians to embrace study, work and travel in the region as a rite of passage. This will build a generation of Australians with greater understanding of our region.

Working with partners and leveraging our influence

In a globalised world, our work with business, development partners and state and territory governments will be critically important to our foreign policy.

In addition to our five main policy priorities, the Government will develop new approaches to harnessing Australia's soft power assets in ways that add to our international influence. We will work to improve how we market our commercial, educational and cultural credentials in a competitive global market.

Australia's institutions and expertise are themselves important sources of influence internationally, as is an effective and responsive development assistance program. We will continue to promote Australia's excellence in education, science and research and the creative industries.

We have been proud to host hundreds of thousands of students from across the Indo-Pacific. We aim to welcome many more in the decade ahead. The



Foundations for success

Fundamentally important to our ability to navigate a world of dynamic change and uncertainty are our strength and resilience at home, the hard and soft power that give us influence internationally, and the values that reflect who we are and how we approach the world. We build our international engagement on these foundations.

Australia's values

All government policies, including our foreign policy, must give expression to, and be formed on the basis of, the values of our community.

Australia does not define its national identity by race or religion, but by shared values, including political, economic and religious freedom, liberal democracy, the rule of law, racial and gender equality and mutual respect.

Our adherence to the rule of law extends beyond our borders. We advocate and seek to protect an international order in which relations between states are governed by international law and other rules and norms.

Australia is pragmatic. We do not seek to impose values on others. We are however a determined advocate of liberal institutions, universal values and human rights.

The Government believes that our support internationally for these values also serves to advance our national interests. Societies that observe these values will be fairer and more stable. Their economies will benefit as individual creativity is encouraged and innovation rewarded.

Australia's development assistance program similarly reflects our values while supporting our interests. Our investment in the stability and resilience of developing countries works to improve our own security and prosperity.

A strong and resilient Australia

In the decade ahead, more than ever, strong and resilient economies and institutions will be the springboard for international success. Countries that are well-governed, innovative and outward-looking will be better placed to seize economic opportunity and maintain community cohesion.

Our democracy

Australia is a stable and peaceful democracy, one of the world's oldest. We have a vibrant civil society and robust independent media. Our freedoms of speech, association and religion underpin the strength not only of our economy, but of our civic life and political discourse. Our independent institutions support

Figure 1.1 Percentage of population born overseas (select countries)



Source: Australian Bureau of Statistics; United Nations

effective government and a dynamic market economy. Institutional independence reinforces impartiality and public confidence, and is balanced with clear accountability.

The rule of law, freedom, independent institutions and a market economy constitute the fabric of Australian democracy. They support our national strength and high-income economy, and provide an enduring basis for social and economic progress.

We are committed to protecting our democracy and to using the advantages it bestows on our country to deliver opportunity and security for all Australians. The Government will ensure that national decision-making is transparent and our institutions remain free from foreign interference. This is one of our most important national interests.

Community cohesion

Australia is one of the world’s most successful multicultural societies. We are a harmonious, egalitarian and enterprising nation that embraces its diversity. One in four Australians were born overseas (Figure 1.1) and almost half of all Australians were either born overseas or have at least one parent born overseas. We come from virtually every culture, race, faith and nation. We are as old as our First Australians, who have cared for this country for more than 50,000 years, and as young as the new baby in the arms of her migrant mother.

We are united by common values—freedom, democracy, the rule of law and equality of opportunity. The Government this year launched a Multicultural Statement to reaffirm its commitment to an Australia in which racism and discrimination have no place.

The Government is determined to defend our nation, our people and our values and to protect the foundation on which our freedoms have been built and maintained.

Our focus is on ensuring that Australia remains an open, inclusive, free and safe society. We will resolutely tackle extremist ideologies that incite violence to achieve religious or political goals. We will not tolerate attempts to divide Australians on the basis of race or religion.

A flexible and competitive economy

Our strong economy has been, and will remain, the foundation of our international strength and influence. We are a top 20 economy and a member of the G20, the world's premier forum for international economic cooperation. Sound economic policy and further domestic reform are essential to improve the competitiveness, flexibility and resilience of our economy to better position Australia to compete for jobs, investment and markets in the 21st century.

By generating more and better paying jobs, a strong and flexible economy reinforces the cohesion and resilience of Australian society. It helps Australia to adjust to external economic shocks, such as financial crises or an economic slowdown in our major trading partners. It will better position the country to invest in the substantial defence, security and foreign policy capabilities necessary to safeguard our interests.

The Government's national economic plan is designed to deliver a stronger, more diverse, economy that is ready to face the changes and challenges to come. Our trade agreements are giving Australian businesses the chance to prosper in some of the fastest growing markets in the world. We will continue to give investors commercial certainty to ensure Australia

remains an attractive place to invest. We promote growth to create more and better jobs by cutting taxes, boosting education and improving infrastructure. We will take a fair and responsible approach to budget repair.

In a world of rapid and disruptive technological change, success requires investment in our human capital. We will help Australians prepare for the jobs of the future, including by promoting adaptability, resilience and innovation.

We start from a strong position. Australia has six universities in the world's top 100, a number only exceeded by the United States and United Kingdom. Our vocational education and training are recognised internationally and offer valuable training for a productive workforce. The Government is raising the status of vocational education and training as a pathway to employment.

We also have world-class scientific and research institutions, access to modern research infrastructure and strong intellectual property protections. We produce more than seven per cent of the world's most highly cited research publications despite having less than half a per cent of the world's population.

The Government's education, innovation and science policies build on this foundation. All Australian children will benefit from an improved national curriculum and increases in education funding. The Government's reforms will drive quality and excellence in education and ensure industry has a skilled workforce. Through the National Innovation and Science Agenda (NISA), the Government is investing \$1.1 billion to encourage innovation and entrepreneurship, reward risk taking, and promote science, maths and computing in schools.

Strength through openness

Our openness to the world is vital to our economic strength. This connects our goods and services to larger, often faster growing markets. In turn, it enables Australia to benefit from the world's best goods, services, people, capital and ideas to grow our economy and create jobs. Being open to trade and investment boosts competition, creates new wealth and supports high living standards.

Openness, of course, is a means to an end, not an end in itself. Nor is it an absolute. We exercise strict sovereign control to protect the cohesion of our society, the integrity of our institutions and the security of our borders and national infrastructure.

The Government will continue to consider the national interest when reviewing foreign investment proposals. We will balance our need for skilled migration with ensuring new migrants can integrate into our labour market and society. The Government will ensure multinational companies pay their fair share of tax.

The Government's policies to boost economic growth and promote innovation and flexibility will maximise the opportunities that come from technological change. We recognise the adjustment costs borne by parts of the community in the face of competition and disruptive technological change. Many countries are dealing with similar issues.

Our investments in education, retraining, and employment services, and assistance to communities adjusting to economic changes, will help Australians adapt. The Government's regional jobs and investment package supports the diversity and resilience of regional communities, including by helping people to retrain for new industries.

The Government will keep our economy

open because this supports some of the highest living standards in the world. Open trade gives Australians more choices, better services and lower prices. This applies even if other countries adopt protectionist measures.

Our businesses are also more competitive through cheaper inputs and components. Competition from imports reduces the cost of many essential items, benefitting Australian consumers (Figure 1.2).

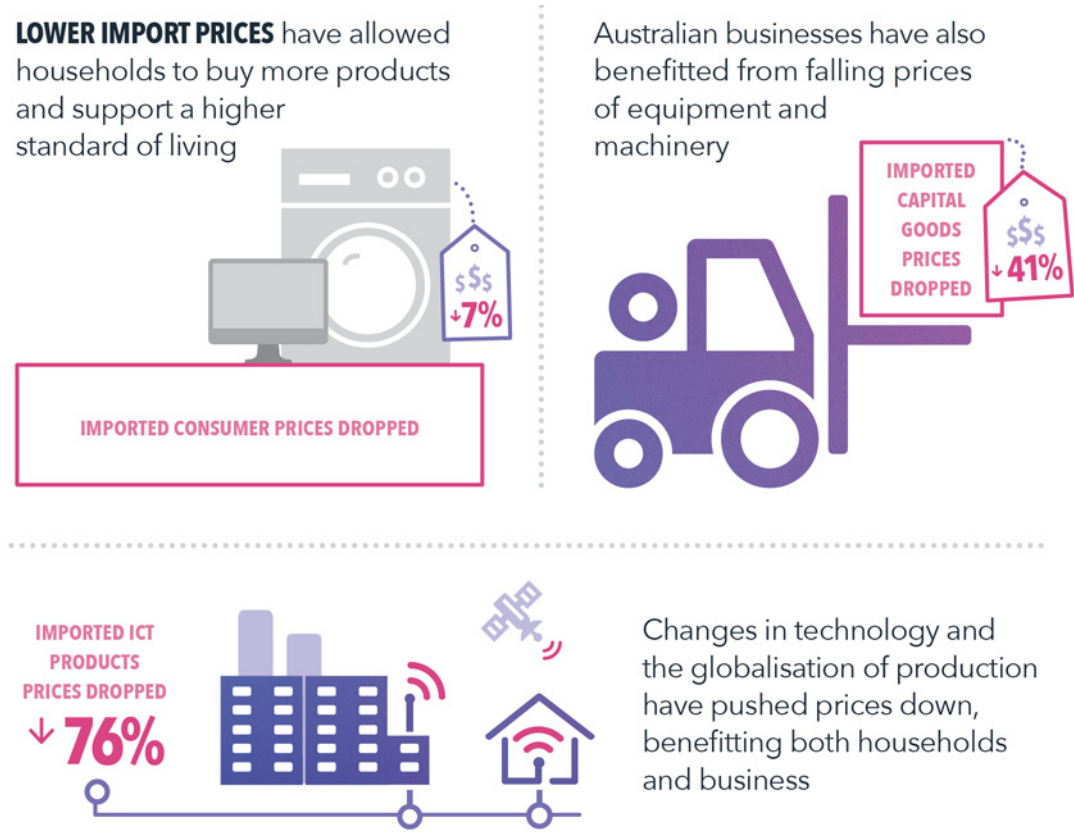
Our policies to support an open economy give us the flexibility to respond to changes in world conditions, and to adopt and benefit from new technologies. Resources can be redeployed to respond to market demands, keeping us competitive and maintaining growth.

Our openness to trade and investment also drives job creation. Employment in a number of regional and rural parts of the country depends on their connection to global markets. Today, one in five Australian jobs are trade-related. Exporting firms on average employ more people and pay higher wages than firms focused on the domestic market alone (Figure 1.3).

Further, by supplementing domestic savings with foreign investment we create more opportunities than can be achieved from domestic savings alone. Investment from overseas improves the efficiency of our economy, including through the transfer of new ideas and technology. Australia has always been and will remain a capital importing country so we will continue to rely on foreign investment. Without it, production, employment and incomes would all be lower.

Today there is more than \$3 trillion of foreign investment in Australia. Foreign-owned companies generate large revenues and employ more than 700,000 Australians. Our world-leading minerals and energy

Figure 1.2 Benefits of imports to Australian households and businesses since 2000



Source: Australian Bureau of Statistics; Treasury

sector has long been powered by foreign investment.

Two-way investment also helps connect Australian businesses to foreign markets and to global value chains, which account for about 75 per cent of global trade and investment activity. It exposes Australian businesses to international standards and best practice. Figure 1.4 shows the level and main sources of foreign direct investment into Australia in 2016.

Australia’s migration program will continue to add to our economic growth, including

by attracting younger, skilled workers who help offset our ageing population. We want migrants who contribute to the Australian economy, help alleviate skill shortages and enhance the size and productivity of the Australian work force. Our visa reforms will support these objectives.

Openness makes sense for Australia and for global growth and prosperity. We support an open global economy because a more integrated world will be more prosperous and more secure than one characterised by protectionism and geo-economic rivalry.

Figure 1.3 Benefits of trade for Australians



Source: Centre for International Economics; Australian Bureau of Statistics;
Department of Industry, Innovation and Science

Building influence and advancing interests internationally

The resilience and quality of our democracy, institutions and economy sit at the core of our national strength. As discussed in Chapter 8, they are also fundamental to our soft power—our ability to help shape

events and outcomes internationally to our advantage through persuasion and ideas rather than coercion.

This influence is enhanced by our reputation as a good place in which to live, visit and invest and by the commercial strengths of Australia’s companies.

Australia has a well-earned reputation as a reliable trading partner. The quality of our institutions and standards enhance our international influence.

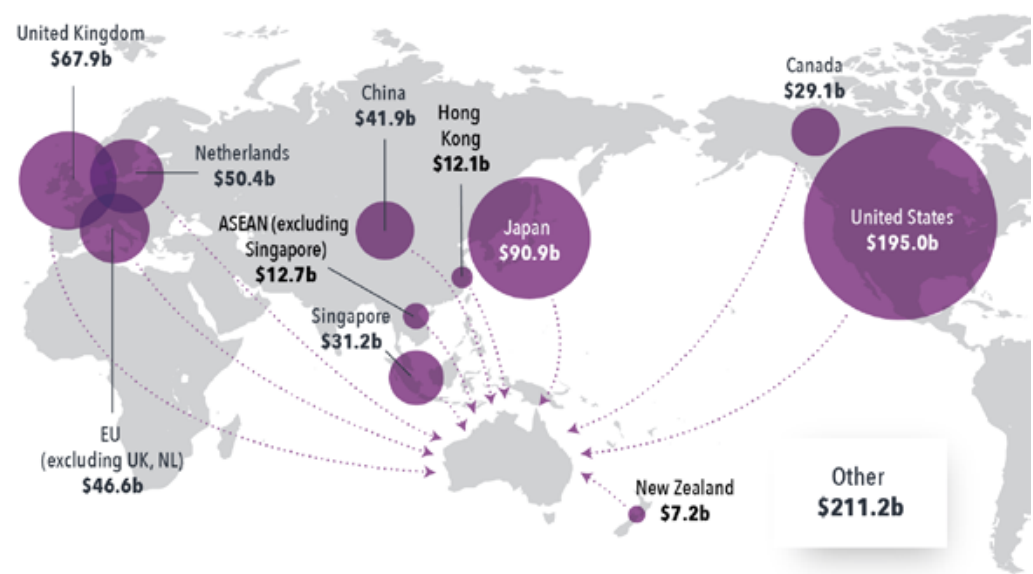
Crucial to Australia’s influence is the quality and reach of our diplomacy and development assistance, and the strength of our defence, intelligence, law enforcement and border capabilities.

Our diplomacy works to make Australia stronger, safer and more prosperous by promoting and protecting our interests internationally and contributing to global stability and economic growth. It works to open overseas markets and increase opportunities for Australian companies. Our diplomacy promotes regional stability, security and prosperity, through our work with bilateral partners and in multilateral forums.

We cannot impose our views or our will overseas. Our ability to protect and advance our interests rests on the quality of our engagement with the world. This includes the ideas we bring to the table, our ability to persuade others to our point of view and the strength of the relationships we build with other governments and, increasingly, with influential non-government actors.

Australia’s global diplomatic network enables us to pursue our international interests and provide assistance to Australian businesses and citizens overseas, including consular and passport services. Already the Government has implemented the single largest expansion of the network in 40 years, with 12 new posts opened or announced including in China, Indonesia, Colombia

Figure 1.4 Level of foreign direct investment in Australia (2016)



Source: Australian Bureau of Statistics

and Morocco. Over the next 10 years we will open more missions, and use more efficient and cost-effective technologies and practices to do so.

The Government recognises that Australia faces mounting international challenges at a time when the budgetary environment is tight. A strong economy requires Australia to live within its means. The Government will therefore continue to use more efficient means and cost-effective technologies to support our international engagement, including as we expand our diplomatic network.

We will also continue to build the capabilities needed by the Australian Public Service to respond to the trends outlined in this White Paper. The Australian Public Service Commission is developing a Core Skills 2030 strategy to help ensure the public service has the foundational skills to meet the challenges and opportunities of a changing world, including by promoting an entrepreneurial culture and stronger digital literacy and communication skills.

A new Diplomatic Academy in the Department of Foreign Affairs and Trade is training Australian officials in international engagement tradecraft, including in areas such as advocacy, negotiation, forecasting and strategic planning. The Academy focuses on our agenda in the Indo-Pacific and will collaborate closely with other foreign ministries.

A complex world requires a multi-disciplinary approach to policy development and systematic ways of thinking about alternate futures. The Government will strengthen its advanced analytical techniques capability to test policies against possible shifts in our environment.

Australia's development assistance program, currently \$3.9 billion a year—with 90 per cent of our bilateral and regional funds focused on the Indo-Pacific—supports our partners in their efforts to become more stable, prosperous and resilient.

Our assistance alleviates suffering and serves our national interests by helping countries to advance economic reform, fight threats such as extremism, guard against the spread of infectious diseases, and build resilience to natural disasters and economic shocks. We support better state capability to improve governance and reduce poverty and inequality. Our development program magnifies the influence that Australia brings to bear on pressing regional and global problems, including efforts to meet the Sustainable Development Goals (Chapter 6).

Our international weight is underpinned by a strong Australian Defence Force and a willingness to deploy hard power to protect our national interests. Our military strength is a deterrent against armed coercion and the (still low) prospect of a direct military threat to Australia. Our high-end military capabilities enable us to monitor approaches to our territory and to respond to security crises in our near region. The Government's substantial investments in intelligence, surveillance and reconnaissance capabilities allow us to anticipate risks in our air and maritime approaches, as well as help our partners.

A strong and capable defence force maximises our ability to operate effectively with international partners, particularly the United States. Our military capabilities also allow us to support global security, notably by contributing to coalition operations to combat terrorism. The Australian Defence Force is able to undertake humanitarian

and disaster relief operations, including in cooperation with our police and disaster response teams.

As outlined in the 2016 Defence White Paper, the Government is increasing defence spending to two per cent of GDP by 2020-21 to create a more capable, agile and potent Australian Defence Force. We will increase the pattern of regular defence deployments into the region and our program of international exercises. We will expand our Defence Cooperation Program to boost our ability to work with partners.

Strong intelligence capabilities are essential to safeguard Australia's interests. The National Intelligence Community protects Australia from security threats through intelligence collection, assessment, action and advice for Government. It also engages in extensive cooperation with overseas counterparts to respond to security threats.

Building on our investments in capability, Australia's cooperation with our Five-Eyes partners magnifies the potency and effectiveness of our security capabilities by providing irreplaceable access to information and cutting edge capabilities.

Our international policing and law enforcement capabilities protect Australia's interests at home and abroad from criminal activity. Together with broader law and justice cooperation and capacity building, they help to strengthen stability and governance in partner countries. The Government is investing additional resources to strengthen our policing capabilities in intelligence, covert surveillance, forensics and tactical response.

The Government ensures that our border arrangements facilitate legitimate travel and trade, so Australia benefits from rapidly increasing flows of people and

goods. At the same time, we protect our security and sovereignty against those who seek to circumvent our border controls. Each week, more than 840,000 people arrive in or depart from Australia, and this number is expected to grow by more than 20 per cent over the next four years. We are investing in new technologies to meet this challenge. The Government is also ensuring our civilian Maritime Border Command has the advanced capabilities necessary to protect our maritime security interests.

In view of an increasingly complex threat environment, the Government is reforming Australia's national intelligence and domestic security arrangements. We are restructuring and strengthening Australia's national security community, establishing a Home Affairs Portfolio and enhancing oversight of Australia's intelligence, security and law enforcement agencies. These reforms will better integrate our intelligence and security arrangements and ensure closer cooperation between our security and law enforcement agencies.



A contested world

This chapter considers some of the significant trends shaping the world and their implications for Australia. Where possible, it looks 10 years out. The Government recognises that often we will be responding to unexpected events. Even so, understanding the forces driving change is essential to navigating uncertainty and influencing events to our advantage.

Australian foreign policy in recent decades has focused on advancing our interests as globalisation deepened and economies in Asia grew strongly. In the decade ahead, both trends will continue profoundly to influence our prosperity and security.

Other major trends will shape our world, including the pace and scale of technological advances, demographic shifts, climate change and new global power balances. The threats posed by North Korea and terrorism and other transnational issues will require resolute, long-term responses.

The United States remains the most powerful country but its long dominance of the international order is being challenged by other powers. A post-Cold War lull in major power rivalry has ended. These trends are converging to create an uncertain outlook for Australia.

An evolving international order

How countries conduct themselves globally and act to meet common challenges matters greatly to Australia. In the post-Second World War period,

we have benefitted significantly from an international order shaped by US power and global leadership. Our world has been characterised by an increasingly integrated economy and the development of international rules and institutions.

The principles embedded in the post-war order have strongly supported Australia's interests and our values. These principles include the promotion of open markets, the importance of international law and other norms to guide international cooperation, the articulation of universal rights and freedoms and the need for states to work cooperatively on global challenges. US leadership has supported global security, including through the network of US alliances and the US military presence in Asia and Europe.

Significant forces of change are now buffeting this system. How the international order evolves in response has important implications for Australia.

Anti-globalisation intensifies

Debate about the future course of globalisation has intensified. Starting in the 1990s, globalisation—the integration of the world economy through flows of

goods, services, capital, skilled workers and ideas—accelerated. Global trade and investment grew strongly (Figure 2.1). So too did manufacturing in Asia (Figure 2.2). Following Japan and the Republic of Korea, China became an economic powerhouse hungry for Australia’s minerals and energy, boosting our economy and increasing our living standards. Other economies in Asia also grew.

For much of this period, China’s economy expanded by around 10 per cent a year. Hundreds of millions of people in Asia escaped extreme poverty. Asia drove global economic growth (Figure 2.3) and consumers everywhere benefitted from access to goods and technologies from around the world at lower prices. In many developing countries, greater wealth and transmission of knowledge and technology drove increases in literacy and life-expectancy.

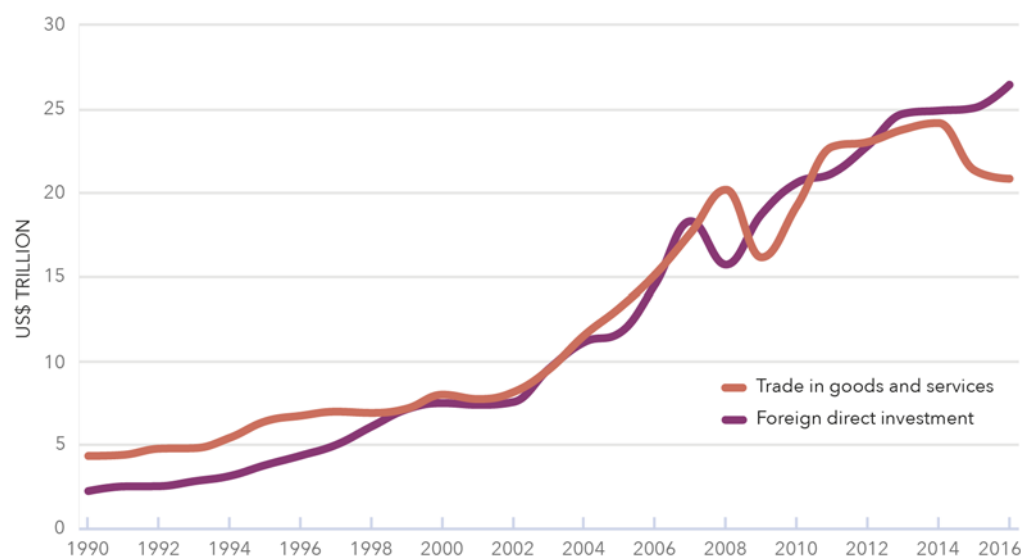
At the same time, as manufacturing shifted to Asia and technological

advances increased automation, advanced economies lost jobs in some industries. This disruption, together with low wage growth in advanced economies, has led some communities to question whether the gains from globalisation have come at their expense. The global financial crisis and its aftermath deepened doubts about economic openness.

Concerns about globalisation are not new. But the pace and scale of change in the past two decades have had significant political impact, particularly in Europe and the United States. Doubts about openness to the world have grown, as have concerns about the effect of globalisation, mainly immigration, on cultural identity and social cohesion.

Politics in many countries has also become more fragmented and volatile. Nationalism has become a stronger political force and protectionist sentiment has increased. The dislocations caused

Figure 2.1 Value of global trade and investment



Source: World Trade Organization; United Nations

Figure 2.2 Asia's share of world manufacturing output

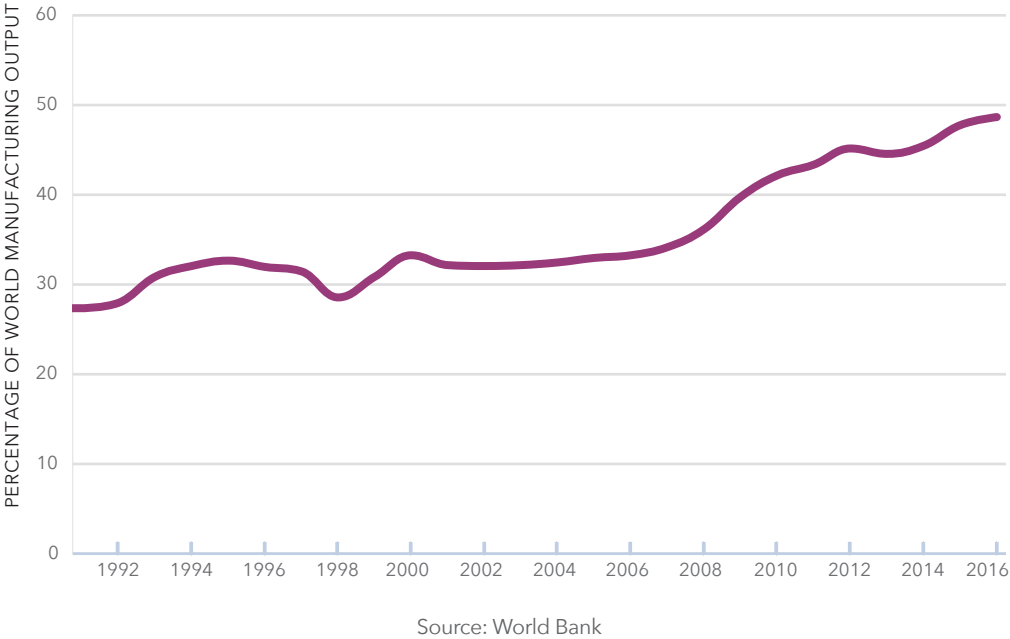
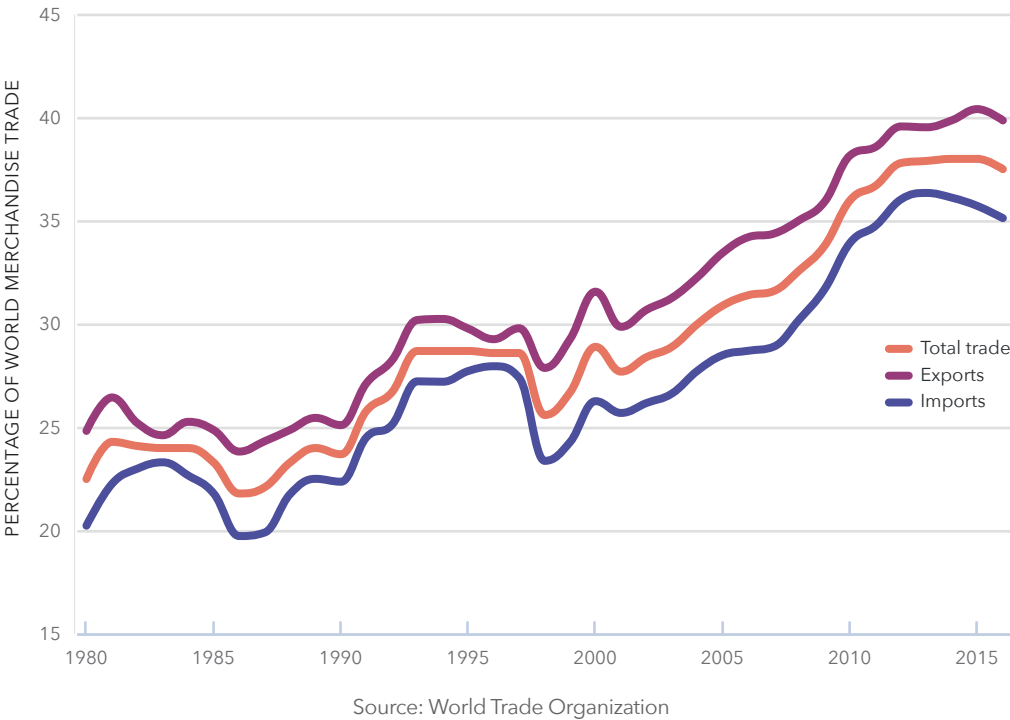


Figure 2.3 Asia's share of world merchandise trade



by globalisation are arguably one factor in the decline of some measures of global freedom and liberal democracy over the past decade.

Global governance is becoming harder

These economic, political and social changes are adding to other pressures on the international system.

While the United States remains the preeminent global power and most important influence on international affairs, it now shares the stage with a number of countries with large populations and economies. Since 1950, the United States' share of the world economy has nearly halved, from 27 per cent to 15 per cent today (in purchasing power parity terms).² This contrasts with China's rapid increase, growing from two per cent in 1980 to nearly 18 per cent today. As a consequence, China along with other major and emerging powers such as Indonesia, India, Nigeria and Brazil have growing weight in international affairs.

Non-state actors, such as multinational companies, civil society groups and private foundations, are also able to mobilise resources and communities of interest globally. They are increasingly able to shape international responses to issues as diverse as climate change, sustainable development, education and health standards.

The net result is that global governance is becoming more complex. Many global institutions are finding it difficult to respond to the scale and complexity of

international challenges. A greater number of major and emerging powers with divergent interests and values makes finding consensus difficult.

Rules are being contested

The international order is also being contested in other ways. Some states have increased their use of 'measures short of war' to pursue political and security objectives. Such measures include the use of non-state actors and other proxies, covert and paramilitary operations, economic coercion, cyber attacks, misinformation and media manipulation. In the United Nations, we have seen coordinated efforts to dilute universal human rights standards. Some states are active in asserting authoritarian models in opposition to open, democratic governance.

International rules designed to help maintain peace and minimise the use of coercion are also being challenged. Australia's security is maintained primarily through our own strength, our alliance with the United States and our partnerships with other countries. Australia's security and prosperity would nonetheless suffer in a world governed by power alone. It is strongly in Australia's interests to seek to prevent the erosion of hard-won international rules and agreed norms of behaviour that promote global security.

Refusal to act in ways consistent with international law and these norms, such as Russia's coercive and aggressive actions in Ukraine, Syria's use of chemical weapons, and North Korea's missile and nuclear programs, weakens global security.

² In this White Paper, economic calculations are based on purchasing power parity (see glossary). Using market exchange rates, the US economy accounted for 65.4 per cent of the global economy in 1950 and 24.7 per cent in 2016. Over a similar timeframe, China accounted for 4.5 per cent of the global economy in 1952 and 14.9 per cent in 2016.

Forging rules on a range of new issues, such as cooperation in outer space and governance of the internet, will also remain difficult because of differences in political systems, interests and values.

There is much at stake for Australia

We do not know yet how far these shifts will change the way nations conduct and organise themselves globally.

Economies and businesses will still trade with each other. The world will remain highly interconnected. Innovation and new technology will create employment and new ways of doing business that we can only begin to imagine. International cooperation on many issues remains not only possible but essential. Much of the institutional architecture of the international order has proven resilient and is valued by countries large and small.

Even so, the potential risks of the shifts described above are also clear. A more inward-looking and contested world would be less prepared to respond to major crises and work collectively to address global challenges. Multilateral institutions could see their effectiveness decline further. The rules and principles on which the international system has been built could erode. New approaches, contrary to our interests, might develop and ultimately prevail.

Over time, we can also expect the nature of work to change further as more jobs—or parts of more jobs—are automated. Digital platforms will allow more tasks to be done anywhere in the world. Without policy responses to manage change and seize the opportunities that will come from innovation, there is a risk that income inequality in some countries could worsen.

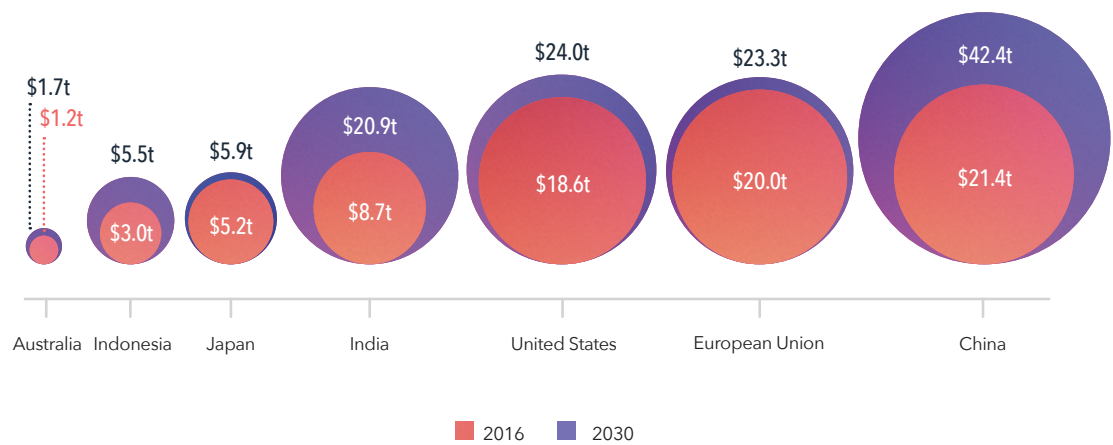
One implication is that pressures on governments to deliver access for their citizens to the benefits of national prosperity in a globalised world are unlikely to abate. Any pronounced shift towards protectionism as a result would impede flows of trade and investment, dampen economic growth and undermine the international rules that govern trade and allow economies to prosper together. It would also reduce living standards, including in Australia.

Power shifts in the Indo-Pacific

Economic growth in Asia continues to re-shape our strategic landscape. The compounding effect of China's growth is accelerating shifts in relative economic and strategic weight (Figure 2.4). In parts of the Indo-Pacific, including in Southeast Asia, China's power and influence are growing to match, and in some cases exceed, that of the United States. The future balance of power in the Indo-Pacific will largely depend on the actions of the United States, China and major powers such as Japan and India. The responses of major Southeast Asian states, such as Indonesia and Vietnam, will also be important.

By some measures China's economy is already the largest in the world. China is the most important trading partner for most of the region's economies and a major investor, including in infrastructure. China's military modernisation is rapidly improving the capability of its armed forces. It has the largest navy and air force in Asia and the largest coast guard in the world. It is a large aid donor and lender to the region.

Figure 2.4 GDP forecasts to 2030



Source: Treasury (Australian projections consistent with the 2015 Intergenerational Report)

Note: Figures are in 2016 US\$ trillion, converted on a PPP basis; Australian forecasts are for 2015-16 and 2029-30

Like all great powers, China will seek to influence the region to suit its own interests. As it does, a number of factors suggest we will face an increasingly complex and contested Indo-Pacific. Even as China’s power grows and it competes more directly with the United States regionally and globally, the United States will, for the foreseeable future, retain its significant global lead in military and soft power. The United States will continue to be the wealthiest country in the world (measured in net asset terms), the world’s leader in technology and innovation, and home to the world’s deepest financial markets.

The Australian Government judges that the United States’ long-term interests will anchor its economic and security engagement in the Indo-Pacific. Its major Pacific alliances with Japan, the Republic of Korea and Australia will remain strong. Most regional countries,

including Australia, clearly consider a significant US role in the Indo-Pacific as a stabilising influence. Japan and India, major economies and military powers in their own right, are also playing stronger roles in Indo-Pacific security and political affairs and are seeking to influence the balance of the regional order.

In this dynamic environment, competition is intensifying, over both power and the principles and values on which the regional order should be based. Maritime and land border disputes will continue to create friction. The region’s seas and airspace are becoming more contested. Freedom of navigation is under challenge in parts of the region.

Economic power is also being used for strategic ends. We are already seeing increased competition over regional economic integration, including in the financing of infrastructure projects.

There is a risk that trade and investment, which in the past have acted to restrain strategic rivalry, could fuel it instead.

Military modernisation in our region is not directed at Australia but nonetheless will significantly diminish the capability edge we have enjoyed. Over the next 20 years, a larger number of regional armed forces will be able to operate at greater range and precision. The quality and quantity of missile forces in the Indo-Pacific is rising, including ballistic missiles. We will see more submarines and advanced combat aircraft. Stronger surveillance and reconnaissance systems will reduce the effectiveness of stealth capabilities.

In response, the Government is delivering a more capable, agile and potent Australian Defence Force (ADF). Our particular focus is modernising our maritime capabilities and further integrating the ADF so it can apply force more rapidly and effectively.

In the decade ahead, Australia will seek security and prosperity in a region changing in profound ways. We are likely to face higher degrees of uncertainty and risk. We will need to be more active and determined in our efforts to help shape a regional balance favourable to our interests.

Terrorism will remain a critical global threat

The threat from terrorism will remain high and could worsen over the decade. There are now more Islamist extremists from more countries active in more places than ever before. Extremists will continue to exploit fragile and violence-prone states, including in Southeast Asia, for safe havens and to build skills. Globally,

terrorism will add to instability and drive international security interventions, especially in the Middle East and Africa.

Communications technology allows extremists to inspire or direct attacks remotely, often through encrypted means, underlining the complexity and unpredictability of the risks we face. New technologies could make it easier for terrorists to make advanced biological or chemical warfare agents.

Recent attacks and disruptions in Australia highlight the dynamic nature of the extremism challenge. With the conflicts in Syria and Iraq having energised Islamist extremists at a level not seen before, these threats will have a generational impact.

Extremist narratives will continue to inspire violence globally, even as the so-called Islamic State (ISIL) loses ground in Iraq and Syria. Al Qa'ida retains the intent to conduct attacks against western interests. Other groups are likely to emerge. The security and stability of Afghanistan will continue to be vital in containing the threat from international terrorism.

The terrorism threat in Southeast Asia is increasing because of links between local extremists and terrorist groups such as ISIL, with the situation in the southern Philippines of pressing concern. We must plan on the basis that a mass casualty attack against western targets in Southeast Asia will take place.

Constraints on global growth

Advanced economies have taken longer than expected to recover from the global financial crisis. More recently, the short-term outlook for global growth has brightened. Trade volumes have grown and business

and market sentiment have improved. Looking further ahead, however, several factors will weigh on the world's economy.

In the developed world, productivity gains associated with technology advances in the 1980s and 1990s have largely been exhausted and new advances in information and communications technologies have not yet translated into higher productivity across economies. Real wage growth is not expected to improve unless productivity increases, particularly in developed economies.

Ageing populations will impede the productive capacity of economies such as Japan, China and the European Union. In response to cyclical crises, major economies have little room for stimulus because of high public debt and low official interest rates. China's economy is also slowing as it matures and this will affect global growth rates.

Despite changes to financial regulation and supervision since the global financial crisis, risks remain in the global monetary system. These include high debt in major economies and potentially destabilising increases in borrowing costs as developed economies normalise monetary policy.

The Indo-Pacific will create opportunity

Even with declining momentum, Asia overall stands to deliver nearly two thirds of global growth to 2030. Its continuing growth will provide numerous opportunities for Australia while our economy remains competitive and agile. Within the next 15 years, four of the world's five biggest economies in purchasing power parity terms are likely to be in Asia: China, India, Japan and Indonesia. China and India

together make up more than 60 per cent of Asia's economic activity. By implementing policies to support reform and inclusive growth, developing economies with large and youthful populations, such as India and Indonesia, could reap a demographic dividend (see Figure 2.5).

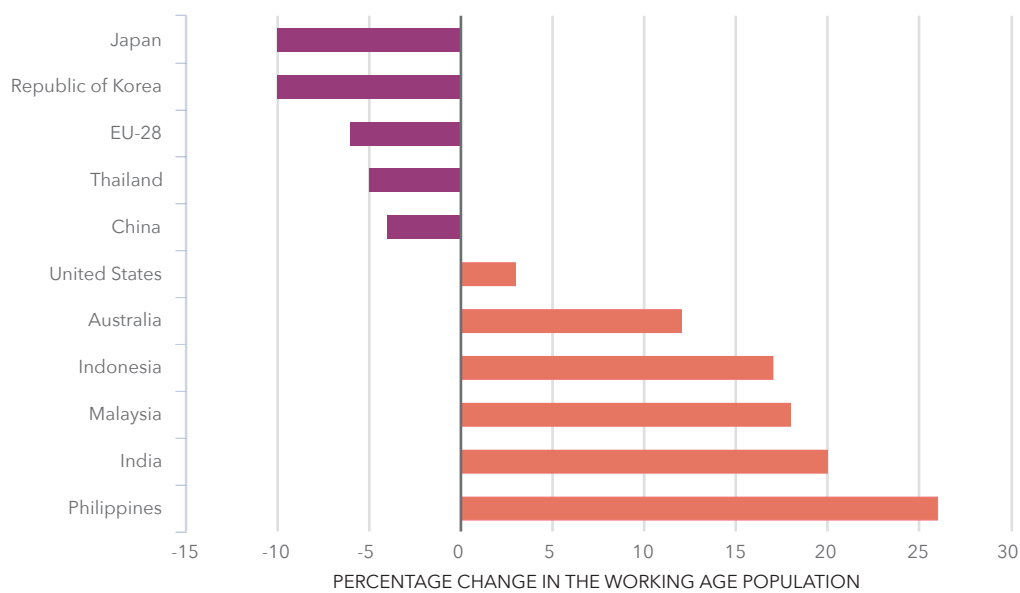
Some forecasts suggest that by 2030, Asia could be home to a middle class of almost 3.5 billion (Figure 2.6). Australia's economy will continue to strongly complement those of a growing Asia. Demand from Asia for minerals and energy—including LNG, coal, iron ore, gold, alumina, copper, nickel and zinc—will continue. Australia will also have significant opportunities to supply regional economies with services and premium agricultural products.

Recognising that it can no longer rely on traditional growth drivers, such as investment in infrastructure and the movement of rural workers to urban areas, China is seeking to shift its economy to a more sustainable model driven by domestic consumption. This economic transition is on a scale without precedent. If the reforms succeed, they will lead to a more mature, diverse and stable economy.

China faces risks however in the form of significant debt in the private and public sectors. While it has the resources and controls to respond to a crisis in its financial sector, a sharp correction could have a significant impact on Australia's exports and on the global economy more broadly.

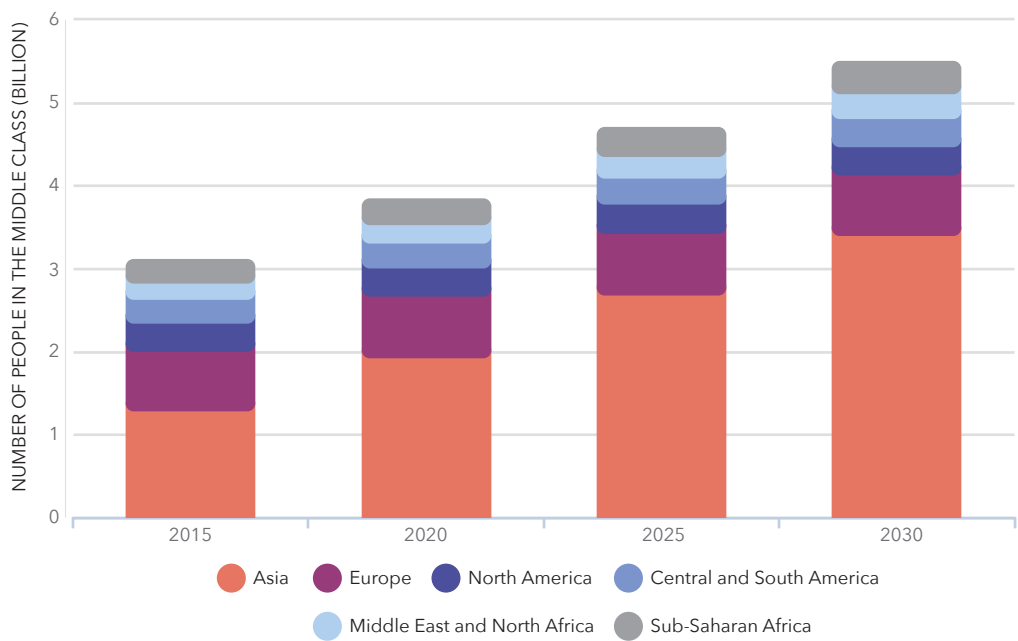
India is the world's fastest growing major economy and is expected to remain so for the next few years. India's growth has been supported by increased openness to foreign investment and other economic reforms, as well as by a young and growing population.

Figure 2.5 Changing demographics globally (2015–2030)



Source: United Nations

Figure 2.6 Growing middle class in Asia



Source: Brookings Institution

Note: Middle class is defined as households with a per capita income between US\$11-US\$110 per person per day in 2011 PPP terms

Dynamic Asia

The scale of Asia's transformation is unprecedented. In a little over three decades the region went from one in which more than a billion people lived in extreme poverty to one with more than a billion in the middle class.

At the region's industrial heart, China has become an urbanised manufacturing hub. Its mega-cities, including Beijing, Chongqing, Guangzhou, Shanghai, Shenzhen and Tianjin, have populations many times larger than those of Sydney or Melbourne, and are the world's leading producers of phones, computers, electronics and petrochemicals.

They do not do this alone. An electronic engine control unit designed in Tokyo may be assembled in Guangzhou, wired into a car being built in the Gulf of Thailand, and on-sold with technical support from Mumbai and a call centre in Manila.

Value chains drive the shipping of millions of containers annually through the straits of Malacca, Sunda and Lombok a few hundred kilometres north of Australia. Located at the gateway to these straits, Singapore connects the equivalent of more than 30 million shipping containers a year to 600 ports in 120 countries. Asia's people are also on the move, with 1.3 billion passengers travelling through or within the region every year.

Over the next 10 years, a billion more Asians will join the middle class creating a consumer market larger in number and spending power than the rest of the world combined. Their choices will reshape global markets.

By 2030, the region will produce more than half of the world's economic output and consume more than half of the world's food and 40 per cent of its energy. By then, more than 600 million additional people will live in the region's cities.

Asia also has more internet and social media users than the rest of the world combined. China for example accounts for 40 per cent of global e-commerce transactions. The value of mobile payments in China is 11 times that of similar transactions in the United States. Jakarta is the most active city in the world on Instagram Stories. Across Asia, Korean pop and Japanese animation are ubiquitous. Bollywood sells twice as many cinema tickets as Hollywood.

Within the next 10 years, India will have the largest working age population in the world.

Behind China and India, Southeast Asian economies have the third-largest combined workforce and population in Asia. Despite collectively tripling in economic size over the past two decades, most economies in the region have the potential to lift their productivity and growth.

Ultimately, as is the case with China, the pace and sustainability of growth in India and in Southeast Asia will depend on further difficult-to-implement structural reforms. Some economies might also find it harder than in the past to follow the traditional path to economic development as increased automation lowers the importance of cheap labour to industry. Australia's development assistance can help to support economic reforms in the Indo-Pacific.

Technological change

The virtual world, 'internet of things' and big data are changing the way we work, socialise, communicate and consume goods and services. The combination of more advanced ICT tools—including artificial intelligence—with other disciplines such as materials technology, robotics, genomics and biotechnology will also drive further innovation, from medical treatments to smarter cities to low emissions energy. New industries and new jobs will be created.

For Australia, there will be significant opportunities to improve productivity and harness new sources of growth to deliver the next stage of economic prosperity. At the same time, as discussed earlier in this chapter, domestic policy settings

will need to respond to the changing nature of work.

Technological change also has significant security implications. Access to technology makes it easier and cheaper for terrorists to construct, conceal and detonate lethal devices. Advances in military technology change the way military forces prepare for and engage in conflict. Technologies such as hypersonics and innovative computing will also lead to new types of weapons, challenging global arms control, disarmament and international law.

Globally networked information systems also make it easier for states and non-state actors to compromise national security and to target individuals and businesses. Cyber threats can range from unacceptable interference in democratic processes, such as the activities of Russian cyber actors during the 2016 US presidential election, to the theft and manipulation of information or disruption of government or commercial activity. At the extreme, cyber actors could attack critical national infrastructure such as power grids and financial systems.

People, cities and migration

Australia's external environment will be influenced by demographic shifts, continuing urbanisation and high rates of people movements. The world's population is estimated to reach 8.6 billion by 2030, up from 7.6 billion this year.

As developed countries and China age rapidly, populations in Africa and South Asia will soar. This could assist or constrain economic growth depending on how well governments handle education and training, health, employment and infrastructure. It

could also drive further irregular migration and other transnational security challenges.

The strong trend towards urbanisation will continue, including in the Indo-Pacific (Figure 2.7), bringing export opportunities for Australian minerals and energy, and other goods and services. According to United Nations estimates, globally there could be 41 mega-cities (cities with more than 10 million inhabitants) by 2030.

Increased flows of displaced people and irregular migration will continue to present challenges. Unprecedented numbers of people displaced by conflict and natural disasters are moving within countries and across borders. Currently, there are an estimated 65 million displaced people in the world, the highest number since the Second World War. The scale of this challenge is overwhelming traditional responses, requiring new approaches to supporting displaced people as well as countries of first refuge.

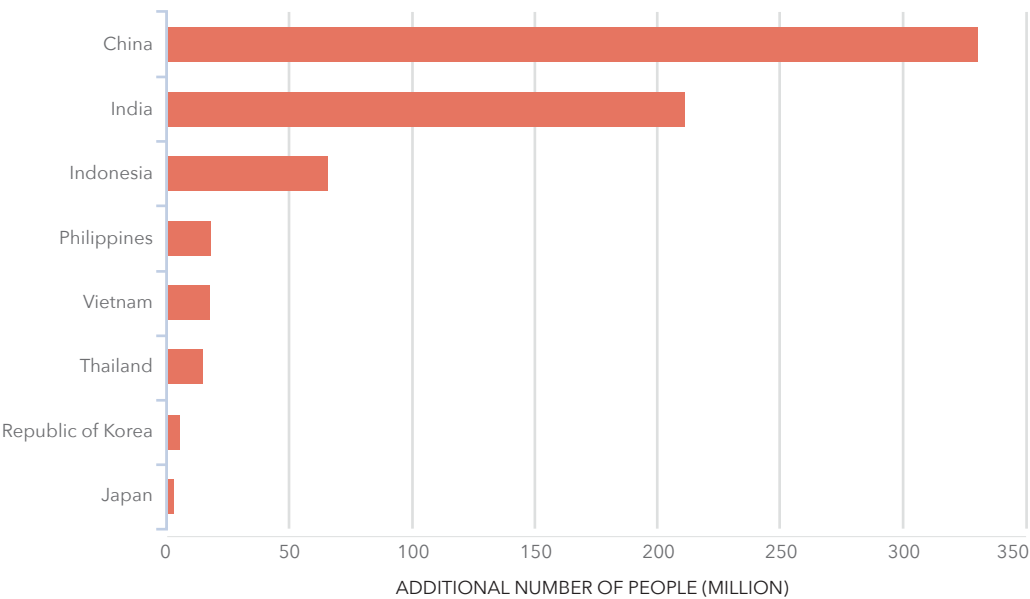
Irregular migration will continue, with implications for the management of our borders. These movements are often enabled by digital communication, cheap transport and people smuggling syndicates.

Societies that protect human rights and gender equality are much more likely to be productive and stable. In this respect, global trends are uneven. Severe gender inequality persists in parts of the Middle East, South Asia and the Pacific, undercutting social stability and economic development in these regions.

Fragile states

Conflicts within states and the problems posed by fragile states will continue to undermine international security and lead to interventions by other powers. Non-state actors, such as terrorists, continue to find

Figure 2.7 Forecast increase in urban population (2010–2030)



Source: United Nations

space in fragile states to pursue their objectives. Challenges such as transnational crime, mass migration and the spread of communicable diseases are magnified or enabled by weak or lawless states.

The number of major civil wars taking place around the world tripled between 2007 and 2014. Over 1.6 billion people live in countries affected by fragility, conflict and violence, and by 2030 more than 60 per cent of the world's poor will live in fragile societies. Violent conflicts cause 80 per cent of humanitarian needs and are straining international responses.

The challenge of state fragility, conflict and violence will remain acute in parts of the Middle East and Africa, affecting Australia's security interests through terrorism and irregular migration. Instability in these regions could potentially disrupt energy supplies and other trade. Geopolitical tensions between Iran and some Gulf countries are likely to continue, fuelling conflicts within some states in the Middle East.

In Southeast Asia, challenges stem from subnational conflicts, usually in isolated or remote border regions, such as in Myanmar and the southern Philippines. In the Pacific, the challenges are weak governance, corruption and vulnerability to economic and environmental shocks.

An environment under strain

A bigger population, increased numbers of middle class consumers and further economic development will strain the world's resources. Climate change, environmental degradation and the demand for sustainable sources of food,

water and energy will be political, economic and security disrupters over the longer term. These challenges could undermine stability in some countries, especially fragile states, and contribute to conflict and irregular migration. They also affect our economic interests.

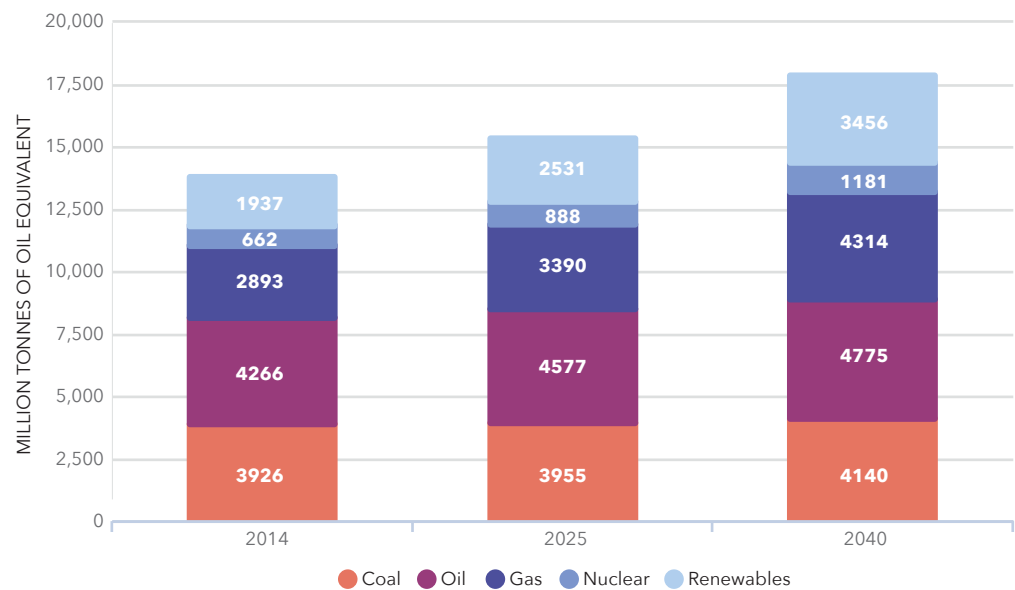
The economic and security effects of climate change will sharpen and increase global stresses on the supply of food and water. Climate impacts could add to social, economic and political tensions. Many countries in Australia's immediate region, especially small island states, will be severely affected in the long term. The coming decade will likely see an increased need for international disaster relief.

Responses to climate change will be an important influence on international affairs and Australia's economy. Australia has the renewable resources and products, capabilities and services in low-emissions technologies to benefit from the transition of the global economy to a low-emissions growth model. At the same time, buoyant demand in the Indo-Pacific will support our exports of high-quality coal and LNG, and potentially uranium. Figure 2.8 shows forecast global demand for energy.

Global food demand will rise. The Organization for Economic Cooperation and Development (OECD) estimates that 60 per cent more food will be needed to feed the world by 2050. Growing middle classes will also demand more resource intensive food like meat.

Water requirements for drinking and food and energy production will increase as will demand for the energy needed to grow, store and transport food, underscoring the nexus between food, energy and water. If no changes are made to the way water is used, the United Nations estimates that

Figure 2.8 Global energy demand



Source: International Energy Agency (baseline scenario, 2016)

demand will outstrip supply by over 40 per cent by 2030. Preventing hunger and malnutrition will remain an acute challenge.

The world’s oceans will be under greater pressure. Demand for seafood, especially from Asia, will further strain global fisheries, 31 per cent of which are fished at unsustainable levels. The continuing effective management of our own fisheries will depend on the health and sustainability of ecosystems in the wider region.

The world’s forests will continue to face intense pressure from land-use conversion, unsustainable harvesting (including illegal logging) and climate change. Demand for timber is expected to quadruple by 2050.

As a major exporter of food and energy, and with our world-leading expertise in

agriculture, forestry, water management and environmental sciences, Australia will make an important contribution to efforts to respond to these shared challenges.



A stable and prosperous Indo-Pacific

The Indo-Pacific's rising prosperity has been built on the region's stability. Today, the Indo-Pacific is undergoing a strategic transition as profound as the economic transformation that preceded it.

No long-term foreign policy objective is more important to Australia than ensuring our region evolves peacefully and without an erosion of the fundamental principles on which the Indo-Pacific's prosperity and cooperative relations are based.

Australia will be active in advancing and protecting our interests at this critical time. Our interests lie both in stability and in the character of the enduring peace we seek. In particular, our security and prosperity will be enhanced in a region characterised by respect for international law and other norms, and by open markets. This will help ensure Australia can prosecute our national interests unconstrained by the exercise of coercive power. Our policies to support a stable and prosperous Indo-Pacific complement our trade, investment and economic engagement with the region, which is detailed in the next chapter.

The Government's approach to better protecting and advancing our interests in a changing Indo-Pacific begins with substantial investments in the foundations of our national strength. In particular, we are building a more capable, agile and potent Australian Defence Force. We will also pursue active diplomacy and use our development cooperation to promote economic reform and social stability. The Government will strengthen our

law and justice, border protection and intelligence capabilities.

Our alliance with the United States is central to Australia's security and sits at the core of our strategic and defence planning. The Government will broaden and deepen our alliance cooperation and encourage the strongest possible economic and security engagement by the United States in the region.

Strengthening our Comprehensive Strategic Partnership with China is also vital for Australia both to pursue extensive bilateral interests and because of China's growing influence on the regional and global issues of greatest consequence to our security and prosperity.

The Government will lift the ambition of our engagement with major Indo-Pacific democracies. We will do more bilaterally and work across these partnerships, including in small groups, to promote and protect a shared vision for the region and to support a balance in the region favourable to our interests. Our partnership

with Japan, one of our most important regionally and globally, will remain essential to Australia's interests. In addition to the United States, we will strengthen economic ties and other shared interests with Indonesia, India and the Republic of Korea.

As competition for influence in Southeast Asia sharpens, the Government will ensure Australia remains a leading economic, development and strategic partner for ASEAN and its members.

The Government will also continue to invest in regional institutions because they promote economic cooperation and help build norms that support the peaceful resolution of disputes.

As set out in the 2016 Defence White Paper, Australia will boost defence engagement with countries in the Indo-Pacific, including through increased training, exercises and capacity building.

Australia will also pursue regional trade and investment arrangements that increase growth and promote openness, competition and transparency, helping to defuse strategic rivalry.

Through these policy approaches the Government will act to support an Indo-Pacific region in which:

- countries foster habits of dialogue and cooperation, and resolve disputes peacefully in accordance with international law and without the threat or use of force or coercion
- open markets facilitate flows of goods, services, capital and ideas
- economic integration is inclusive of and open to all the region's economies
- rights of freedom of navigation and overflight are upheld and the rights of small states are protected

- the United States remains strongly engaged in the economic and security affairs of the region and continues to help shape its institutions and norms, and
- China plays a leading role in a way that strengthens a regional order based on these principles.

Australia will also work resolutely with our partners to counter the serious threat posed by North Korea, including by greater efforts to exert economic pressure.

The policies in this chapter reflect an active approach by Australia to shaping the character of our region. The Government recognises the difficulty of this task in an era of shifting power balances and greater rivalry. In particular, the objectives set out above can only be secured if the region's major powers—notably the United States and China—believe that their interests are also served by them.

This is not assured. In the decade ahead we expect further contestation over ideas and influence, directly affecting Australia. It is imperative that Australia prepare for the long term. Australia and our regional partners have a shared interest in seeking to build a regional economic and strategic culture that supports stability, cooperation, the rule of law and openness.

The United States and China

The Indo-Pacific's stability depends more than ever on the actions of, and relations between, two of Australia's most important partners—the United States and China. Australia tangibly supports the deep engagement of the United States in the economic and security affairs of the region,

which has been and continues to be essential to the stability and prosperity of the Indo-Pacific. Many of Australia's partners similarly encourage deep regional engagement by the United States.

The web of US alliances in the Indo-Pacific, especially US alliances with Japan, the Republic of Korea and Australia, makes an essential contribution to regional security. Australia will continue to ensure the strength and vitality of our alliance. A comprehensive US economic strategy for Asia will be as important as the United States' extensive security engagement.

China's capacity to take on responsibility for supporting regional and global security is growing. We encourage China to exercise its power in a way that enhances stability, reinforces international law and respects the interests of smaller countries and their right to pursue them peacefully.

The United States and China are economically interdependent and have a sophisticated and multi-faceted relationship. They have a mutual interest in managing strategic tensions but this by itself is not a guarantee of stability.

Compounding divergent strategic interests as China's power grows, tensions could also flare between them over trade and other economic issues.

Australia will encourage the United States and China to ensure economic tension between them does not fuel strategic rivalry or damage the multilateral trading system.

Over time, bringing China and the United States together in a region-wide free trade agreement would reduce economic tension and help maximise regional economic growth prospects. A Chinese economy that further liberalises as it matures would also lower the risk of destabilising economic competition.

Australia and the United States are not only strong allies. Our partnership encompasses engagement across the full suite of Australia's international interests and works strongly to the benefit of both countries.

The economic significance of the United States, combined with its dynamism, innovation and central role in the international financial system, makes it critical to our interests. The United States has a systemic importance to the global economy that is unlikely to be eclipsed even beyond the 10 year horizon of this White Paper.

Our economic relationship is deep and broad, with extensive two-way investment supporting production, growth and jobs in both countries. The United States is the largest foreign direct investor in Australia, accounting for nearly 25 per cent of foreign investment—more than the next two countries combined.

For over 60 years, our security has been supported by the extended deterrence provided by the United States and our privileged access to technology and information. The United States Force Posture Initiatives in northern Australia are providing new opportunities for combined training, regional engagement and further interoperability between our armed forces, including for humanitarian operations.

We source high-end military equipment from the United States, including next generation platforms such as the Joint Strike Fighter. Deep intelligence sharing with the United States is vital to our capacity to respond to security challenges and humanitarian emergencies and to protect Australian lives.

The alliance is a choice we make about how best to pursue our security interests. It is central to our shared objective of

shaping the regional order. It delivers a capability edge to our armed forces and intelligence agencies, giving Australia added weight and regional influence.

At the same time, Australia will strengthen relations with China, now a major geopolitical player with the capacity to influence virtually all of Australia's international interests. China is rapidly becoming a significant global investor and a burgeoning centre for science, research and innovation. It is by far our largest trading partner, accounting for 32 per cent of our goods exports in 2016, and will remain so for the foreseeable future.

Australia is committed to advancing our Comprehensive Strategic Partnership with China. Our broad and sophisticated relationship is underpinned by a bilateral free trade agreement, growing investment, close cooperation to combat transnational crime, important research linkages and extensive and growing flows of students, tourists and migrants. Our societies are increasingly connected. Our economic and people-to-people links—enhanced by initiatives such as the New Colombo Plan—provide ballast for our relationship.

Australia will continue to place priority on positive and active engagement with China, including through annual meetings between leaders, foreign ministers and economic ministers. We will pursue cooperation on issues ranging from energy to law enforcement and security through a growing web of ministerial and other senior-level dialogues. We are looking to build on our free trade agreement by expanding market access and opportunities for our businesses.

We have a long-standing and productive program of defence cooperation with China, which we are committed to

expanding. We promote stronger connections at the sub-national level, working closely with our states and territories. We are expanding our diplomatic footprint in China by opening a new consulate-general in Shenyang. We welcome and will continue to contribute to important Chinese initiatives, such as the Asian Infrastructure Investment Bank (AIIB), of which Australia is a founding member.

At times, closer engagement will be accompanied by friction arising from our different interests, values and political and legal systems. Regular and substantive engagement at senior levels will be essential to achieve our ambitions for the relationship.

Indo-Pacific partnerships

The Indo-Pacific democracies of Japan, Indonesia, India and the Republic of Korea are of first order importance to Australia, both as major bilateral partners in their own right and as countries that will influence the shape of the regional order.

We are pursuing new economic and security cooperation and people-to-people links to strengthen these relationships. Australia will also work within smaller groupings of these countries, reflecting our shared interests in a region based on the principles described in this chapter.

For example, Australia remains strongly committed to our trilateral dialogues with the United States and Japan and, separately, with India and Japan. Australia is open to working with our Indo-Pacific partners in other plurilateral arrangements.

Japan

A 'Special Strategic Partner' of Australia, Japan is a democratic, trade-oriented

nation with which we share values and interests, including through our alliances with the United States. Together we are working to achieve a stable region underpinned by open economies and the rule of law. As close partners, each country is invested in the success of the other.

Japan is the world's fourth-largest economy and a major player in international and global economic forums. It remains a cornerstone of global value chains, the largest source of foreign direct investment in Southeast Asia and the catalyst for much of our region's—and Australia's—economic development.

We have an extensive and mature partnership in trade and investment, which both countries seek to deepen. Australia is committed to the tempo of annual prime ministerial visits and will strengthen economic dialogue with Japan to complement our FTA and already extensive economic contacts.

We expect Japan, which possesses advanced military forces and significant technological capabilities, steadily to pursue reforms to its defence and strategic policies over the decade. Australia supports these reforms and Japan's efforts to improve its security capabilities and to play a more active role in the security of the region. In recent years our defence relationship has grown rapidly. Australia will continue to boost defence engagement with Japan, including in maritime security and in research and development.

Indonesia

Indonesia is a dynamic, democratic, diverse and growing G20 member with the world's largest Muslim population. Indonesia's success is of fundamental importance to Australia.

Indonesia has a growing middle class and, by some estimates, will be the world's fifth-largest economy by 2030. The size, weight and location of Indonesia at the intersection of the Indian and Pacific oceans makes it a leader in our region, including in ASEAN. We work closely with Indonesia in regional and international forums to support and protect a rules-based regional order, including in the EAS and ASEAN Defence Ministers' Meeting Plus (ADMM Plus).

As close neighbours, with an extensive maritime border, we will be stronger as we continue to promote our interests together. The 2006 Lombok Treaty reaffirms our respect for each other's territorial integrity.

We have already built a mature and mutually beneficial partnership, one that will be reinforced by growing economic ties, including the Comprehensive Economic Partnership Agreement currently under negotiation, and more diverse links through business, study and travel. To this end, the Government has opened new posts in Makassar and Surabaya to better engage with Indonesia's dynamic regions.

We support Indonesia's economic growth and stability including through development cooperation. Australia works in partnership with Indonesian agencies to further the development of infrastructure, skills and institutions.

We will deepen cooperation on shared maritime interests including by working to counter illegal fishing, improve coordination and communications on search and rescue, and upgrade navy-to-navy links. Through our development program, we support Indonesia's efforts to tackle inequality and maintain social stability, promote tolerance and pluralism, and counter violent extremism. Our long-standing

defence, counter-terrorism, law enforcement and intelligence cooperation will continue to help both countries respond to shared security challenges.

India

India now sits in the front rank of Australia's international partnerships. We are seeking much closer economic ties, as detailed in the next chapter. Beyond an increasingly important economic relationship, our security interests are congruent, particularly in relation to the stability and openness of the Indian Ocean. We have common interests in upholding international law, especially in relation to freedom of navigation and maritime security. We are both pluralist democracies. Our education links and Australia's large and rapidly growing Indian diaspora add depth to these common interests.

India will remain the pre-eminent maritime power among Indian Ocean countries. Australia wants to work with India as both countries invest in enhanced naval capabilities. We already conduct joint naval exercises and we are deepening our broader defence cooperation and expanding our information sharing.

With India and others, we seek to strengthen regional architecture in the Indian Ocean—including the Indian Ocean Rim Association (IORA)—and encourage more coordinated responses to developments affecting security in the Indian Ocean region.

We strongly encourage India's strategic engagement with East Asia and the United States. We will work with India in the East Asia Summit (EAS) and build on the growing strategic collaboration between Australia, India and Japan.

Republic of Korea

We seek to build on our mature economic relationship with the Republic of Korea—Australia's fourth-largest trading partner—by enhancing cooperation on political, defence and security issues. We share values such as democracy and free speech and are both trade-oriented economies.

Australia and the Republic of Korea share an interest in working with the United States and Japan to protect regional security and respond to North Korea's nuclear and ballistic missile programs. We strongly support the Republic of Korea's efforts to strengthen its defences against North Korea.

Grave and growing threat posed by North Korea

North Korea's long-range missile and nuclear programs represent the region's most immediate security challenge. Any major instability or conflict on the Korean Peninsula would have severe strategic, economic and humanitarian repercussions. A North Korean attack on the United States would also trigger Australia's commitments under our ANZUS alliance.

Australia will continue to work resolutely with our partners to bring increasing pressure to bear on North Korea to end its dangerous behaviour. China has unique economic leverage over North Korea. We welcome China's support for strengthened United Nations measures.

We implement United Nations Security Council resolutions and sanctions fully and have adopted our own autonomous measures. We act with partners to counter North Korea's proliferation activities.

North Korea's purported withdrawal from the Nuclear Non-proliferation Treaty and defiance of United Nations Security Council resolutions weaken the global restraints on the spread of nuclear weapons and weapons technology, including ballistic missiles. These restraints have greatly protected Australia's security interests.

Australia is focused on protecting our deployed forces from a range of air and missile threats, including cruise and ballistic missile threats. At the same time, the Government keeps the possible threat of an inter-continental ballistic missile attack on Australia under constant and careful review.

Working with Southeast Asia

Southeast Asia frames Australia's northern approaches and is of profound significance for our future. ASEAN's success has helped support regional security and prosperity for 50 years. In 2016, Australia's trade with ASEAN countries was greater than with our second-largest bilateral trading partner, the United States.

Southeast Asia sits at a nexus of strategic competition in the Indo-Pacific. This both tests the region's cohesion and underlines ASEAN's central role in convening the region's strategic forums such as the EAS.

Supporting growth in our region

Australia has a vital interest in the strength of the regional economy. Most economies in the Indo-Pacific require difficult-to-implement reforms to unlock the next stage of economic growth.

Australia has effective institutions, regulations and standards. We have a record of economic reform that has delivered growth and jobs. We will continue to work with other countries in the region to share our technical expertise.

Through our development assistance, we support the governance and stability of regional countries. We assist with efforts to boost productivity by supporting education and training. We work with partner governments to help improve investment settings, regulatory frameworks, taxation systems, management of natural resource revenues, women's participation in the workforce, and the design and management of national budgets.

In APEC, we encourage countries to improve productivity, competition, good governance and market openness, including in services. Australia also funds initiatives on services, investment, competition policy and intellectual property to support the development of the ASEAN Economic Community.

Australia places high priority on our bilateral relationships in Southeast Asia and on our support for ASEAN. The Government is enhancing engagement with the region to support an increasingly prosperous, outwardly-focused, stable and resilient Southeast Asia. As an example, we have agreed a new Strategic Partnership with Vietnam.

In 2018, Australia will host ASEAN leaders in Sydney for an historic ASEAN – Australia Special Summit. This will reinforce our Strategic Partnership with ASEAN as we advance shared interests. The Summit will demonstrate our elevated commitment to ASEAN and our enduring ties with the countries of Southeast Asia.

As a key element of our Comprehensive Strategic Partnership, we will strengthen security cooperation with Singapore, including by jointly developing military training areas in Australia. The Government will also boost defence engagement with Southeast Asia more broadly, including multilaterally through the ADMM Plus meeting of defence ministers. Close cooperation with Singapore and Malaysia through the Five Power Defence Arrangements is an essential part of our security engagement with Southeast Asia.

We will cooperate more closely with our Southeast Asian partners on transnational challenges such as crime and people smuggling. The continuing threat to the region of terrorism and violent extremism will require concerted and determined cooperation between us.

We will continue to boost trade and investment links, including through a comprehensive review of the ASEAN – Australia – New Zealand Free Trade Agreement (AANZFTA) and upgrades to our FTAs with Singapore, Thailand and Malaysia. We will elevate

our development, trade and investment cooperation with Vietnam. We will also continue to build on extensive political, defence, educational and people-to-people links between Australia and the region.

Through our development partnerships, we will work with Southeast Asian countries to deliver effective programs to promote economic reform and inclusive growth, reduce poverty and address inequality. In this way we strengthen bilateral relationships and contribute to regional stability and prosperity.

Geo-economic competition

Even as growth binds the economies of the Indo-Pacific, trade and investment and infrastructure development are being used as instruments to build strategic influence, as well as to bring commercial advantage. In the past, the pursuit of closer economic relations between countries often diluted strategic rivalries. This geo-economic competition could instead accentuate tension.

Australia's economic and security interests are closely intertwined here. These are best served by deepening regional economic integration in a way that maximises growth through open trade and investment on market-based principles.

This objective will be achieved through regional trade and investment and through infrastructure financing arrangements that reinforce an open global economy and that:

- are based on strong, transparent rules
- promote fair and open competition, and
- are transparent and non-discriminatory, with predictable regulatory systems.

Australia’s long-term objective is to work towards a region-wide trade and investment arrangement defined by comprehensive rules to promote liberalisation, reform and a more seamless trading environment. It is likely a generational endeavour. Further integrating the major economies of the Indo-Pacific serves both our economic and security interests.

Australia’s approach to regional trade negotiations, such as the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP), seeks to ensure that the core features of these arrangements are consistent with our goal of an open, region-wide arrangement.

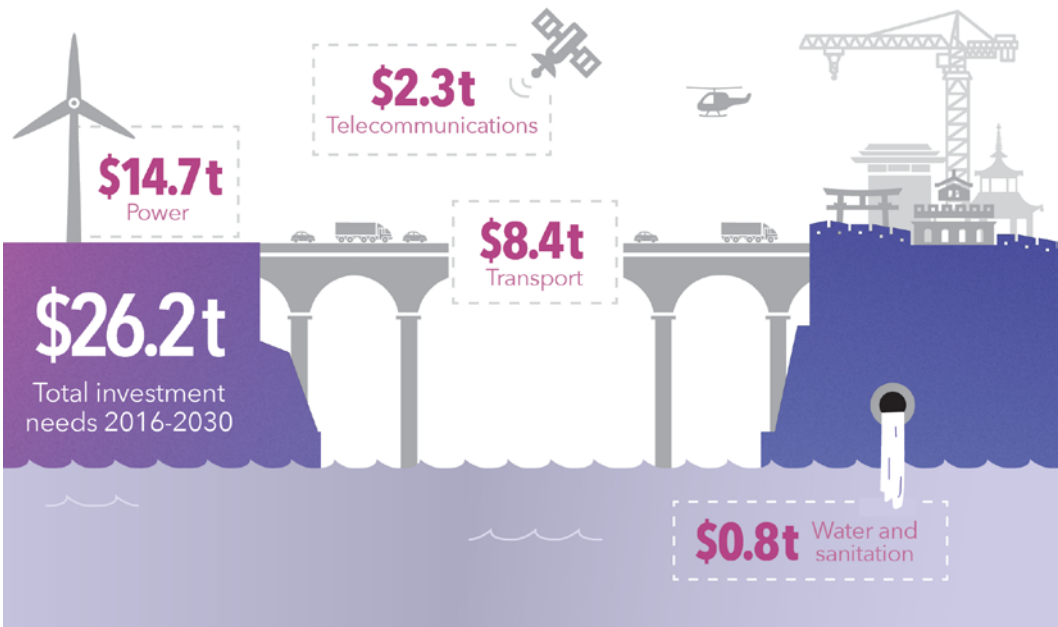
Much of the new competition for influence is also being played out through infrastructure development.

There are several regional infrastructure and economic engagement initiatives, including ones advanced by China, India and Japan.

The region’s infrastructure needs are massive and wide-ranging (Figure 3.1). It is in our interests for this infrastructure to be developed in a way that conforms to the principles set out above. We also favour infrastructure that has robust social and environmental safeguards and avoids unsustainable debt burdens on the economies of the region. It is on this basis that Australia engages with regional infrastructure initiatives, including China’s Belt and Road.

We seek to ensure that Australian firms are well placed to prosper from the region’s pipeline of future investment. Our firms have more than 30 years

Figure 3.1 Infrastructure investment needs in Asia (2016–2030, US\$ trillion)



Source: Asian Development Bank

experience working with Australian governments to build roads, airports, hospitals and other infrastructure. Many are leaders in the design and integration of large-scale infrastructure projects. Australian financial institutions have been at the forefront of innovative financing for infrastructure, including through public private partnerships, and are able to tap into deep pools of funds for multi-billion dollar projects.

Australia helps regional countries prepare high-quality, investment-ready projects and improve policy frameworks to attract private capital. We have played a key role in negotiating rules and practices that match our and the region's interests, as we did in the establishment of the AIIB. With our partners, we also support the development of infrastructure plans and the preparation, financing and implementation of projects that best meet the region's needs, including through our work with the World Bank Group and the Asian Development Bank and through our support for ASEAN's Masterplan on Connectivity.

Building collaboration

Australia continues to support the EAS as the region's premier political and security forum. It has the right membership (including China, India, Japan, the Republic of Korea, Russia, the United States and ASEAN countries), and it has the right mandate. Leaders drive its agenda.

In recent years, EAS leaders have paid increased attention to security issues such as counter-proliferation, counter-terrorism and maritime security, a trend Australia will seek to reinforce. We aim to bolster the strategic role of the EAS so that it can positively influence the region's rules and norms.

Through the EAS and other forums such as APEC, ADMM Plus and the ASEAN Regional Forum, Australia pursues a regional agenda that:

- promotes cooperation on strategic, political and economic issues, including extensive engagement between leaders
- reinforces international law
- encourages full and active engagement by the United States in regional affairs, and
- ensures that all regional countries, large and small, have a voice on regional issues.

Fault lines

Maritime and land border disputes are a growing source of potential instability in a more contested Indo-Pacific. They draw in the region's three big Asian powers—China, Japan and India—as well as Southeast Asian nations and Pakistan. They also strongly engage the interests of countries, such as the United States and Australia, which seek to build a region where disputes are solved peacefully and in accordance with international law.

The South China Sea is a major fault line in the regional order. Australia is not a claimant state and does not take sides in the competing claims. Like other non-claimant states, however, we have a substantial interest in the stability of this crucial international waterway, and in the norms and laws that govern it.

We have urged all claimants to refrain from actions that could increase tension and have called for a halt to land reclamation and construction activities. Australia is particularly concerned by the

unprecedented pace and scale of China's activities. Australia opposes the use of disputed features and artificial structures in the South China Sea for military purposes. We support the resolution of differences through negotiation based on international law.

All claimants should clarify the full nature and extent of their claims according to the United Nations Convention on the Law of the Sea (UNCLOS). The Government reaffirms its position that the Permanent Court of Arbitration's ruling on the Philippines South China Sea Arbitration is final and binding on both parties.

Elsewhere in the region, Australia is concerned about the potential for the use of force or coercion in the East China Sea and Taiwan Strait. We also remain concerned about the potential for tension between India and Pakistan to escalate into confrontation. How India and China manage their relationship, including competing border claims, will also have important implications for regional stability. In all of these matters, it is vital that those concerned act with restraint and avoid actions that add to tensions.

Safeguarding maritime security

Open sea lanes link the Pacific and Indian oceans, enabling trade in goods and energy that fuels the region's growth. The major economies of North Asia—China, Japan and the Republic of Korea—in particular rely on energy transported through the Indian Ocean. Australia's own connections with the world will continue to rely on our sea lines of communication.

The region's seas are becoming more congested and contested. Many regional

countries continue to invest in advanced naval and civil maritime capabilities. Terrorists and other criminals use the relatively porous maritime boundaries of the Indo-Pacific as transit routes.

Australia will increase its investments in maritime security capacity building in Southeast Asia. We will also work to strengthen the focus on maritime issues within regional forums, including the EAS and IORA, and enhance regional training on maritime domain awareness, protection of the marine environment and international law. We will deepen joint exercises and build maritime domain awareness with India and collaborate on maritime safety and security with other Indian Ocean partners, like Sri Lanka.

We will promote confidence-building measures and cooperation among regional coast guards and maritime enforcement bodies, assist in efforts to counter terrorism and offer to support regional littoral states to develop comprehensive national maritime strategies.

Through our diplomatic and operational engagement, we will strive to ensure international law, especially UNCLOS, is respected and implemented to protect freedom of navigation and uphold the sovereign rights of coastal states in their exclusive economic zones.

Australia will continue to exercise our rights to freedom of navigation and overflight, consistent with long-standing policy, and conduct cooperative activities with other countries consistent with international law.



Our agenda for opportunity

Australia's prosperity will continue to rely on the competitiveness of our economy and our ability to seize opportunities globally.

The economic transformation of our region will continue (Chapter 2). More people moving to Asia's cities will help sustain demand for our minerals and energy. Asia's middle classes will expand and demand premium agricultural products and a wide range of services, such as education, tourism, health care and finance. Hundreds of millions of Asian consumers are already shopping online for goods and services from around the world.

Established markets, such as those in North America, Europe and Japan, also remain important to Australia's economy, particularly as investment partners, as export markets and as a gateway to global value chains. Economic reforms in Latin America offer new possibilities for trade and investment, as do growing populations and natural resource endowments in Africa and the Middle East.

At the same time, our policies will need to reflect the changing nature of trade driven by technology and shifts in the relative competitiveness of economies.

Lower communication and transport costs have enabled today's global value chains, in which components of goods are produced in different countries before being assembled for sale. Value chains blur the distinction between exports and imports. Goods often cross borders many times before they find their way into final products.

Technological advances will drive further change. E-commerce provides new ways to access markets and consumers. The digital economy, and the rules that govern it, is increasingly essential to Australian companies. The tasks that go into providing some services are being broken up and performed by firms in different countries in much the same way goods are produced in value chains.

Lower-cost robotics and technologies such as additive manufacturing are increasing opportunities for companies based in higher-wage economies, including our own.

How global manufacturing and global value chains evolve will have major implications for trade and investment. Given its central role in manufacturing, changes in China's economy will be influential. As its economy becomes more advanced, production of many goods could be centralised in China. Conversely, higher costs in China might see companies shift production to other countries to seek competitive advantages.

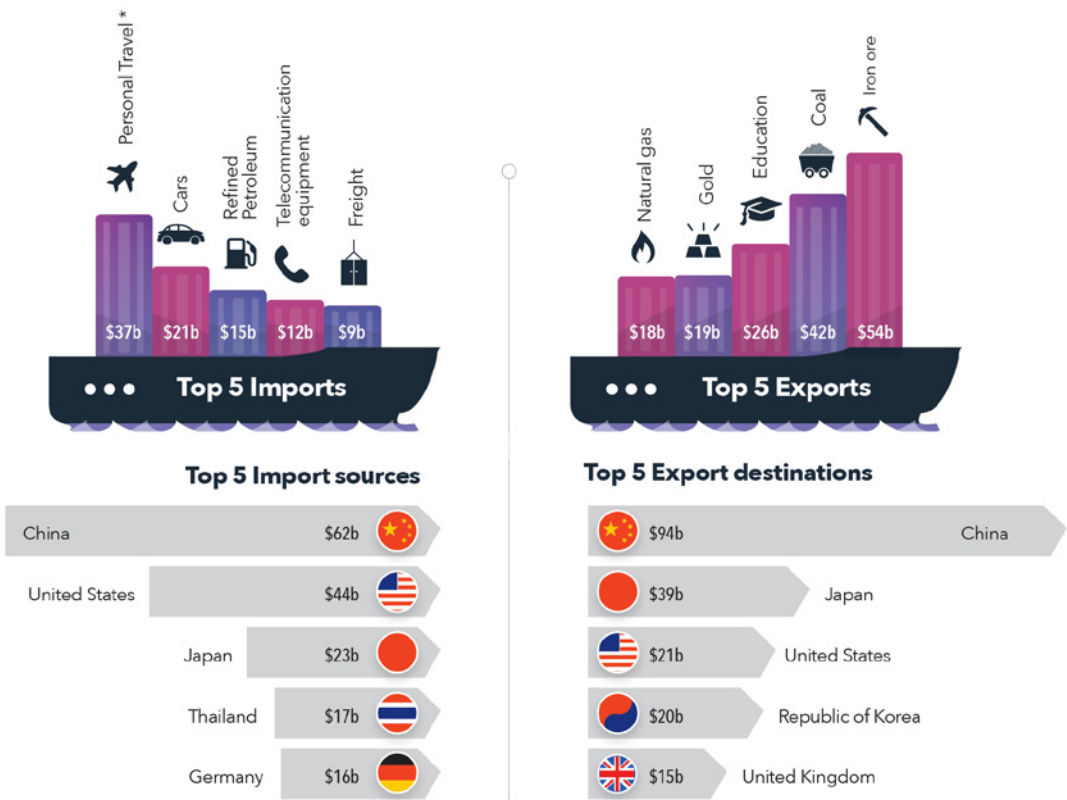
Global developments in energy technology and consumption will influence demand for major Australian exports like iron ore, coal and LNG. The increasing use of high efficiency, low-emission coal technologies, cleaner gas plants and advances in renewable energy and carbon capture and storage technologies will create export and investment

opportunities for Australia. Even so, global energy markets are becoming more competitive, including because of the exploitation of unconventional energy reserves in the United States, and more responsive to changing demand.

The task for Australia is to maximise opportunity in this dynamic environment. While we have many advantages, including the complementary nature of our economy with that of many Asian countries, there will also be challenges to navigate.

Australia will more than ever need a competitive economy with efficient businesses and industries and a skilled workforce. Our companies will need to be agile and adaptable to benefit from changes in the way goods and services are produced and traded. Australian direct investment into Asia is relatively low, potentially affecting the ability of some firms to tap into growth markets and value chains. Efforts to facilitate our companies' access to regional value

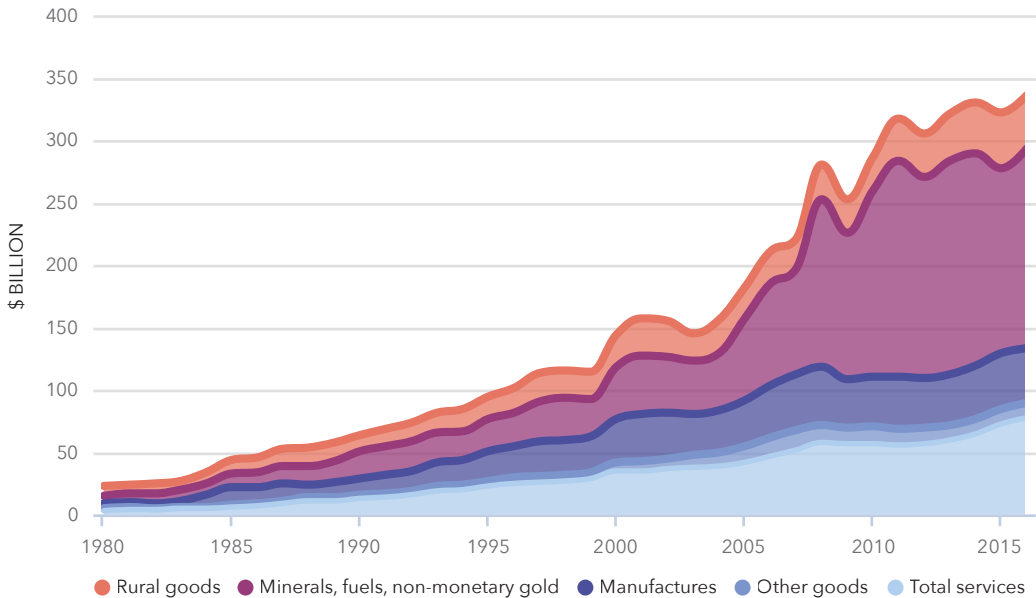
Figure 4.1 Australia's trade in goods and services (2016)



Source: Australian Bureau of Statistics

*Excludes education

Figure 4.2 Australia's exports by type



Source: Australian Bureau of Statistics

chains will be necessary to maximise the benefits of our region's economic growth.

The continuing openness of the world economy will be vital to our interests. Any serious turn towards protectionism would weaken rules that enable stable and predictable international trade, which in turn supports economic growth, job creation and improvements in living standards. Even narrow protectionist measures could limit or disadvantage our exports and harm Australia's economy.

In responding to this changing environment, the Government will:

- resist protectionism and advocate for an open global economy
- work determinedly with partners and in global institutions to protect and

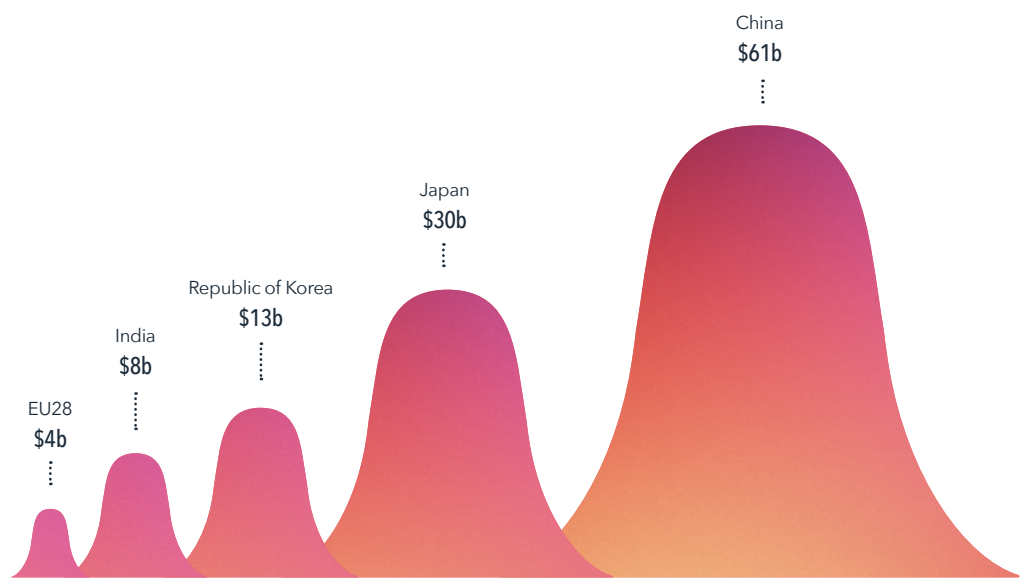
shape rules that promote economic growth, trade liberalisation and free markets

- ensure the lowest possible barriers to our trade and investment, including through modern free trade agreements, and
- work with Australian businesses to advance our commercial interests in overseas markets.

This international agenda will be built on domestic policies that increase the competitiveness and resilience of our economy and that ensure Australia maximises the gains from economic openness (Chapter 1).

The Government will maintain a strongly consultative approach before, during and

Figure 4.3 Australia’s minerals and energy exports by major market (2016)



Source: Department of Industry, Innovation and Science

after trade negotiations. We will continue to seek stakeholder input to our negotiations and policy development. We will make it easier for business and individuals to access information on trade negotiations, including by upgrading our FTA portal for business enquiries.

Defending and supporting an open global economy

Globalisation has lifted hundreds of millions of people out of poverty, helped drive global economic growth and delivered affordable goods and services worldwide. By having the policy settings to benefit from trade, investment and skilled migration, Australia’s economy is stronger and our standard of living higher.

At the same time, some countries are dealing with a backlash against globalisation as citizens express concern

about the impact of technological change, overseas competition and migration on their societies (Chapter 2). Technological shifts and competitive trade pressures will sustain concerns in many countries about job security.

As a result, some governments are under pressure to protect particular industries from international competition. Publics and governments globally are debating whether policies to keep economies open and break down barriers to trade and investment work in their interest. The United States, in particular, is seeking to renegotiate some trade agreements and take other steps to address measures it regards as unfair and to reduce its trade deficit.

We cannot be certain to what extent these pressures might lead to a significant retreat from the long-term trend of a liberalising world economy. We do know however that protectionism represents a serious risk to Australia’s interests, particularly if major

economies take actions that substantially impede trade and investment and weaken trade rules. Even under this scenario, economic openness would remain in Australia's interests. Any protectionist response on our part to events

elsewhere would risk hurting Australian workers, drive up prices and weaken incentives to innovate. It would mean lower living standards and less choice for Australian consumers.

Australia as an export nation

Australia exported more than \$337 billion in goods and services in 2016, amounting to one fifth of our economic activity. Our exporters are often world leaders.

Australia is a minerals and energy superpower. In 2016, we exported more than \$140 billion in minerals and energy—more than half of total merchandise exports. Figure 4.3 shows minerals and energy exports to our major markets.

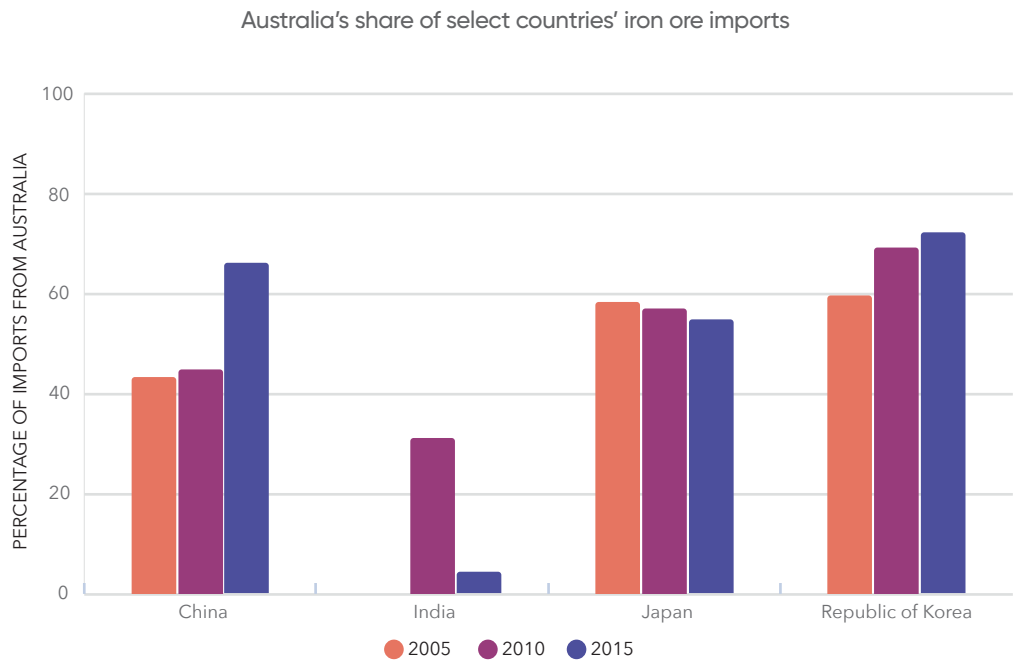
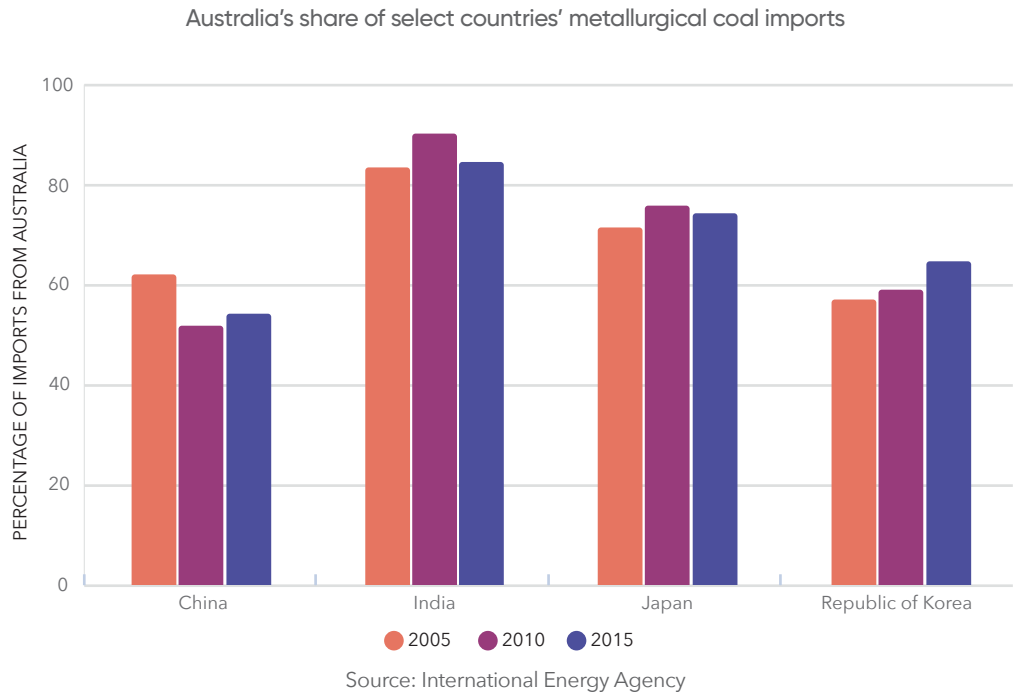
We are the world's largest exporter of coal and iron ore, and one of the world's largest exporters of LNG. We have the world's largest reserves of a range of metals and minerals including gold, iron ore, lead, nickel, zinc and uranium. For 60 years, we have helped power Asia's economic growth and industrialisation (Figure 4.4).

Australia is among the top 10 agricultural exporters in the world. In 2016, we exported more than \$47 billion in agricultural and fisheries products, accounting for more than two-thirds of our agricultural production. We are the world's largest exporter of beef and wool. Our reputation for producing safe and high-quality food is second to none.

Services make up a growing share of our exports, more than \$75 billion or one fifth of exports in 2016. Australia is the third-largest provider of education to international students, attracting more than 550,000 students from more than 180 countries in 2016. More than 8.5 million tourists visited Australia in 2016–17. In the previous financial year, international tourists contributed \$34 billion to our economy and supported the employment of over 580,000 people (Figure 4.5).

Manufacturing makes up \$44 billion or 13 per cent of our exports. Australia's manufacturers are linking into global value chains and developing high value-added products and services including research and development, design and engineering. More than four out of five Australian manufacturing businesses are small or medium in size. They rank fifth among advanced economies for business innovation.

Figure 4.4 Australia’s iron ore and coal driving Asia’s growth



Making globalisation work for Australia

Most Australians recognise that globalisation has significantly benefitted Australia.³ Our economic record of 26 years of uninterrupted growth is based on policies adopted by successive governments to ensure Australia benefits from economic openness. This has enabled Australia to prosper while maintaining social cohesion and fairness.

Nonetheless, the Government understands that maintaining public support for trade, investment and skilled migration is vitally important to our continuing prosperity. We will continue to work with the business community and other partners to explain the importance of an open Australian economy to our future prosperity. The Government will strengthen advocacy in support of our trade and investment agenda.

We seek to ensure Australians find opportunity in a growing economy and implement policies that help businesses and workers adapt to change and share in the benefits of trade and investment.

We recognise that technological change is an opportunity for business and the wider community. The Government's approach to innovation and science fosters globally competitive businesses and institutions that provide better paying jobs. We continue to look for ways to stimulate innovation, including by enabling the commercialisation of research, supporting start-ups, and helping existing businesses to build capability and skills.

Our flexible vocational and higher education pathways help Australians to develop skills to find jobs and opportunity

in changing workplaces. At the same time, our social safety nets, skills retraining and labour market programs for Australians affected by technology and competition, including in regional centres, will also help communities adapt to change.

Protecting rules to support trade and investment

Internationally, Australia will continue to take a determined stand alongside like-minded partners to resist protectionism. The Government will make vigorous efforts bilaterally to minimise the impact of protectionist and trade restrictive measures on Australian businesses. At the same time, we will remain a strong advocate for an open global economy supported by enforceable rules.

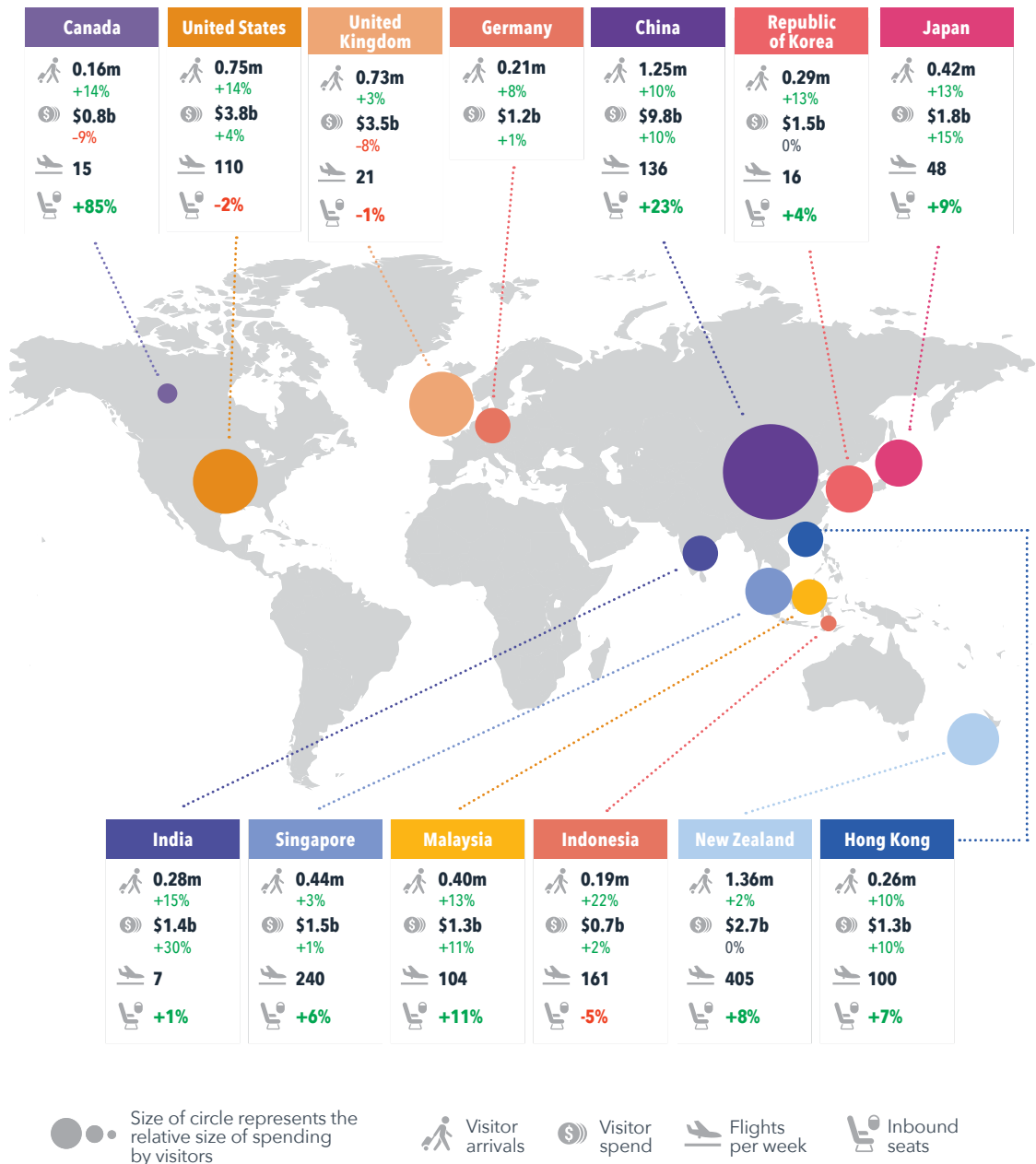
The rules embodied in the WTO limit arbitrary and unfair trade restrictions and are of fundamental importance to Australia's interests. We will demonstrate leadership, creativity and perseverance in seeking to advance liberalisation within the WTO.

Australia has played an instrumental role in achieving recent WTO outcomes, such as the Trade Facilitation Agreement. This agreement will reduce red tape and compliance costs for exporters (such as customs procedures), potentially boosting global trade by up to \$1 trillion a year.

Similarly, we contributed substantially to the WTO agreement reached in 2015 to eliminate agricultural export subsidies. This was a goal long pursued by Australia because of the damage to our farmers from these subsidies. Addressing the remaining substantial distortions and

³ 2017 Lowy Institute Poll

Figure 4.5 Inbound international tourism to Australia (select markets, 2016–17)



Source: Tourism Australia

Note: Percentage figures are year on year change from 2015–16

reducing barriers to trade in agricultural products will remain a priority for Australia in the WTO.

Reflecting the importance of services exports, we will pursue multilateral outcomes to strengthen global rules governing trade in services. We will also support the extension of WTO rules into new areas such as investment, competition policy and e-commerce.

Progress at the multilateral level, however, is likely to be slow and uneven. Australia will therefore pursue agreements among a sub-set of WTO members—known as plurilateral agreements—that have the potential to boost trade. Plurilateral agreements can also act as building blocks to wider multilateral agreements.

Australia will continue to press for the resumption of negotiations on two plurilateral agreements—the Trade in Services Agreement and the Environmental Goods Agreement—because of their potential to generate major benefits. If agreement by all WTO members on a new e-commerce deal proves to be out of reach, Australia is ready to work with others to pursue a plurilateral agreement.

In addition to the WTO's importance to Australia as a forum for negotiating new and enhanced rules, an effective WTO dispute settlement system will remain vital to limiting unilateral or retaliatory trade actions that damage trade and global growth. To date, countries have been largely prepared to accept the judgment of an independent umpire. In the period ahead, we will urge the United States, China and other major economies to settle trade disputes within the framework of WTO rules and processes.

Australia will continue to press all members to comply with WTO rules and obligations. We will work with others to strengthen the

WTO's monitoring and enforcement of rules. To ensure our credibility and avoid retaliation against our interests, our domestic policies will need to remain consistent with our WTO obligations.

International cooperation to promote an open and stable global economy

Australia benefits from international cooperation to support an open global economy and to protect the stability of the global financial system. In particular, our interests are advanced by having a voice at the G20, the world's premier forum for international affairs. The G20 brings together leaders and ministers from major developed and developing countries to discuss economic issues that have a bearing on their citizens and the wider global economy.

With G20 members often holding divergent views, consensus is hard to reach at times. Australia supports a strong and effective G20 wherever possible. Our interests are also served by the G20's continuing high-level support for institutions and policies that contribute to global prosperity and the integrity of the international financial and tax systems. G20 support for the WTO is particularly important at a time when trade tensions are rising.

Australia has an important stake in global financial stability. That is why we strongly support a well-capitalised IMF. This provides a vital safety net for countries in economic difficulty. Similarly, we continue to support the Financial Stability Board, which seeks to reduce vulnerabilities in the global financial system. US leadership will remain vital in promoting financial stability and responding to crises given the pre-eminent role of the United States in global financial markets.

Australia’s interests are served by global efforts to encourage sustainable development and reduce poverty (Chapter 6). The work of the World Bank—the world’s largest multilateral source of official development finance—helps achieve these aims and supports economic growth and an open global economy. Over the past four years, Australia has contributed approximately \$220 million a year to the International Development Association, the World Bank’s fund for the poorest nations. In addition, we provide about \$250 million a year through our development program to co-finance initiatives with the World Bank Group that align with our priorities in the Indo-Pacific.

Australia also works in the OECD, the World Customs Organization, the World Intellectual Property Organization and numerous other bodies to support policies,

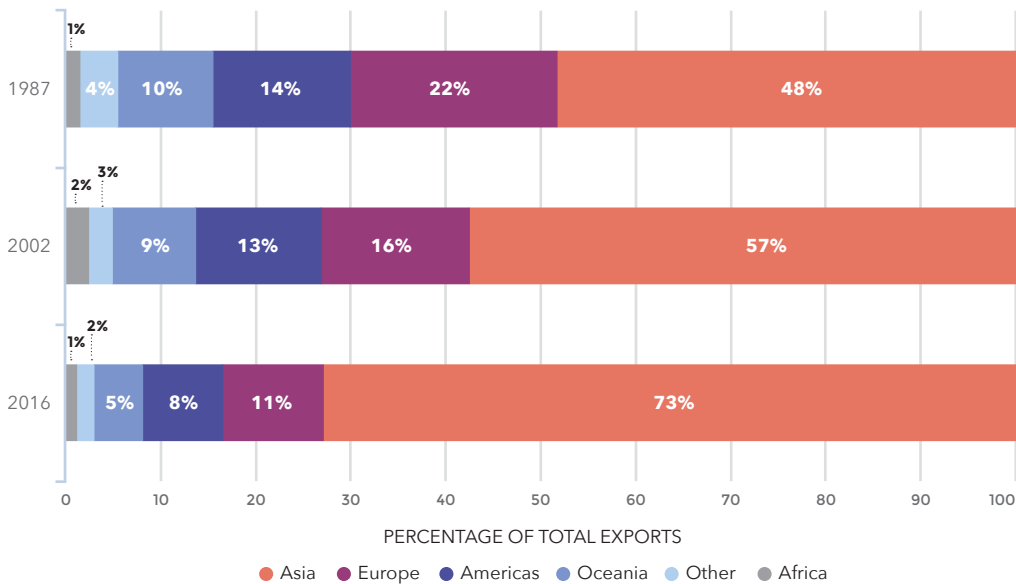
cooperation and dialogue that enable economic growth and help to facilitate trade and investment.

Australia encourages reform to international institutions to make them more effective and responsive, and to better reflect the economic weight of emerging economies. This will help protect the legitimacy of institutions such as the World Bank and the IMF. Australia will also be open to new groupings and approaches to support open trade and investment based on market principles.

Securing opportunity globally

The outlook for international trade and investment demands a flexible approach.

Figure 4.6 Share of Australia’s goods and services exports by region



Source: Australian Bureau of Statistics

Multilateral liberalisation will deliver the biggest gains for Australia, but since the mid-1990s, comprehensive deals agreed in the WTO have not been possible. With 164 members, many with divergent interests and levels of development, getting consensus in the WTO is now very difficult.

The Government's trade agenda is pragmatic given the obstacles to progress at the multilateral level. The best current prospects to protect and improve Australia's competitive position, open new commercial opportunities and help grow our economy through trade, lie in bilateral and regional FTAs. This will remain the case for the

Benefitting from Asian growth

The Government's FTAs with China, Japan and the Republic of Korea are among the most comprehensive and ambitious negotiated by these countries. Australia is the only major developed economy with preferential access into all major North Asian markets.

Australian businesses are taking advantage of the opportunities unlocked by our agreements.

Exports of fresh or chilled Australian boneless beef to the Republic of Korea grew by more than 50 per cent and to Japan by more than 20 per cent between 2014 (before our FTAs came into effect) and 2016. Sales of bottled Australian wine to China in 2016, the first full year of the China - Australia Free Trade Agreement (ChAFTA), grew by almost 40 per cent compared to the previous year. Exports of fresh oranges to Japan grew by almost half between 2014 and 2016, and by a similar amount to China between 2015 and 2016.

Businesses are telling the Government that these expanded overseas sales are leading to more investment and jobs at home.

Liberalising the screening thresholds for foreign investment in non-sensitive sectors has also encouraged investment from China, Japan and the Republic of Korea. Between the end of 2014 and 2016, net foreign direct investment inflows from all three countries grew by more than \$30 billion.

Australia's North Asian FTAs include built-in review mechanisms to enhance their coverage and to keep them relevant to the needs of business. In addition to formal reviews, our FTAs reinforce the technical work we do with our partners to strengthen commercial links. A recently concluded technical market access agreement, for example, will increase the number of Australian meat establishments eligible to export to China.

foreseeable future. We cannot afford to stand still while our trading partners are cutting their own bilateral and regional deals. The Government will act to ensure Australian businesses have the competitive edge to succeed in global markets.

Modern trade agreements

FTAs are now a major feature of the global trading system, growing in number from around 50 in 1990 to about 280 today. While built on the rules and disciplines of WTO agreements, modern FTAs go well beyond tariff elimination and advance rules in areas and ways not possible in the multilateral system. This network of agreements can generate a competitive liberalisation dynamic, which can open up new opportunities.

These new rules include competition policy, investment and intellectual property rights. FTAs provide mechanisms to address non-tariff and other behind the border measures that could block imports such as biosecurity and environmental standards (both legitimate objectives but sometimes applied by countries in ways that unduly restrict trade).

Australia has been at the forefront of developing modern, comprehensive FTAs. These aim to maximise tariff reductions for Australian exporters, open up services markets, and set rules to enhance trade and investment and reduce regulatory risk. Through these agreements we encourage approaches that support economic growth and trade and investment liberalisation more broadly.

By setting rules to promote a seamless business environment, these agreements improve the prospects of our companies to link to global value chains. They

support services exports by eliminating discriminatory treatment, promoting greater regulatory coherence, opening the digital economy, and establishing rules on the temporary entry of business people.

Our FTAs provide a competitive edge to our agricultural producers and complement the Government's efforts to secure and maintain access for many of our agricultural products under other countries' technical and biosecurity regulations.

By reducing import costs, these agreements benefit Australian consumers and producers by improving access to intellectual property, technology and know-how from around the world.

To complement our robust diplomacy that assists companies overcome non-tariff barriers, our trade agreements provide a framework to deal with barriers stemming from differences in labelling, standards and other regulations.

Australia's FTAs promote and facilitate two-way flows of investment, for example by codifying and improving policy settings and seeking improved access for Australian investors in overseas markets. They ensure non-discriminatory access to government procurement markets, and equal treatment under local competition laws. Our FTAs complement Australia's advocacy for reform of international investment law in forums such as the G20, WTO and OECD.

Finally, we make our FTAs 'living agreements' with substantial built-in forward negotiating agendas and work programs. This enables the agreements to evolve in light of emerging trends in trade and investment, and to ensure Australia continues to receive the best available treatment from our FTA partners.

Helping Australian businesses take advantage of our FTAs

The Government is working to ensure businesses know about our FTAs, and take full advantage of them.

In addition to our extensive business and community liaison, officials speak regularly to customs brokers and freight forwarders so they can help clients trade on more preferential terms to grow their businesses.

Hundreds of Australian businesses are using our FTA Portal—a free web-based tool providing practical FTA tariff and trade information—to help them access the opportunities created by our FTAs.

These initiatives complement the Government's broader efforts to reduce the costs of trading and make Australian businesses more competitive, such as establishing a 'single window' for trade.

We do this with one goal—to ensure that the competitive edge delivered by our FTAs helps increase Australian sales overseas, which means more economic activity, more investment and more employment at home.

Creating new opportunities through bilateral FTAs

Australia has FTAs with ASEAN and nine individual countries (Chile, China, Japan, Republic of Korea, Malaysia, New Zealand, Singapore, Thailand and the United States), which together account for 64 per cent of our total trade. To open new opportunities for Australia, the Government will expand our network of agreements to ensure that by 2020 we have FTAs with countries that account for over 80 per cent of our trade.

Our immediate priority is concluding the Indonesia - Australia Comprehensive Economic Partnership. This agreement will strengthen commercial links and help stimulate increased two-way investment. Both governments want this agreement

to unlock future growth opportunities for Australia and Indonesia.

The Government will negotiate an ambitious FTA with the European Union, the world's second-largest economy as a bloc. Australia will also negotiate a comprehensive FTA with the United Kingdom once it has left the European Union. These prospective FTAs will advance our commercial interests, especially in investment, services and agriculture. They will also signal the commitment of Australia, the European Union and the United Kingdom to a strong global trading system.

India has striking economic potential with scope for sustained catch-up growth from improving productivity and harnessing

the talent and dynamism of its young and growing population. To cement India as a priority economic partner, the Government is developing an India Economic Strategy to take advantage of India's strengths in services, technology and innovation, and to identify new ways to do business together. The Strategy will also position us for opportunities that should come from India's domestic reform agenda. We will keep working towards freer trade with India through our bilateral FTA negotiations, as well as regionally and multilaterally.

The Government's FTA negotiation with Hong Kong aims to enhance access for our services exports to a major financial centre and a gateway to the larger market in mainland China.

In Latin America, the Government has concluded FTA negotiations with Peru, with ratification of the agreement expected in 2018. We are also advancing negotiations with the Pacific Alliance, which comprises Chile, Colombia, Mexico and Peru. We aim to deepen our trade and investment dialogue with the Mercosur countries: Argentina, Brazil, Paraguay and Uruguay.

The Government continues to advocate with Gulf Cooperation Council countries for the resumption of FTA negotiations. A high-quality FTA covering goods, services and investment would enable Australian business to compete on a level playing field in a region important to our trade and investment interests.

The Government is also working to expand and diversify commercial links with Africa. Africa's population of 1.2 billion will double by 2050 and its growing urban middle class is creating new demand for goods and services. Africa is already a major overseas market for our mining services.

Advancing regional trade and investment integration

As discussed in Chapter 3, Australia supports an inclusive and open approach to economic integration. FTAs that link multiple economies enable Australian business to reduce transaction costs and better access supply chains.

There are a number of possible paths to our long-term goal of an agreement that brings the major Indo-Pacific economies under one set of trade and investment rules (Figure 4.7). This would have important strategic benefits as outlined in the previous chapter.

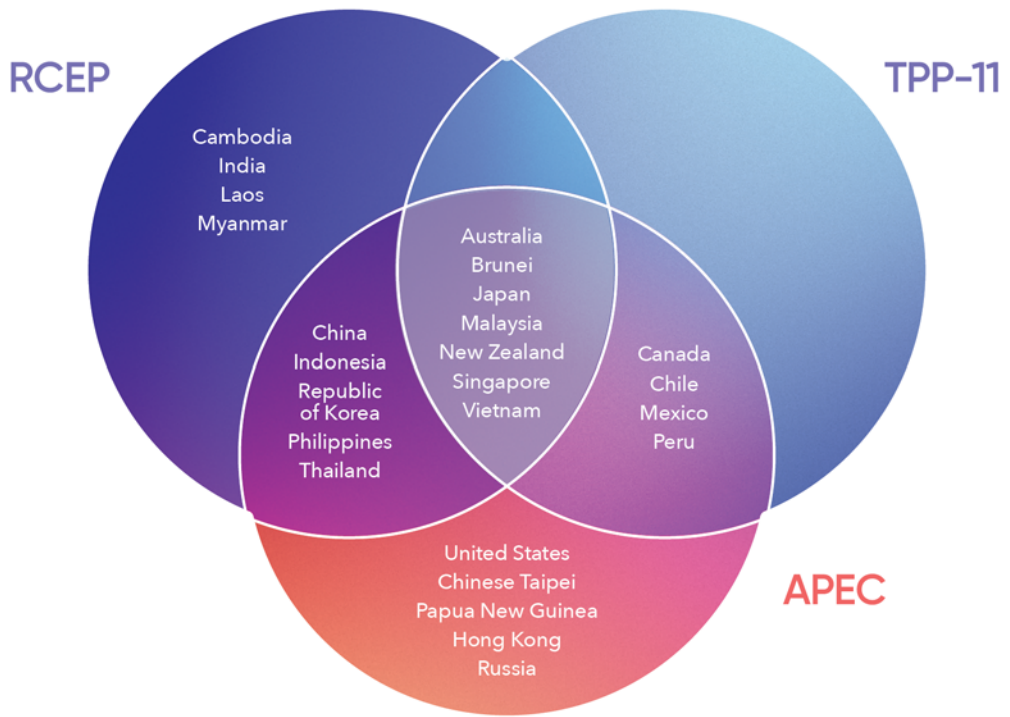
While the TPP will not proceed in its original form as a result of the United States' decision to withdraw, the scale and ambition of the deal and the benefits to Australia mean bringing the agreement into force is strongly in our interests.

Australia is working with remaining TPP members to achieve this aim. Even without the United States, the agreement would support economic growth, create new export opportunities, set high-standard rules and contribute to global trade liberalisation.

Australia is also committed to a successful outcome to the RCEP negotiations. RCEP involves ASEAN and Australia, China, India, Japan, the Republic of Korea and New Zealand. This group includes seven of our top 10 trading partners and almost half of the world's population. Alongside the TPP, RCEP has the potential to contribute to the development of a region-wide trade and investment zone.

APEC leaders have also agreed to work towards free and open trade and investment in the Asia-Pacific. Ultimately, Australia believes the region's economies should

Figure 4.7 Current and prospective free trade agreement groupings



Source: Department of Foreign Affairs and Trade

Note: APEC members are discussing a Free Trade Area of the Asia-Pacific

agree on practical steps to achieve region-wide integration, with the support of the region's three largest players, the United States, China and Japan, being vital.

Australia will contribute to this long-term goal in a range of ways, including by ensuring our bilateral and regional FTAs are broadly compatible with each other, are linked to as many economies in the region as possible, and are as liberalising and comprehensive as possible. A free trade zone in our region would be an effective way to guard against the risk of

discriminatory trading blocs that would disrupt value chains, undermine regional economic growth and damage Australia's trade and investment interests.

Standards

Influencing international standards and regulations strongly supports Australia's economic interests. Where these standards are aligned with our own, this facilitates trade and helps make our businesses globally competitive. By exercising leadership in setting

international standards in emerging technologies such as Blockchain, Australian industry can develop an early mover advantage and open up new opportunities for export.

Initiatives that reduce the regulatory burden for our services firms will assist this sector's export competitiveness, including through equivalence or harmonisation. This is vital for our agenda to grow services exports beyond education and tourism. It will enable Australian providers to operate in foreign markets in sectors such as health and aged care, financial services, communications, marketing, and engineering and design.

The Government is also shaping international rule-making and standard-setting to provide the certainty and stability needed to help Australian businesses realise opportunities through digital trade. Australia's FTAs incorporate rules facilitating digital trade—such as on electronic signatures and data flows—as well as protecting consumer rights online. Australia also promotes international standards on digital trade that are industry-led and technology neutral.

Australia works in APEC to facilitate trade through improved data standards, and by promoting standards and regulations based on science for agriculture and food safety. We have also strengthened economic and technical cooperation between regulators and agencies that set standards to promote regional economic integration.

Australia has a sophisticated financial services sector, and a \$2.3 trillion superannuation sector, positioning our firms to tap into rising demand in Asia for funds management products. To facilitate opportunities for Australian

financial service providers, we pioneered the Asia Region Funds Passport, agreed with Japan, the Republic of Korea, New Zealand and Thailand. Once implemented, the passport will allow Australian fund managers to sell investment funds in the other participating jurisdictions (and vice-versa).

Supporting our commercial interests

Beyond getting the frameworks and rules right for business, we will revamp our economic diplomacy to ensure it is better geared to support Australia's commercial interests. Drawing on the commercial expertise and informed by the priorities of Australian companies, our overseas network will advance our commercial interests in foreign markets, reinforcing high-level advocacy by Australian political and business leaders.

Our overseas posts exchange insights with business on foreign markets and global economic conditions. They help Australian companies to navigate political and other risks and to identify commercial opportunities in unfamiliar business and regulatory environments. In partnership with business, we work to influence the policies of foreign governments to support our economic interests.

We also assist Australian businesses to tackle non-tariff measures that often impede our exports. These can include regulatory barriers, standards-related measures, or labelling and customs measures. This work builds on and complements our efforts in the WTO and through our FTAs to open markets and facilitate trade. We will continue to work closely with business using the

expertise and networks of all relevant government agencies to prosecute this agenda. The Government will implement a new non-tariff measures strategy to respond to business concerns.

Our commercial diplomacy will focus strongly on promoting Australia as an attractive place to visit, study and invest. The Government emphasises five priority sectors for inbound investment as agreed with state and territory governments: agribusiness and food; major infrastructure; tourism infrastructure; resources and energy; and advanced manufacturing, services and technology. We will also focus on reducing or removing barriers that affect Australia's export interests.

More broadly, the Government will continue to assist Australian businesses, including our more than 45,000 small to medium sized enterprises, to access international markets. Austrade provides a range of support, from business introductions to market information. The Australian Government's export credit agency, EFIC, assists firms to secure finance for export and to invest overseas.

The Government is also partnering with the private sector to build the capability of Australian business to successfully engage in Asian markets, including through the Asialink Business and Asialink Leaders programs.

The Government helps Australian companies export in other ways. For example, we are modernising rules for exporting agricultural produce to make compliance easier, including to meet requirements for overseas markets. We recently expanded the number of agricultural counsellors overseas who provide in-market support and help solve regulatory issues affecting Australian exports.

Competitiveness

Chapter 1 underlined the importance of a flexible and competitive economy to Australia's prosperity and our national strength. Our openness to trade, investment, skilled migration and new technologies supports high living standards, creates jobs, and helps push down prices. In turn, policies that strengthen our competitiveness enable Australia to make the most of trade and investment opportunities.

The Government is strengthening our competitiveness over the next decade by substantially increasing infrastructure funding, investing in science and innovation, cutting the company tax rate to 25 per cent and returning the budget to balance. The Government is also strengthening national competition and consumer legislation to enhance the competitiveness of Australian businesses and give consumers more choice through well-functioning markets.

We are improving Australia's infrastructure to boost our productive capacity and better connect us to international markets. We are investing \$75 billion in transport infrastructure projects and over \$50 billion for additional infrastructure, including the National Broadband Network, the National Water Infrastructure Development Fund and regional grants programs. The Government has also established a \$5 billion infrastructure facility to support the development of major projects like ports, railways and electricity generation in Northern Australia.

The Government's National Innovation and Science Agenda (NISA) is encouraging the development of new technologies, including by supporting collaboration between businesses and universities,

as well as tax breaks for venture capital investments and early-stage investors. It is also equipping Australians with the digital literacy and the science, technology, engineering and maths skills needed for the jobs of the future.

Under our Global Innovation Strategy, the Government is supporting businesses, researchers and start-ups to boost their international links, including through the opening of five 'Landing Pads' in innovation hubs in Berlin, San Francisco, Shanghai, Singapore and Tel Aviv.

Sectoral initiatives

The Government is helping boost the competitiveness of the Australian economy. Our initiatives, such as the NISA, support our businesses to ensure they have access to the skilled workers and researchers needed to secure Australia's future.

The Government is supporting key sectors of our economy to transition into smart, high-value and export-focused industries. Our industry-led growth centres will drive collaboration, commercialisation, international engagement, skills and regulation reform, while the Entrepreneur's Programme will give practical advice and support to businesses. The Government has established growth centres for the following sectors:

- | | |
|--|---|
| ■ advanced manufacturing | ■ mining equipment, technology and services |
| ■ food and agribusiness | ■ oil, gas and energy resources |
| ■ medical technologies and pharmaceuticals | ■ cyber security. |

In addition, the Government has the following sectoral initiatives to drive our export competitiveness.

Minerals and energy

Australia's minerals and energy sector is one of the largest and most advanced in the world, underpinned by a high-quality resource base, world-leading operational standards and cutting-edge technologies. We are helping to build knowledge about the size, quality and location of our resource deposits through initiatives like the \$100 million Exploring for the Future program. In addition, National Energy Resources Australia (NERA) and METS Ignited (a growth centre for the mining equipment, technology and services sector) support the long-term competitiveness of the sector. The Government is also making substantial investments in clean energy, as detailed in Chapter 6.

Agriculture

As outlined in the 2015 Agricultural Competitiveness White Paper, the Government is assisting farm businesses by lowering tax, cutting red and green

tape, supporting new infrastructure, developing northern Australia and helping businesses to innovate and create jobs. The Government is funding more training places and ensuring educational institutions respond more flexibly to the needs of industry. We support government and industry cooperation on agricultural research.

Education and training

The Government's National Strategy for International Education 2025 sets out a 10 year plan to entrench Australia as a leader in education, training and research. We are strengthening the fundamentals of our education system to ensure Australia has a highly educated population. We will continue to deliver our distinctive model of education that connects early learning, schools, vocational education and training, and higher education to ensure that domestic and international students obtain a world class education and student experience. The Government is examining ways to increase recognition of Australian qualifications and licensing, creating new opportunities to export professional services and increasing the value of Australian qualifications to international students.

Tourism

Our Tourism 2020 strategy is a joint government-industry plan to improve the competitiveness of the sector. The strategy is on track to meet its overnight visitor expenditure target of \$115-\$140 billion by 2020, up from \$70 billion in 2009.

Services

We aim to further boost services exports beyond education and tourism. The Government has commissioned a major study to identify emerging opportunities in the region and issues beyond cost that influence the ability of Australian services providers to compete internationally.

Manufacturing

The Government has integrated initiatives and policies to help the manufacturing sector transition to advanced manufacturing. We are working with Australian manufacturing businesses to improve their competitiveness, including through the \$100 million Advanced Manufacturing Fund and the Prime Minister's Industry 4.0 Taskforce.

Australia's defence industry

We are also making a \$200 billion investment in Australia's defence capability. Increasing Australia's defence exports will build the international competitiveness, resilience and sustainability of our defence industry and contribute to employment and economic growth. The Government's Naval Shipbuilding Plan will improve and sustain our naval capabilities and support thousands of jobs.



Keeping Australia and Australians safe, secure and free

While Australia will remain one of the safest countries in the world, we nonetheless face a diverse range of risks that will threaten our security, our freedom and our values.

Technological change, the reach and vulnerabilities of the internet, state fragility, military modernisation and environmental stresses are all factors likely to amplify threats to our people, borders, economy and physical assets in the decade ahead.

The threat to Australia from Islamist terrorism and violent extremism will remain high and could worsen. We face a range of sophisticated cyber threats. Some 'push factors' could revitalise attempts at people smuggling to Australia on a large scale. We face challenges in dealing with attempts to interfere in the independence and sovereignty of Australian decision-making. Crime will continue to emanate from beyond our borders and will grow in complexity.

The Government is resolutely committed to meeting these challenges. Ensuring the safety and security of Australians is our most fundamental responsibility and highest priority. National security is the foundation on which our freedoms have been built and maintained.

The Government's reforms to Australia's domestic security and national intelligence arrangements reflect this commitment. In the decade ahead, Australia will need to continue building strong defences and resilient communities at home. We will

take determined action internationally, in partnership with others and on our own as necessary, to disrupt and defeat these threats.

Countering terrorism and violent extremism

The Government will do everything possible to keep Australians safe from the threat of terrorism and violent extremism. Since the national threat level was raised in September 2014, there have been several terrorist attacks in Australia and many disrupted plots. With the threat continuing to evolve we should be prepared for more attacks. At home and abroad, the Government will continue to deploy its full range of capabilities to reduce the lure of violent extremist ideologies and the likelihood of future attacks.

The Government is constantly reviewing and strengthening its counter-terrorism responses because the threat we face is both enduring and dynamic. Islamist extremists globally, but crucially also in Australia and in Southeast Asia, have been energised by the fighting in Iraq and Syria. New and emerging technologies are being used to conduct attacks, enable extremist activity and spread propaganda.

The Government has already invested an additional \$1.5 billion since August 2014 to combat terrorism. We have strengthened counter-terrorism legislation, more than tripled our investments to counter violent extremism at home and established the Centre for Counter-Terrorism Coordination to improve coordination across government.

Australia's Counter-Terrorism Strategy is based on partnerships between all levels of government, communities and the private sector. It focuses on:

- disrupting terrorist activity within Australia
- ensuring an effective response to and recovery from any terrorist incidents
- reducing the lure of violent extremist ideologies
- stopping Australians from using violence to express their views, and
- contributing to global counter-terrorism efforts.

At home, the Government has strengthened our control order regime, allowing us to monitor and limit where terrorist suspects can go and with whom they can associate. We have legislated to enable the continued detention of high-risk terrorist offenders. With the states and territories, local government, police and the private sector, we are implementing a strategy to protect crowded places, such as sporting stadiums.

The Government is taking steps to provide our law enforcement and security agencies with the capabilities to monitor the digital communication of terrorists. While Australia supports strong encryption to protect personal, commercial and government information, we will work with other countries and companies to ensure

terrorists cannot operate with impunity in ungoverned digital spaces.

We work domestically and with our international partners to counter the drivers of violent extremism through early intervention and community engagement, and by challenging terrorist propaganda and recruitment techniques.

We continue to play an important role in defeating ISIL in Iraq and Syria within an international coalition. Beyond training Iraqi troops and conducting air operations, we are working with partners to destroy ISIL's financing and economic infrastructure, counter its propaganda, provide immediate humanitarian assistance, and support stabilisation and the restoration of essential public services in Iraq and Syria.

The return of foreign terrorist fighters and their families from Iraq and Syria will continue to challenge the security of Australia, our region and the world. Some will be motivated to conduct or inspire terrorist attacks in their home countries. More than 200 Australians have travelled to these conflict zones and about 40 have returned. Some of these individuals remain a significant security concern.

The Government is responding decisively. We have cancelled or refused more than 200 Australian passports to prevent further travel to and from conflict zones. We will continue to work with international partners to bring foreign fighters to justice, prevent their movement across borders and manage the risks of their return to their countries of origin.

While ISIL and ISIL-inspired groups present the highest threat to Australians, the Government remains concerned about al Qa'ida, its affiliates and other terrorist groups, including in Afghanistan, Syria and North Africa. Other extremist

networks are likely to emerge and draw on the same narratives that inspire ISIL and al Qa'ida. Australia will continue to contribute to international efforts to minimise safe havens for terrorists, including through our commitment to the train, advise and assist mission in Afghanistan.

The spillover of fighters, money, propaganda and ideology from extremist groups in the Middle East is increasing the threat of terrorism in and to Southeast Asia. Fighters from our region may seek to return to their countries as ISIL loses territory in Iraq and Syria, and some will be battle-hardened and primed to conduct attacks. There have already been a number of ISIL-inspired terrorist attacks in Indonesia and elsewhere in the region. Concerted international support will be required for Philippine efforts to counter the terrorist threat in the southern Philippines, an area which regional and local extremists will continue to exploit to plan and train for attacks.

Terrorism will therefore threaten the lives of Southeast Asians and Australians living in and travelling to the region. It will undermine the security, and may threaten the stability, of our partners. Australia is determined to work with regional partners to respond. We will host the ASEAN - Australia Counter-Terrorism Conference in Australia in 2018 to put in place a plan for collective regional action.

Australia will continue to support regional efforts to disrupt attacks and degrade terrorist networks, build the capacity of partner countries to counter terrorism and violent extremism, and strengthen counter-terrorism laws.

We strongly support efforts led by regional and international organisations

to counter terrorism and violent extremism. We are a strong voice in developing and implementing global rules and norms to counter terrorist financing, arms smuggling and illicit trade in chemicals and precursors used to make improvised explosive devices.

Securing our borders

Australia's security and prosperity depend on robust border policies. The Government's policies are designed to make globalisation work for Australians. A well-managed border connects us to the world and enables us to manage risks while benefitting from flows of goods and people, including through the skilled migration essential to our economy. We are investing in new technologies to improve the speed and integrity of movement across our borders and to maximise the opportunities that come from our global linkages.

At the same time, the Government is vigilant about security risks and efforts to circumvent our border controls. Strong and well-protected borders help defend us against transnational crime. Equally, they enable the movement of goods and people but control restricted and regulated goods to prevent the entry of exotic pests and diseases. This safeguards human health, protects our environment, and ensures the sustainability and productivity of Australia's primary industries.

The Government remains determined to combat people smuggling and irregular migration. This is essential to save lives, ensure the integrity of our border and maintain public confidence in Australia's migration program. Without a well-managed migration program, the cohesion of our society could be

damaged and community support for our humanitarian program would be unsustainable.

Worldwide, borders are being challenged by unprecedented global mobility. Conflict, climate change and natural disasters are major drivers, but millions of people are now on the move each year seeking opportunity and better lives elsewhere. This massive growth in irregular migration is being enabled by digital communication, cheap transport and, in some cases, people smuggling syndicates. In an era of smart phones and social media, people smugglers find it easier to market their services than ever before.

Australia's response has four elements. We will:

- continue to protect our borders to prevent irregular people movement to Australia
- maintain our permanent refugee resettlement program
- help regional partners improve their border management capacity and strengthen our cooperation, including to disrupt people smuggling, and
- support people displaced by conflict or natural disasters through our aid program by providing assistance as close to their homes as possible.

Illegal maritime arrivals will not be settled in Australia. The Government's Operation Sovereign Borders has effectively broken the business model of smuggling networks, although they continue periodically to test our resolve. The primary deterrent to any resumption remains robust border policies. Boat turn-backs, regional processing of protection claims and settlement in third countries will remain integral to our response.

Australia is committed to being a regional leader in combatting people smuggling, human trafficking, modern slavery and related crimes. Together with Indonesia, Australia co-chairs the Bali Process on People Smuggling, Trafficking in Persons and Related Transnational Crime. Supported by our aid program, the Bali Process is the only mechanism in the Indo-Pacific addressing irregular migration.

We also engage the private sector through the Bali Process Government and Business Forum to combat modern slavery, human trafficking and related exploitation in global supply chains. The Government will make it a requirement for large businesses to report annually on their actions to address modern slavery.

We also continue to deliver significant technical assistance to deepen cooperation in law enforcement and to combat human trafficking such as sexual servitude, forced labour and debt bondage. We are working to protect and support victims of these crimes, and enable the safe and orderly return of irregular migrants to whom protection is not owed.

Our response to the challenge of displaced people is further detailed in Chapter 6.

Tackling transnational organised crime

Transnational organised crime threatens Australia's interests and the regional stability on which we depend. Crime is becoming increasingly complex and increasingly global. About 70 per cent of Australia's serious criminal threats have an international dimension. Increased cooperation with our partners will ensure Australia has access to the information,

intelligence and capabilities needed to respond.

Transnational crime has a severe impact on the safety and security of Australians. Illegal drugs harm our community. Human trafficking, sexual servitude, and child sexual abuse and exploitation blight lives. Counterfeit goods pose safety risks and undercut our businesses. Illicit trade in wildlife products and illegal fishing in Australian waters deplete our resources and damage the environment.

Across our region, transnational crime undermines political processes, weakens security, harms communities, fuels corruption, inhibits economic development and impedes good governance.

The threat we face will continue to evolve, often in ways that will be difficult to counteract. The distinction between traditional forms of crime and cybercrime is becoming increasingly blurred. In the next decade, the sourcing of drugs, weapons and other illicit goods from 'darknets' will increase, as will the use of crypto currencies to pay for them. Increased trade flows to Australia will provide more opportunities for criminals to conceal illicit goods.

Our ability to combat transnational crime rests on the collaboration between government agencies and the effectiveness of our international engagement. Measures to detect and disrupt criminal activity are equally important—for example, the sophisticated intelligence and surveillance systems we deploy to help interdict harmful illicit goods like drugs and firearms.

Crime flourishes in environments where the rule of law is weak. We need to build on our work with international partners, including through engagement with the

region's police and law enforcement agencies, to address vulnerabilities in our region that enable criminal networks and corrupt individuals to operate.

Our development assistance supports governance, the rule of law, leadership training and capacity building to assist countries to respond to these challenges. Australia will also increase our bilateral and regional law and justice, border protection and diplomatic engagement to help prevent, investigate and prosecute transnational organised crime.

Our bilateral law and justice cooperation with regional states, including China, Indonesia, Malaysia, the Philippines, Thailand and Vietnam, will be vital to combatting serious criminal threats to Australia. We will boost capacity to prevent, investigate, prosecute and deter criminal networks from operating in the region, including through the Pacific Police Development Program and the Jakarta Centre for Law Enforcement Cooperation.

Australia will continue to play a leading role in promoting international standards to combat transnational crime, including money laundering, terrorism financing and corruption. Our work in and with regional and international organisations helps advance this agenda. We will continue to build regional capacity to combat corruption through the framework of the United Nations Convention against Corruption.

International forums will need to focus increasingly on non-traditional security threats like transnational crime. Australia will continue to work through bodies such as the United Nations Office on Drugs and Crime, where we are already a major donor, and through regional forums, both to fight transnational organised crime and corruption,

and to promote wider international understanding of the illicit flows and trends that undermine our security.

Open, free and secure cyberspace

Over the coming decade, the digital economy will further transform how we do business and connect with the world. By 2020, Australia's digital economy is projected to be worth as much as \$139 billion, or 7.3 per cent of GDP. Digital technology will increasingly underpin wide-ranging aspects of the broader economy.

Whether the internet continues to create opportunities for growth and development will depend on it remaining open, free and secure. The Government believes that the maintenance of our security online and the protection of freedom online reinforce each other.

An increasing dependence on global ICT networks means that the potential costs of disruption are large and growing. Cyber incidents in Australia and overseas disrupt infrastructure and services, cause billions of dollars in damage to companies, and threaten the integrity of government and private networks. At the extreme, a cyber attack could seriously compromise national security.

The Government is doing everything in its power to protect the nation from cyber attack and to defend our interests in cyberspace. We are implementing the five priorities of our \$230 million Cyber Security Strategy: a national cyber partnership between government and business; strong cyber defences; the pursuit of global responsibility and

influence; ensuring growth and innovation; and delivering a cyber-smart nation.

A focus of the Strategy is to make Australia's networks and systems hard to compromise and resilient to cyber attacks. We will work closely with the private sector to safeguard the country against criminality, espionage, sabotage and foreign interference online. The 2016 Defence White Paper also outlines a \$400 million investment in Defence cyber security capabilities.

The Government's International Cyber Engagement Strategy sets out Australia's international agenda to ensure cyberspace continues to evolve in a manner consistent with our interests and values. A key driver is to maximise economic opportunity for Australia through digital trade.

Australia aims to preserve the multi-stakeholder model of internet governance involving the community as equal partners with governments. Australia will also protect freedom of speech, freedom of association and privacy online.

Strong cyber defences and law enforcement measures will sit at the forefront of our response to cybercrime. The Government has authorised the Australian Signals Directorate to use its offensive cyber capabilities to disrupt, degrade, deny and deter offshore cyber criminals. This capability is subject to stringent oversight and will be used consistent with our obligations under domestic and international law.

We are committed to peace in cyberspace. Australia affirms that existing international law applies in cyberspace. We will continue to advocate that states adhere to agreed norms of responsible behaviour in cyberspace, including that they refrain from using cyber means to intentionally damage critical infrastructure (as agreed

by the UN Group of Governmental Experts on cyber), and that no state should conduct or support ICT-enabled theft of intellectual property—including state secrets or other confidential business information—with the intent of providing competitive advantages to companies or the commercial sector.

Australia will work with our partners to respond to and deter malicious cyber activity, particularly that involving state actors and their proxies. Australia's response will be proportionate, comply with domestic law, and be consistent with our support for the rules-based international order and our obligations under international law. Australia will also promote cyber confidence-building measures to reduce the risk of miscommunication, miscalculation and escalation to conflict.

Guarding against foreign interference

The Government is concerned about growing attempts by foreign governments or their proxies to exert inappropriate influence on and to undermine Australia's sovereign institutions and decision-making. Such attempts at foreign interference are part of a wider global trend that has affected other democracies. Foreign interference aims to shape the actions of decision-makers and public opinion to achieve an outcome favourable to foreign interests.

Likewise, ensuring Australia's business interests and intellectual property are not subject to theft through espionage is important to our national interests. The Government endeavours to prevent state-sponsored actions that harm our economic and commercial interests.

Protecting critical infrastructure

The Government is committed to protecting the security of critical infrastructure, including from the threat of sabotage, espionage or coercion. The potential national security risks to critical infrastructure are complex and will evolve as infrastructure relies more heavily on cyber-enabled technologies and outsourced services.

In response, the Critical Infrastructure Centre will identify and manage high-risk critical assets and systems that are vital to our national wellbeing. It works across government and with infrastructure owners and operators to identify and manage security risks.

The Centre will provide greater certainty and clarity to investors and industry. The Government is also implementing security reforms in our telecommunications sector to strengthen networks against potential threats.

All states seek to advance their interests by persuading others to their point of view. This is a central and legitimate task of diplomacy. Foreign interference goes further by using clandestine or deceptive means to affect political, governmental or even commercial processes to cause harm to Australian interests.

Technology has broadened the tools available to states engaging in foreign interference. New media platforms, for example, provide opportunities to sow misinformation.

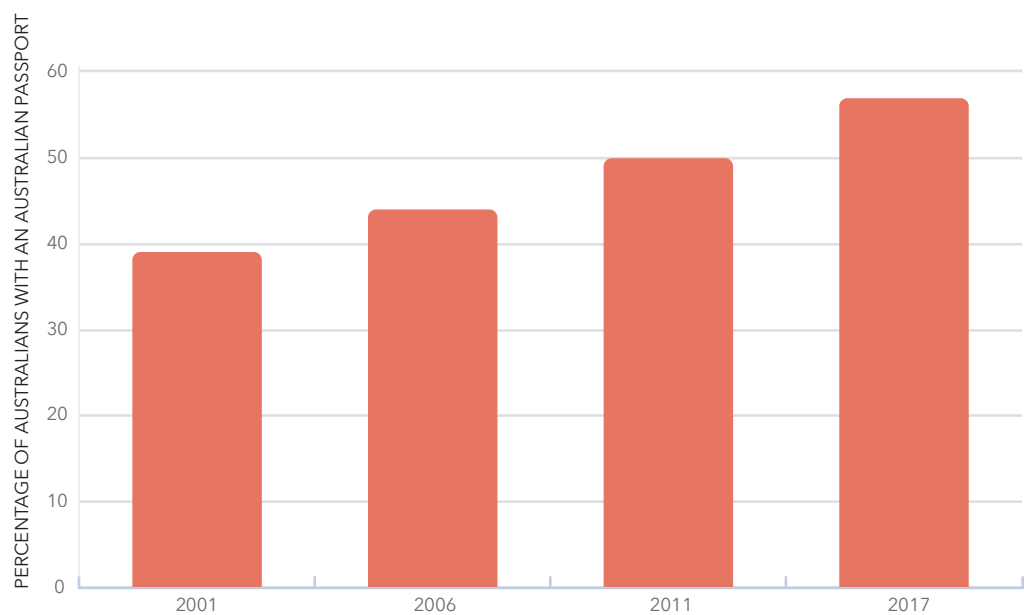
The Government will act to protect the sovereignty, integrity and transparency of our institutions. We will ensure that national decision-making and institutions remain free from foreign interference. This is one of our most important national interests.

Assisting Australians overseas

The Government is committed to providing a modern, efficient and cost-effective consular service to Australians in distress overseas. This is an important and complex task at a time when Australians are travelling overseas in unprecedented numbers. (Figure 5.1 shows record levels of demand for Australian passports.) We provide information and advice, including a comprehensive range of travel advisories, to empower Australians to help themselves while travelling and living overseas.

The Government is providing increasingly tailored advice to respond to new travel trends, such as the growth in young Australians travelling independently,

Figure 5.1 Growing demand for Australian passports



Source: Department of Foreign Affairs and Trade

Note: Calculation is at 30 June for each year

a rise in Australians retiring overseas and the growth in international cruises.

The Department of Foreign Affairs and Trade (DFAT) will build partnerships with social media and telecommunications companies to develop alternative tools to establish the welfare and whereabouts of Australians during emergencies overseas.

In the face of rising demand, we will ensure consular resources are directed to those most in need. The Government no longer provides consular assistance to Australian permanent residents (except during crises) or to dual nationals in their country of other nationality in cases where they are clearly self-sufficient. DFAT is improving its capacity to manage complex cases such as those involving mental health issues and victims of violent crime.

The Government's crisis management systems are world-class and we are committed to their further improvement. We are building stronger cooperation arrangements with key international partners to broaden our reach and extend our global capability. DFAT's new Global Watch Office delivers a 24/7 government capability to monitor and respond to international events that affect Australian interests.



Global cooperation

One of the most significant features of the post-Second World War era was the development, underpinned by US power and global leadership, of international institutions and rules designed to help support economic growth, global security and human development.

This is a system now under significant challenge. Shifts in power between states, geopolitical competition and the political and economic effects of globalisation are testing its effectiveness and cohesion.

Australia's interests are strongly served by acting with others to support a rules-based international order. Australia will encourage and tangibly support the leadership of the United States to this end.

Australia will also work with new and emerging powers to increase their stake in the international system. We will support, for example, well-designed proposals for new forms of global cooperation and reform of multilateral institutions.

Even in a period of uncertainty and challenge, global partnerships and international cooperation will remain important to Australia for three fundamental reasons.

First, the world's interconnectedness makes global cooperation even more important. Many problems that directly affect our interests can only be tackled through cooperation with other states.

Second, we must help shape responses to global challenges because if we do not then others will, potentially in ways that diverge from our interests and our values.

Third, in many circumstances multilateral engagement magnifies our influence. By working with partners in coalitions and leveraging the resources and expertise of international organisations we can get more done.

The Government's global agenda concentrates on issues where Australia has vital security, economic and other interests, and where we are most likely to achieve results.

Beyond our strong interest in open and rules-based international trade and investment (Chapter 4), Australia's priorities in the international system include:

- shaping and protecting rules and norms
- guarding against threats to international peace and security
- protecting the international environment in a way that also allows for sustainable growth of the Australian economy
- reducing global poverty and responding to humanitarian crises

- strengthening human rights and other norms of acceptable behaviour, and
- reducing the potential for pandemics and other international health risks to harm Australians.

It is not possible to know how the pressures on the current international system will play out. Many countries are strongly invested in making institutions and global cooperation work. Not all rules are contested. It is possible to imagine, nonetheless, futures in which competition over power, influence and ideas dominate international relations.

Australia would face a difficult economic and security environment in those circumstances. Our policy choices would be harder. Our engagement with the world might become narrower and more transactional. We might have to spend more on defence and national security capabilities. These risks underline the importance of Australia's investment in strong rules and global cooperation.

Our global partnerships

Unique among global powers, the United States has built, contributed to and led the post-Second World War international order. It has done this not only in its own interest, but also to create public goods and a global system in which other countries can prosper.

The scope of US interests and the interconnectedness of a globalised world will keep the United States strongly engaged internationally. At the same time, concerns in the United States about the costs of its global leadership, and some of the effects of globalisation, have been growing in recent years. There is greater debate about whether and how the United States should act to sustain parts

of the international system.

Australia believes that international challenges can only be tackled effectively when the world's wealthiest, most innovative and most powerful country is engaged in solving them. Strong and sustained US engagement in the international system, including the United Nations, remains fundamental to international stability and prosperity. Without such engagement, the effectiveness and liberal character of the international order would erode.

Supporting US global leadership, therefore, serves Australia's national interests. The United States reasonably expects its partners to help bear some of the costs of maintaining the current order. Australia will continue to do so, including through our alliance, broader contributions to regional and global security and the ideas we bring to our multilateral engagement.

At the same time, cooperation with other like-minded partners who support strong rules and institutions is becoming more important. Among these are the United Kingdom, the European Union, Japan, Canada and New Zealand.

The United Kingdom is one of Australia's most important partners. Its exit from the European Union will change the framework for our engagement but will not alter its foundation. We see this transition as an opportunity to re-invigorate cooperation as the United Kingdom maintains a global role on security and economic issues.

A strong European Union remains vital to Australia's interests and will be an increasingly important partner in protecting and promoting a rules-based international order. We will continue to cooperate closely with the European Union and its member states on our shared interest in

limiting the exercise of coercive power and on challenges such as terrorism, the proliferation of weapons of mass destruction (WMD), sustainable development and human rights. Europe will also continue to be an important partner for Australia in global economic governance. We will further strengthen bilateral relationships with key EU member states, especially France and Germany.

We will continue to engage the North Atlantic Treaty Organisation (NATO) on global security issues, including terrorism. In the face of Russia's destabilising activities, NATO—and strong transatlantic ties more broadly—is now more important to security in Europe than at any time since the end of the Cold War.

Given its international role and reach, Russia's policies affect Australia both directly and indirectly. We will deal carefully with Russia to advance our interests where we see scope. Equally, Australia will work with partners to resist Russia's conduct when it is inimical to global security. Australia remains particularly concerned by the downing of flight MH17 and Russia's annexation of Crimea and intervention in eastern Ukraine.

Australia will intensify our work on global issues with the countries of the Indo-Pacific, including to ensure multilateral institutions are focusing on our region. We already cooperate closely with Japan on issues such as WMD proliferation and UN reform. Recognising that China's influence in the multilateral system continues to grow, Australia will seek to work more closely with China in response to global challenges. We are also committed to ensuring multilateral processes and institutions factor the interests of Pacific island countries into decision-making.

The 54 countries of Africa, as well as the countries of the Middle East and

Latin America, will remain important to achieving our objectives in the multilateral system, including in relation to peacekeeping, conflict prevention and responding to humanitarian crises.

Israel is also an important partner for Australia, with our bilateral ties underpinned by people-to-people links. The security of Israel will remain an abiding concern for Australia. Given major differences between the parties, resolving the Israeli-Palestinian conflict will remain very difficult. Australia will continue to advocate a two-state solution as the only viable path to peace.

We will look for opportunities to work in partnership with emerging powers, including in cross-regional coalitions. Our work in MIKTA (Mexico, Indonesia, Korea, Turkey and Australia) underlines the potential of plurilateral cooperation.

Australia will also work in smaller, issues-based groups and coalitions where necessary to protect our interests. For example, we work to harmonise export controls to prevent the development of chemical and biological weapons through our leadership of the Australia Group.

The United Nations

Australia is a principled and pragmatic member of the United Nations, contributing to its vital security, environmental and humanitarian endeavours.

The United Nations and its specialised agencies deliver a wide range of essential services around the world, often in remote and dangerous locations. These include peacekeeping in 14 different locations across three continents, mediating disputes, vaccinating children, fighting pandemics, promoting nuclear safeguards, supporting education systems and providing food and

other assistance in humanitarian crises.

As the world's peak body for responding to threats to international peace and security, the United Nations Security Council helps support Australian interests. We are seeking election to the Council as a non-permanent member in 2029-2030 because we believe elected members can enhance its effectiveness, as Australia did when we were on the Council in 2013-2014. This complements the other contributions Australia makes to the vital work of the United Nations, including through our assessed contributions, financial support for peacekeeping and our development assistance program.

The Government recognises that many multilateral institutions have clear limitations. The United Nations system is frequently cumbersome and sometimes responds too slowly to urgent challenges. Our approach seeks to reinforce the strength, accountability and effectiveness of international institutions.

We will encourage the United Nations and its agencies to better coordinate activities, reform their corporate governance and work more closely with the private sector, including by tapping into private funding. We will continue to support the current Secretary-General's efforts to reform and strengthen UN peacekeeping, peacebuilding and development systems. We particularly encourage a more coordinated focus on conflict prevention, rather than waiting for crises to develop.

Shaping rules and institutions

Threats to international rules come from countries directly challenging, ignoring or undermining international law, including

in the global commons. Another risk is that countries do not defend rules when they are challenged, leading to the potential erosion of global governance. Finally, new rules and norms could emerge that are not consistent with Australia's interests and values.

Accordingly, the Government will place a high priority on protecting and strengthening the international rules that guide the conduct of relations between states.

Strong rules that help constrain the exercise of coercive power contribute to global security. They are becoming more important to Australia as the distribution of power changes in the international system. They help reinforce other ways in which we ensure our security, notably our alliance with the United States and our own defence capabilities.

International law and other norms provide a basis for the peaceful resolution of disputes, including in relation to maritime or land border disputes. International rules, such as those embodied in binding resolutions of the United Nations Security Council, also underpin collective responses to challenges such as terrorism and North Korea's proliferation of WMD.

More broadly, a range of legal, regulatory and other measures support commerce, travel, investment and other exchanges. International accords such as the Paris Agreement guide global cooperation on climate change. A rules-based trading system centred on the WTO is fundamental to Australia's interests. International aviation, shipping, telecommunications, postal services and many other aspects of our world are inconceivable without the certainty and predictability inherent in a system based on rules.

Australia has a long record of helping to develop the rules-based component of

the global order, beginning with the establishment of the United Nations in 1945. We have played a leading role in setting new rules and norms in areas as diverse as the Chemical Weapons Convention, the Arms Trade Treaty, digital trade, internet governance, global health standards and regional approaches to irregular migration and human trafficking. This gives us standing in the system that we can leverage in pursuit of our interests.

To help protect and strengthen international rules and norms, Australia will:

- act in partnership with other states and organisations to uphold international law
- encourage others to adopt or ratify international conventions and instruments to broaden adherence to international law
- support international accountability and adjudicatory mechanisms, such as the International Criminal Court and the International Court of Justice
- continue to make a significant contribution to the development of new rules and norms, and
- use our development assistance to help partner countries join and comply with international rules-based processes.

The Government is also committed to working with the United States and like-minded partners to maintain a rules-based order by making practical and meaningful military commitments where it is in our interests and capacity to do so.

While the current international system supports Australia's national interests, the Government recognises that the way states interact has never been and never will be static. Institutions, rules and forms of cooperation can and do evolve. Australia

believes the institutions that support global cooperation must accommodate the greater weight of emerging powers. Without such flexibility, new multilateral bodies might proliferate, undercutting the effectiveness of the current system and potentially challenging Australia's interests and values.

Australia will therefore contribute constructively to the reform of international institutions. We will remain open to proposals that might address gaps in the current institutional architecture. In doing so, our approach will remain anchored in international law, universal standards of human rights, good governance, transparency and accountability.

Countering the proliferation of weapons of mass destruction

Australia has an abiding interest in working towards the ultimate goal of a world without WMD.

Over the next 10 years the world will face new proliferation challenges because of emerging technologies with WMD and conventional weapons applications. Terrorists continue to seek WMD to cause mass casualties. Technological advances make developing bio-weapons easier and cheaper. Chemical weapons are again being used, as seen recently in Syria. Proliferation networks, including for missile technology and small arms, threaten the security of the Indo-Pacific.

We will remain vigilant in countering proliferation and ensuring effective export controls on goods and technologies used in the manufacture of WMD. We will stay

focused on nuclear safety and security, which will grow in importance as more countries invest in nuclear power.

Australia remains committed to preventing the use of chemical and biological weapons, including through our chairing of the Australia Group. We will encourage efforts to disrupt and prevent the financing of proliferation. We will continue to strengthen the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), which is the cornerstone of the nuclear non-proliferation regime, especially through the 2020 and 2025 NPT review cycles.

We will take action, including implementing sanctions, in response to specific nuclear and WMD proliferation concerns, especially in relation to North Korea. We support the Joint Comprehensive Plan of Action with Iran, which is important to efforts to stabilise the Middle East.

We advocate a patient and pragmatic approach in a complex security environment in which it is difficult to achieve significant nuclear disarmament. We must ensure the Comprehensive Nuclear-Test-Ban Treaty enters into force and achieves universal coverage. We will encourage progress on a Fissile Material Cut-Off Treaty to prevent the production of fissile material for nuclear weapons and will work with partners to improve how disarmament is verified.

In an uncertain security environment, including North Korea's development of a nuclear and missile capability, the Government recognises that only the nuclear and conventional military capabilities of the United States offer effective deterrence against the possibility of nuclear threats against Australia and other allies of the United States such as the Republic of Korea and Japan. Without

extended deterrence, more countries in the Indo-Pacific would need to re-assess their security and defence capabilities.

Climate change

The challenge posed by climate change will deepen over the next 10 years. Countries will need to factor climate change in to long-term planning and investment, including its implications for national and regional security.

Already, changing environmental conditions are evident, including rising temperatures and sea levels and increasingly frequent and severe weather events and natural disasters. This is leading, in turn, to economic, environmental and security risks. In Australia, those risks extend to our coasts and beaches, and to our agriculture, water resources and fisheries.

Climate change will sometimes impede economic development, drive additional displacement of people and, if left unchecked, add to global stresses on the supply of food and water. Many countries in Australia's immediate region, especially small island states and those with large delta cities, will be increasingly affected.

Australia has comprehensive policies to reduce domestic emissions while maintaining our economic competitiveness. The Government is reviewing its climate change policies to ensure they remain effective in achieving Australia's 2030 emissions reduction target and Paris Agreement commitments. The review will monitor and be informed by developments in international climate policy, and include a focus on electricity prices. The Government also recently announced a national energy guarantee, under which retailers of electricity will

need to meet a guarantee for reliability and emissions reductions in line with Australia's commitments under the Paris Agreement. Our commitment to reduce emissions by 26 to 28 per cent below 2005 levels by 2030 is among the highest per capita reduction targets for an advanced economy.

Australia will work in partnership with developed and developing countries to take effective action on climate change. The United Nations Framework Convention on Climate Change, and in particular the Paris Agreement, requires

action by both developed and developing parties. The framework also allows countries to determine the nature and extent of their contributions. To date, more than 160 countries have ratified the Agreement. While disappointed by the decision of the United States to withdraw, Australia remains committed to the Paris Agreement.

Responding to climate change will continue to be a priority for Australia's development assistance. We are investing more than \$1 billion over five years to support developing countries to reduce

Antarctica

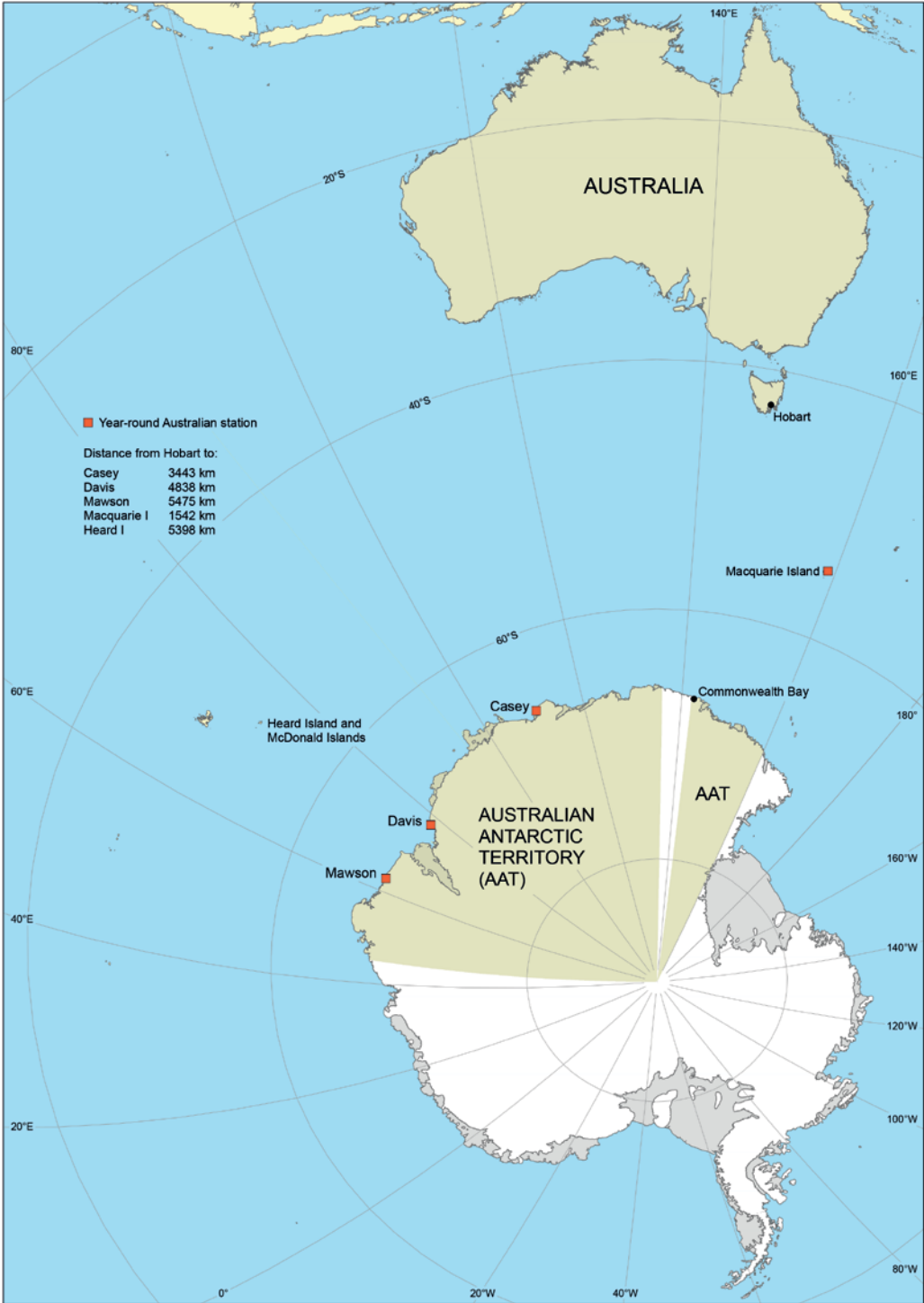
Antarctica is important to Australia. We have sovereignty over 42 per cent of the continent, including sovereign rights over adjacent offshore areas (Figure 6.1). The Government is spending an additional \$2.2 billion to protect Australia's significant Antarctic interests.

Australia is among the most influential parties to the Antarctic Treaty and is staunchly committed to the Treaty's strength and effectiveness, and its principles of environmental protection and non-militarisation. This will preserve Antarctica as a region devoted to peace and science and reduce the potential for strategic competition to Australia's south.

Australia has an ambitious agenda for its future in Antarctica, set out in the Australian Antarctic Strategy and 20 Year Action Plan. We are building a new world-class research and resupply icebreaker vessel and new overland transport capabilities. We are improving our aviation access to the continent. We will protect the Antarctic environment, with an emphasis on maintaining the indefinite ban on mining and oil drilling, and on conserving marine resources. We will continue to deliver a world-class science program.

The Government will also fund new capabilities and infrastructure to support Tasmania's status as the premier gateway for science and operations in East Antarctica.

Figure 6.1 Australia and Australian Antarctic Territory



Source: Australian Antarctic Data Centre, Map Catalogue No. 14508

their emissions and build resilience to climate change.

Australia is also boosting our response capability to natural disasters as well as improving disaster preparedness. When disasters strike, within 48 hours Australia can deploy relief supplies, humanitarian specialists and health and urban search and rescue teams. We also invest in regional disaster preparedness to help save lives, minimise economic loss and enable communities to recover more quickly. Our new deployment capability, Australia Assists, will bolster our ability to send Australians overseas to support these efforts.

Australia has a strong interest in an effective global transition to a low-emissions economy while supporting growth and affordable energy. Although emissions are still rising globally, there is momentum towards a low-emissions economy, driven by technological advances and lower costs. Many of our major economic partners, including China and India, are investing in green growth.

Australia stands to benefit from these trends because of our abundant renewable resources and expertise in low emissions, clean energy and renewable technology. We will have the opportunity to boost exports of climate services and technologies and to attract investment. Australia also has expertise in sustainable agriculture and cities, climate smart infrastructure, water management and climate finance.

To take advantage of these opportunities and capture the benefits of the global energy transition, the Government is investing in clean energy technologies. For example, the Clean Energy Finance Corporation and the Australian Renewable Energy Agency have already invested

over \$4.5 billion in projects worth over \$11 billion. The Government has also joined the global Mission Innovation initiative to double government investment in clean energy research and development by 2020.

Promoting sustainable development

Global levels of poverty have been steadily declining since the early 1980s, driven by rapid economic development in Asia. However, in 2013 (the most recent year for which comprehensive poverty data from the World Bank is available) more than 10 per cent of the world's population, or over 750 million people, still lived in extreme poverty (defined by the World Bank as living on less than US\$1.90 a day). The challenge remains acute in the Pacific (Figure 6.2).

The United Nations estimates that globally 18,000 children die every day from poverty-related causes. Climate change, conflict, natural disasters and increasing pressure on resources threaten to slow the progress of poverty reduction over the next decade.

As a prosperous country, Australia has a responsibility to contribute to global efforts to reduce poverty, alleviate suffering and promote sustainable development. This also serves our interests because the more that countries can provide economic opportunity for their citizens the more stable they will be. They will be less vulnerable to challenges such as irregular migration and extremism. In an interconnected world, investing in the development of other countries helps to limit negative impacts on our own security.

Figure 6.2 Extreme poverty in the Indo-Pacific



Source: Asian Development Bank

Note: Extreme poverty is defined as living on less than US\$1.90 per day (2011 PPP)

To respond to the challenge of global poverty, Australia has joined all other United Nations member states in committing to the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals (SDGs). These include goals to reduce poverty and hunger, improve health and education, advance gender equality and strengthen economic growth (Figure 6.3).

The 2030 Agenda is not just for and about government—it also engages the private sector, civil society, academia and international organisations.

In working with partners to achieve the SDGs, Australia will use its overseas development assistance, including through aid for trade, to catalyse sustained and inclusive economic

growth to help reduce poverty. The 2030 Agenda provides an opportunity for Australia to share its experience at home with partners around the world.

Advancing human rights

Australia is committed to advancing human rights globally. Men, women and children have the right to fundamental freedoms and to live their lives with dignity. Human rights underpin peace and prosperity.

Australia will promote human rights through constructive bilateral dialogue. Where appropriate, we will work with countries to advance and protect human rights through development assistance and humanitarian support. At times, and especially in the case of gross human

rights violations, we will apply sanctions.

Australia is committed to a strong multilateral human rights system. We continue to support the independent mandate of the Office of the High Commissioner for Human Rights. We promote efforts to strengthen the Human Rights Council and the wider human rights system. As a member of the United Nations Human Rights Council for the 2018-2020 term, Australia will:

- advance the rights of women and girls
- promote good governance, democratic institutions and freedoms of expression, association, religion and belief
- promote the rights of people with disabilities
- advance human rights for indigenous peoples around the globe

- promote national human rights institutions and capacity building, and
- advocate the global abolition of the death penalty.

Our development program supports these objectives, especially by tackling gender inequality, promoting disability inclusive development and funding multilateral human rights bodies.

In addition, Australia is committed to protecting and strengthening civil society internationally. We will work to increase the formal participation of civil society in UN processes.

Australia also supports democratic principles, the rule of law, human rights and gender equality through the Commonwealth, which links 52 countries.

Figure 6.3 Sustainable Development Goals



Source: United Nations

Australian aid: investing in prosperity and stability

Australia's development assistance is focused on the Indo-Pacific and promotes the national interest by contributing to sustainable economic growth and poverty reduction. We work with partners to achieve the SDGs by helping to strengthen the private sector and supporting human development. Our development assistance is an important aspect of Australia's contribution to global prosperity and stability.

We develop and implement policies and programs that focus on innovation and encourage private sector-led growth and job creation. Our assistance helps partner countries improve governance, education and health and enhance productivity in agriculture, fisheries and water. We help build the infrastructure and capacity that developing countries need to benefit from trade. We promote gender equality because eliminating gender disparities in the region would significantly boost per capita incomes.

We know growth alone will not guarantee prosperity and stability. That is why we focus on poverty reduction and promoting the participation in the economy and society of the most disadvantaged, including women and girls and people living with disabilities.

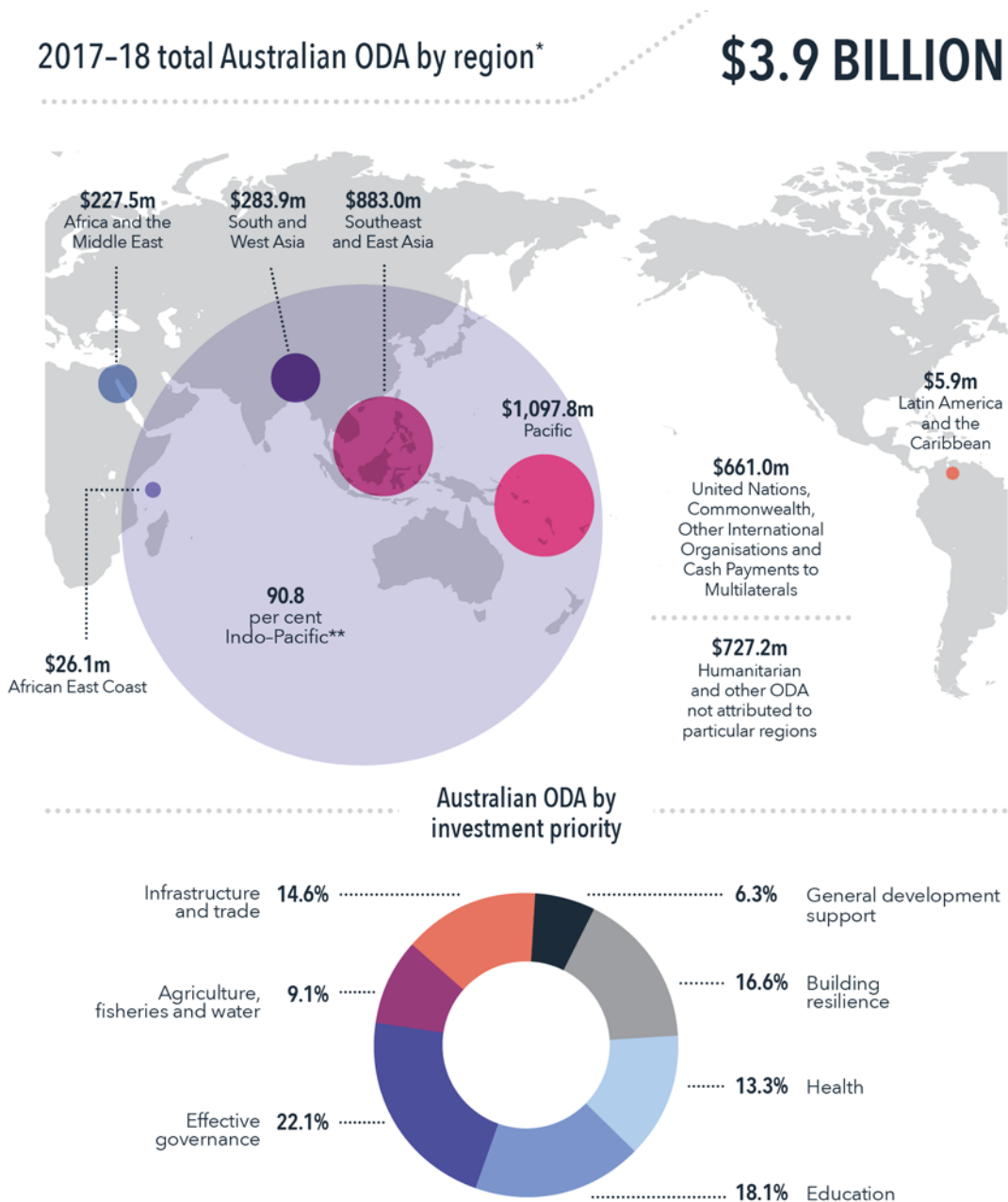
The success of our development assistance also rests on addressing other barriers to growth. We deliver programs with our partners that tackle inequality and climate change, and boost resilience to natural disasters. The Government will increase humanitarian assistance and other support to \$500 million a year to address crises and conflicts.

We ensure that our investments deliver results by using a comprehensive performance system. We report publicly on our effectiveness through the annual Performance of Australian Aid report.

When allocating development assistance, we apply four tests:

- is this in our national interest?
- will this promote inclusive growth and reduce poverty?
- does Australia's contribution add value and leverage partner funding?
- will this deliver results and value for money?

Figure 6.4 Australian official development assistance (ODA)

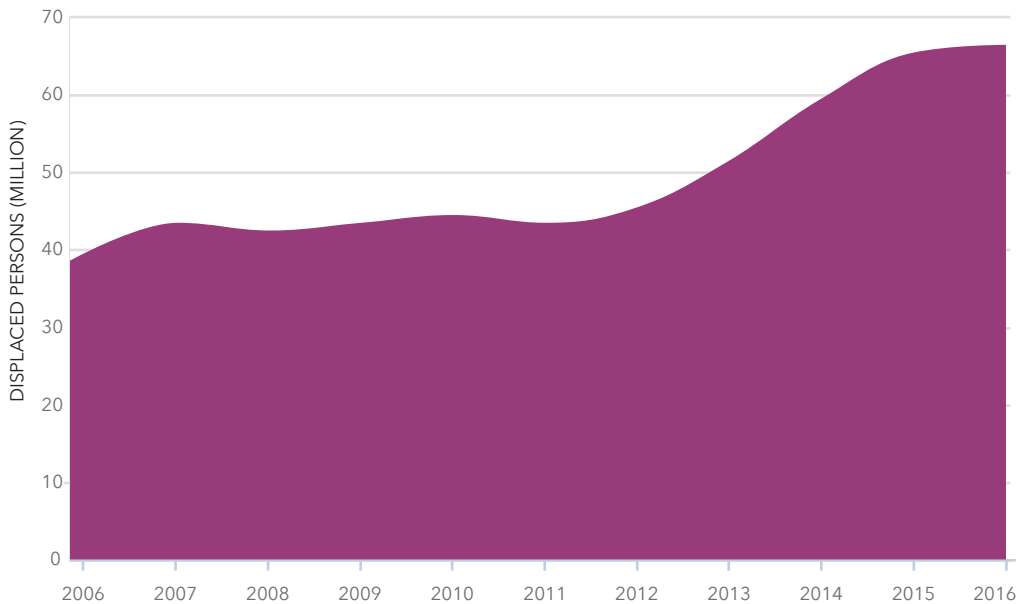


Source: Australian Aid Budget Summary 2017-18, Department of Foreign Affairs and Trade

* Total Australian ODA, from all agencies and programs, attributable to regions; including flows from DFAT regional and global programs and expenditure by other government departments

**The percentage calculation of Indo-Pacific excludes: United Nations; Commonwealth and Other International Organisations; Cash Payments to Multilaterals; and Humanitarian and other ODA not attributed to particular regions

Figure 6.5 Global trends of displaced persons



Source: United Nations High Commissioner for Refugees

Responding to the challenge of displaced people

Australia is committed to responding to the long-term challenge posed by the world's displaced people, including 22.5 million refugees and more than 40 million internally displaced people (Figure 6.5).

Recognising the pressing need for stronger global support for displaced populations and to respond to natural disasters, Australia will increase its global humanitarian funding to more than \$500 million a year. We will provide additional assistance to support displaced people as close to their homes as possible so they can return home when conditions allow. This is essential because

permanent resettlement is available to only a fraction of the world's displaced. Australia will continue to maintain one of the world's most generous refugee resettlement programs.

Australia's \$220 million and \$100 million three year commitments to the Syrian and Iraqi crises, for example, focus on providing humanitarian assistance, delivering employment opportunities and improving education. Australia also supports the Comprehensive Refugee Response Framework trials in Uganda and Ethiopia, which are helping to equip refugees with skills and training.

At a time when traditional approaches are being overwhelmed, Australia is contributing to development of the Global Compact on Refugees and the

Global Compact on Safe, Regular and Orderly Migration, which are scheduled to be concluded in 2018.

The Refugee Compact seeks to enhance protections for refugees and displaced people, develop a better framework to deal with the protracted nature of displacement, and ease the burden of countries hosting large refugee populations. The Migration

Compact seeks to improve the global governance of migration and reduce the vulnerabilities of migrants.

Australia works closely with a range of international organisations to protect and support refugees and displaced people, including the UN High Commissioner for Refugees and the International Committee of the Red Cross. Australia focuses strongly on protection efforts for women and girls

Gender equality

Gender inequality undermines global prosperity, stability and security. It contributes to and often exacerbates a range of challenges, including poverty, weak governance and conflict and violent extremism.

Australia's foreign policy pursues the empowerment of women as a top priority, including through the advocacy of our Ambassador for Women and Girls.

We fund development programs that support improved access to education, sexual and reproductive health services, employment and financial services for women and girls. Working with partners, we encourage women to be leaders in their communities and parliaments. We strive to end violence against women and girls.

Some of our programs include:

- Pacific Women Shaping Pacific Development (\$320 million, 2010-2022), which supports women in 14 Pacific countries to participate fully and safely in political, economic and social life
- the Investing in Women Initiative in South East Asia (\$46 million, 2016-2019), which works with businesses to improve women's employment conditions and increase investment in women-led small to medium sized enterprises, and
- the Australia Indonesia program for Empowering Indonesian Women for Poverty Reduction (\$108.3 million, 2012-2020), which works to increase the participation of women in the workforce, improves access to social protection programs and empowers women to influence change at the grassroots level.

and people with disabilities because they are particularly vulnerable during conflicts and natural disasters.

Australia also supports regional and international peacekeeping efforts to protect people affected by conflict. We have pledged to provide strategic airlift support for UN peacekeeping operations in crises and to build the capacity of troop contributing countries in our region. Beyond peacekeeping, Australia also contributes to the United Nations Peacebuilding Fund, which aims to prevent a return to conflict in countries at risk.

Strains on food, energy and water

As the world's population grows, demand for food, energy and water will continue to rise. These pressures, compounded by climate change, will strain the world's resources in a way that could limit future prosperity and contribute to conflict and population displacement.

In addition to supplying agricultural products to global markets, Australia also supports basic food security and efficient water management internationally. In 2017-18, nine per cent of Australia's development assistance, or \$339.5 million, was invested in the agriculture, fisheries and water sectors. The Australian Centre for International Agricultural Research has extensive research partnerships and implements practical applied projects and training to improve food security in our region.

Australia, as a major global producer and exporter of energy commodities, will work collaboratively to support the availability of energy throughout the Indo-Pacific region and beyond. Access to reliable

and affordable energy is crucial to trade, economic growth and development. Australia will continue to provide development assistance to help partner countries maximise benefits from their natural resources and energy sectors.

Australia is a leader in water management. We will share our water management expertise to help enhance agricultural productivity, improve health outcomes, strengthen economies and reduce poverty, including through the Prime Minister's membership of the United Nations/World Bank High Level Panel on Water. Australia has also committed US\$6 million to launch the Water Innovation Engine with the Rockefeller Foundation and the World Bank to trial and develop new approaches to help improve affordable access to clean water and sanitation. We also share information and experience in water policy dialogues with China, India, Indonesia and the United States.

Australia will deliver a \$100 million 'Water for Women' program over seven years (2017-2024) to improve water access, sanitation and hygiene practices across the Indo-Pacific. We have also established a \$20 million Australian Water Partnership to share Australia's water sector expertise internationally.

Protecting the oceans

As a continent surrounded by three oceans, Australia has a fundamental interest in the legal regimes and norms that govern the oceans. Our maritime Exclusive Economic Zone, including waters surrounding our offshore territories, is the world's third largest. Our marine resources are vital for our economy.

The world's oceans face multiple stresses, including climate-driven changes, pollution,

Great Barrier Reef

The Great Barrier Reef is the world's largest coral reef and one of the natural wonders of the world. The Reef supports 64,000 full-time jobs and is worth \$6.4 billion a year to our economy, mainly through tourism. Australia's reputation is influenced by the status of the reef and how we manage it.

Like coral reefs everywhere, the Great Barrier Reef is under pressure including from warmer sea temperatures and ocean acidification caused by climate change, outbreaks of coral disease and crown-of-thorns starfish, and impacts from land run-off and fishing.

Australia's efforts to protect the Great Barrier Reef through the Reef 2050 Plan build on more than 40 years experience and are backed by \$2 billion in funding over the next decade. No undertaking of comparable scope, complexity and financial commitment has been attempted in a marine environment or World Heritage site anywhere else in the world. The World Heritage Committee recognised these efforts in 2017, endorsing Australia's progress in implementing the Reef 2050 Plan.

Drawing on these efforts, Australia is helping drive international action to conserve the world's coral reefs—through our support for the International Coral Reef Initiative, the work of our leading marine science institutions, and practical support to build capacity in partner countries to manage reefs sustainably.

over-exploitation and habitat destruction. Australia is advocating a new international agreement, under the UN Convention on the Law of the Sea, on the conservation and sustainable use of marine biodiversity in the high seas.

We will also continue to work to enhance fisheries governance. As demand for fish products grows, current stocks will come under greater pressure, affecting food security, livelihoods and economic development across many regions. Depleted fish stocks in neighbouring

regions degrade our own stocks and can motivate illegal fishing in Australian waters.

We will continue to work with our partners in regional fisheries management organisations to ensure the long-term sustainability of fisheries resources. We will also tackle illegal, unreported and unregulated fishing, and monitor the status of fish stocks to provide industry with certainty over catch limits. We will continue to assist communities in our region, including through our development assistance, to sustainably manage fish

stocks and marine ecosystems, and improve aquaculture production.

Guarding against global health risks

The Government recognises the importance of good health and strong and resilient health systems to support productive societies and economic growth. Our health system is recognised as among the best in the world, and we will continue to help shape global health norms and standards.

The Government is committed to preventing and responding to the introduction and spread of infectious diseases. Health crises threaten economic and human development. International travel, urbanisation and weak health systems in some countries contribute to the rapid spread of pathogens around the globe.

Antimicrobial resistance is a major global health threat. If not tackled decisively, it could cause an additional 10 million deaths a year by 2050. Already, drug resistant tuberculosis is a challenge in Papua New Guinea, while drug resistant

innovationXchange

The innovationXchange in the Department of Foreign Affairs and Trade tests new ideas and harnesses breakthroughs in science and technology to increase the effectiveness of Australia's aid program and foreign policy. It is an exemplar for contemporary government practice. Its Innovation Resource Facility delivers access to world-leading innovation advice and mentoring across the full range of public policy fields. It also uses challenges to crowd source new ideas to help solve intractable development challenges.

The innovationXchange leverages the knowledge, skills and resources of others to achieve greater impact. For example, it is working with Monash University to undertake clinical trials of a new approach for combatting the dengue and Zika viruses. With Bloomberg Philanthropies, it is helping countries collect and use better health data.

Through partnerships with Google, the innovationXchange is funding pilot projects in Cambodia, India, the Philippines, Timor-Leste and Vietnam to address problems such as arsenic contamination of water and the financial exclusion of the poor.

In collaboration with the US-based XPRIZE and India's Tata Group, the innovationXchange is offering a US\$2 million prize for the research team that can harvest 2,000 litres of clean water a day from the air, at a cost of two cents a litre, using only renewable energy.

malaria elsewhere threatens a resurgence of what was once the world's biggest killer. Australia supports the Asia Pacific Leaders Malaria Alliance to galvanise action in response. We will continue to support research and development to bring new drugs and diagnostics for these diseases to market and build institutional capacity in regional countries.

Australia's development funding strengthens health systems and combats health risks that cross national borders. We have established an Indo-Pacific Centre for Health Security to invest in research, strengthen partnerships, and improve the capacity of health systems. Our development program will build upon outcomes from domestic initiatives such as the \$1.4 billion Medical Research Future Fund.

In addition to our substantial domestic investments in health and medical research, Australia will continue to work with international institutions such as the World Health Organization to help prevent, detect and respond to health emergencies and to combat antimicrobial resistance. Australia will invest a further \$220 million in the Global Fund to Fight AIDS, Tuberculosis and Malaria, which has saved more than 20 million lives since 2002.

capabilities to disrupt satellites and degrade space-dependent military systems, threatening our defence networks and those of our alliance partner the United States. Potential state adversaries may also exploit space to obtain sensitive information about our security. In response, the Australian Defence Force is strengthening its space surveillance and situational awareness capabilities.

Australia is committed to strengthening international rules and laws that apply to space, including military uses of space. We will work with partners, particularly through the United Nations Committee on the Peaceful Uses of Outer Space, to strengthen norms of responsible behaviour.

The Government will also establish a space agency to represent Australia internationally, partner with other countries, coordinate a national space strategy and support industry growth.

Security in space

Australia's economic and security interests in space will grow with the expansion of space-based and space-enabled capabilities. We need robust rules and norms to maximise the benefits of greater access to space while tackling challenges such as debris.

At the same time, the expansion of space-based technologies creates risks. States are continuing to develop



A shared agenda for security and prosperity

The stability and economic progress of Papua New Guinea, other Pacific island countries and Timor-Leste is of fundamental importance to Australia. Our ties with these neighbours are long-standing and will be enduring. We are bound by migration, education and, in many cases, historical ties.

Australia is a major economic partner and an enabler of opportunity for our neighbours. Some countries in the region have the natural resources and many have the tourism potential to benefit from increased trade and investment with Australia, New Zealand and Asian economies.

Our engagement is anchored in common interests. Stability in Papua New Guinea, the wider Pacific and Timor-Leste, for example, is vital to our ability to defend Australia's northern approaches, secure our borders and protect our exclusive economic zone.

Most countries of the region are, however, facing acute development challenges. Small formal economies, distance from major markets, high costs, and rapidly growing populations hamper economic growth.

Governance and capacity constraints in some countries also limit their ability to deliver services. These challenges make it difficult to respond to transnational crime, natural disasters, climate change or outbreaks of infectious diseases. This in turn exposes Australia to increased threats, which our cooperation helps to mitigate.

To identify and implement practical responses to these economic, security

and development challenges, Australia will enhance engagement with Papua New Guinea, other Pacific countries and Timor-Leste, as well as with regional organisations such as the Pacific Islands Forum.

In the Pacific, Australia recognises that new approaches will be necessary. Our support will focus on three priorities:

- promoting economic cooperation and greater integration within the Pacific and also with the Australian and New Zealand economies, including through labour mobility
- tackling security challenges, with a focus on maritime issues, and
- strengthening people-to-people links, skills and leadership.

These priorities build on our commitment to work with governments in the Pacific to respond to climate change, bolster resilience, strengthen emergency responses and improve governance, education, health and gender outcomes.

No single country or organisation can tackle the challenges in the Pacific on its own. Stronger bilateral and regional partnerships are necessary to achieve shared goals.

New Zealand will remain an essential partner in support of the economic growth, stability and security of the region. Australia and New Zealand will align our approaches to the Pacific.

Our cooperation has wider regional and global dimensions. Australia's relationship with New Zealand is our most comprehensive and we are committed to deepening it further. We have high levels of police and military interoperability and collaborate on strategic planning, capability development and intelligence. This will continue to be essential to prosecuting shared interests, including in the Pacific.

Australia recognises that increasing competition for influence and economic opportunities in Papua New Guinea, other Pacific countries and Timor-Leste, as well as growing aid and loans from other sources, means they can turn elsewhere for advice and assistance. This brings opportunity in many cases, but also has the potential to strain the capacity of countries to absorb assistance and manage their debt levels. It could also undermine regional coordination.

In particular, Australia will engage the Pacific's outside partners to encourage them to work in a manner that strengthens cooperation, builds more sustainable and resilient economies and maintains stability. We will encourage responsible lending to the region and adherence to the priorities identified by regional governments and the Pacific Islands Forum.

Australia will support efforts to attract public and private investment in the Pacific and Timor-Leste. We continue to work to increase the provision of multilateral bank finance and expertise, especially by the World Bank and Asian

Development Bank. This will be essential to redress the infrastructure shortfall in the Pacific and Timor-Leste, estimated to be US\$46 billion out to 2030.

An enduring partnership with Papua New Guinea

Supporting a stable and prosperous Papua New Guinea is one of our most important foreign policy objectives. The Torres Strait is the closest thing Australia has to a land border—it is less than four kilometres from the Papua New Guinea mainland to the nearest populated Australian island. Developments in Papua New Guinea have substantial implications for Australia, including our defence, border security, health security and economy.

It is in our shared interest that Australia remains Papua New Guinea's principal security partner. We will continue to pursue close defence cooperation and build capacity in policing and law and justice. We will work with Papua New Guinea to tackle illegal fishing, transnational crime and people smuggling. Ensuring the integrity of the Torres Strait Treaty, the foundation of our border arrangements, will remain a priority.

Notwithstanding its current fiscal challenges, Papua New Guinea has considerable economic potential and a growing number of trade and investment partners.

In this changing economic landscape, Australia will have to compete harder for business. Australian companies have already invested \$18 billion in Papua New Guinea. Some 4,600 Australian firms do business there.

A significant part of Papua New Guinea's economy relies on foreign investment

in resource projects. While this offers potential for growth, a more diverse economy also focused on agriculture, fisheries, services and tourism, as well as better governance, will be essential for Papua New Guinea to convert its natural endowments into sustained, broad-based economic growth.

Papua New Guinea continues to face serious development challenges. Its population of about 8 million—40 per cent under the age of 15—is projected to reach 18 million by 2050. The delivery of services is suffering because of a shortage of capacity and a constrained budget. Many development indicators—such as maternal, child and infant mortality, the rate of communicable diseases, and access to clean water and sanitation—are poor.

Reflecting its challenges and the closeness of our relationship, Papua New Guinea is our largest development partner, with Australia investing around \$550 million a year in assistance. We work together to encourage economic growth, improve governance, and support health and education. Australia is also helping Papua New Guinea to empower women and foster a new generation of leaders.

Australia will continue to support the Papua New Guinea and autonomous Bougainville governments to implement the 2001 Peace Agreement, which underpins peace and stability in Bougainville.

Stepping up our engagement in the Pacific

To pursue common interests and respond to the region's fundamental challenges, Australia will engage with the Pacific with greater intensity and ambition, deliver

more integrated and innovative policy and make further, substantial long-term investments in the region's development.

We will look to test new ideas and adopt the most practical means to strengthen regional cooperation and integration. Some initiatives will commence bilaterally, allowing new measures to be trialled.

Promoting economic cooperation and integration

Economic integration within the region and with Australia and New Zealand is vital to the economic prospects of the Pacific. Growth is constrained for most countries because of a combination of remoteness from markets, limited land and resource bases, the dispersal of people over many islands and environmental fragility.

When in force, the Pacific Agreement on Closer Economic Relations (PACER) Plus will lay the ground for stronger trade and investment, increasing business confidence through transparent and enforceable rules.

Australia will work to improve opportunities for growth and jobs and to strengthen the economic resilience of the region by increasing opportunities for labour mobility to satisfy unmet demand in our labour market, investing in skills, and helping countries to capture growth potential in sectors such as tourism.

Australia and the Pacific can also share institutions and systems to help bring efficiencies and economies of scale.

As a first step, we will facilitate access for Nauru, Tonga and Tuvalu to use Australian testing services to improve the quality and reliability of pharmaceuticals.

Our new Pacific Labour Scheme will allow workers from the region to take up non-seasonal low and semi-skilled work

in rural and regional Australia in growth sectors such as health care, social assistance and hospitality. In parallel, our Seasonal Worker Program will be streamlined to give more Australian employers access to a reliable seasonal workforce drawn from the Pacific and Timor-Leste. Participation in these programs benefits seasonal workers and their communities and supports economic growth in the Pacific and Timor-Leste.

These programs are labour-market tested and will enable Australian employers to address labour shortages in towns and farms. They represent a partnership between Australian businesses and our neighbours that will help the Pacific

through remittances as well as boost the economy in parts of regional Australia.

We are establishing a Pacific Labour Facility to connect workers, employers and training institutions, provide financial education for workers, and monitor the impact of labour mobility programs both in Australia and in Pacific economies.

We will continue to work with the Australia – Pacific Technical College to ensure that it and other Pacific training institutions provide the skills and qualifications needed by workers.

We share an interest with our Pacific partners in maximising gains from the skills and remittances delivered through

Labour mobility for the Pacific and Timor-Leste

Access to Australia's temporary labour market benefits both the countries involved and Australia's domestic industry.

Since 2012, more than 18,000 visas for seasonal workers from the Pacific and Timor-Leste have been issued under the Seasonal Worker Program. Australian businesses benefit from a productive, returning workforce in sectors with labour shortages. These workers gain skills and savings not available in their home countries.

For every six month placement, workers on average send home \$5,000. In Tonga, the largest provider of seasonal workers in 2016–2017, this equated to over \$13 million that year—almost half of the value of Australia's annual development cooperation program to Tonga.

Our new Pacific Labour Scheme will expand non-seasonal labour mobility opportunities for the Pacific. The scheme will replace the Northern Australia Worker Pilot, significantly increasing the places available and extending its scope to all rural and regional areas in Australia. Kiribati, Nauru and Tuvalu will continue to be a priority focus, with access to be extended to some other Pacific countries over time.

our labour mobility schemes. We are working with financial institutions to reduce further the cost of remittances to the Pacific.

Tackling security challenges

Many countries in the Pacific have limited capacity to respond individually to security challenges such as transnational crime, natural disasters, climate change or outbreaks of infectious diseases. Our experience of working together—through the Regional Assistance Mission to Solomon Islands (RAMSI), cyclone responses and fisheries surveillance—shows the advantages of close bilateral and regional cooperation.

Following the conclusion of RAMSI, we have signed a bilateral security agreement with the Solomon Islands Government to allow for future Australian support should it be required. We have concluded bilateral security memoranda with Nauru and Tuvalu to help protect them and the region against transnational organised crime, build their border security capacity and protect against health threats. We will work with other partners on cooperative arrangements. We will assist some countries to develop national security strategies.

Australia will continue to support and better coordinate defence, police, intelligence, border and law and justice training. We will help improve information sharing between national and regional law enforcement agencies, including through the Pacific Transnational Crime Coordination Centre. This will help deliver more effective approaches to transnational organised crime.

Australia will work with Pacific partners to establish an Australian Pacific Security College to deliver security and law enforcement training at the leadership level.

Australia's maritime cooperation contributes to protecting our region's vast maritime resources and enhances regional security. Through our Pacific Maritime Security Program, Australia will provide 19 replacement patrol vessels to our partners and we will fund aerial surveillance. We are boosting civil maritime cooperation to enhance information sharing and to improve responses to threats such as illegal, unreported and unregulated fishing and smuggling of people, wildlife and drugs.

In support of these efforts, Australia will continue to cooperate closely in the Pacific with New Zealand, the United States and France on maritime surveillance and disaster preparedness and response.

Strengthening people-to-people links, skills and leadership

An increased focus on skills and education will be vital if the Pacific is to realise its economic potential. Again, the relatively small populations and economies of most countries mean that vocational training and higher education are often best dealt with by pooling resources and expertise.

Our support for vocational education and training, including the Australia – Pacific Technical College and universities in the region, and scholarships for study in Australia, will have a sharper focus on preparing graduates for employment and community engagement.

This investment in human capital supports economic growth and the better delivery of government services. It complements Australia's work with partners—including in think tanks, civil society and institutions, such as the Pacific Leadership and Governance Precinct in Port Moresby—to train emerging leaders and prepare them for the challenges of modern governance.

Australia will continue to invest in links between communities and people in the region. Australians studying in the Pacific under the New Colombo Plan and Australian volunteers are increasing our understanding of the region.

Climate change, resilience and a strengthened response to disasters

Australia will continue to strengthen the capacity of the Pacific, particularly low-lying atoll states, to respond to climate change. We are providing \$300 million over four years to provide climate science and data and other support to help our partners plan for and adapt to climate change and mitigate its impacts.

We use our own investment to leverage funding by multilateral banks in critical infrastructure. Similarly, we are working to help countries in the region access resources from the Green Climate Fund, to which Australia has contributed \$200 million.

We will increase investments in local and national capacity to better manage disasters in the Pacific. This will include funding experts to work with Pacific National Disaster Management Offices and support for a new partnership with Australian non-government organisations (NGOs) and the Australian Red Cross to bolster disaster preparedness and strengthen Pacific civil society.

We will work with Pacific governments, the World Food Programme and United Nations Office for the Coordination of Humanitarian Affairs to improve early warning systems and access to pre-positioned humanitarian supplies. We will boost joint training with emergency services, police and defence forces to improve disaster preparedness.

Bilateral and regional partnerships in the Pacific

Australia will continue to strongly support the Pacific Islands Forum, the pre-eminent regional organisation, through which leaders set regional priorities. We will support organisations in the region that coordinate management of natural resources such as fisheries, or provide essential scientific and technical services.

Australia is committed to strong and productive relations with Fiji. We recognise Fiji's economic potential and its capacity to serve as a regional hub for business, tourism, security cooperation, and humanitarian and disaster response coordination.

We will work with Solomon Islands to help ensure that the transition from RAMSI protects stability in the country. Our joint work to support economic growth and to improve governance will remain important.

We will also continue to support Vanuatu's recovery from Tropical Cyclone Pam and to build resilience and growth. Australia will assist with economic and social development in Polynesia by supporting reform programs and assisting the export sector. We will work with Tonga and Samoa, including through joint security operations and exercises, and by cooperating in regional organisations.

We will strengthen cooperation with the smaller island states in the region with a focus on economic growth, security, fisheries and building more resilient communities.

Supporting Timor-Leste

The recent agreement on the maritime boundary between Timor-Leste and Australia marks a new chapter in the

bilateral relationship. It will revitalise our friendship and cooperation in the years ahead. It will also provide a new foundation for the development of the Greater Sunrise gas field in the Timor Sea, and the sharing of any resulting revenue. This will support the national interests of both nations.

The agreement is a testament to the way in which international law, in particular the UN Convention on the Law of the Sea, reinforces stability and allows countries to resolve disputes peacefully without resorting to force or coercion. It is an example of the rules-based order in action.

Timor-Leste has made significant progress since independence in 2002. However, it still faces development challenges and high rates of poverty and malnutrition. We are Timor-Leste's leading economic partner, and will continue to support its objective of economic diversification and private sector growth through our development cooperation and labour mobility schemes.

We will continue to support Timor-Leste's armed forces and national police. We cooperate on regional security issues, including maritime challenges, border security and transnational crime.

We both have important relationships with Indonesia. This provides an opportunity to deepen trilateral cooperation to advance shared interests. Australia supports Timor-Leste's ambition to join ASEAN, to facilitate its closer economic engagement with Southeast Asia.



Partnerships and soft power

The strength and diversity of Australia's connections to the world mean that partnerships between all levels of government, and between the Australian Government and business and civil society, are essential to effective foreign policy. Such partnerships amplify Australia's international influence. The Government will continue to work closely with a broad range of partners to advance our security and prosperity.

State governments, cities and even regional centres increasingly have strong international linkages. Our migrant communities in Australia have grown and so too has the number of Australians working overseas. Our companies trade and invest globally. Education and tourism strongly connect us to our region. Our NGOs support sustainable development and respond to humanitarian crises around the world.

Globalisation also means that soft power—our ability to influence the behaviour or thinking of others through the power of attraction and ideas—is becoming more important to Australia. By using soft power to help shape our external environment, Australia can better pursue its interests internationally. The rapid rise of social media and other digital communication platforms creates new opportunities—and some challenges—for countries seeking to develop their soft power.

In a globalised and contested world, a systematic and sophisticated approach to soft power is in our national interest. To maintain our strengths in this area, and to ensure our capabilities and areas

of focus keep pace with changes in technology, the Government will conduct a review to ensure we continue to build soft power and exercise influence effectively.

At the same time, the Government will also develop a stronger nation brand that better positions Australia in the eyes of the global community. In competitive and fast-changing global markets, we want to be recognised as uniquely Australian.

Foreign policy partners

States and territories

The Commonwealth Government is committed to a close partnership with its state and territory counterparts on international issues. Together, we promote and facilitate trade, investment, tourism and education. We cooperate to counter security threats, such as terrorism and transnational organised crime.

Many large, globally connected Asian cities and regions are international actors in their own right. Tokyo, Seoul, Beijing, Shanghai, Guangdong, Jiangsu,

Shandong and Zhejiang have economies that are larger than some G20 members. These provinces or cities have formal linkages, and extensive commercial and other connections, with Australian states and cities. The Commonwealth Government encourages and supports the states and territories with their own sub-national international relationships. The Australia – China State – Provincial Leaders Forum is one example.

Domestic and foreign policies interact extensively in a globalised world. Close cooperation with state and territory governments is therefore vital to our trade and investment links and to meeting our international obligations. The policies of the states and territories can impinge on our obligations under treaty-level agreements, including in areas such as trade and climate change. Ensuring Commonwealth and state and territory policies align to meet our international obligations is vital to protecting our economic interests and our reputation.

Business

On global issues such as climate change and sustainable development, many businesses are major players, linking corporate objectives to social, environmental and economic goals. Businesses influence policy, help to set international standards and connect Australia to world markets, technology and ideas. Private enterprise is not only the engine of our domestic prosperity, it is fundamental to Australia's place in the world and the exercise of influence internationally.

The Government will continue to engage extensively with business leaders, industry groups and small to medium sized enterprises, including in regional and

rural Australia, on Australia's international agenda. The business community is an essential advocate for economic reform at home and an important partner for government in maintaining public support for open trade and foreign investment.

The work of Australian business leaders in regional and multilateral business groups, such as the APEC Business Advisory Council and the Business 20 sub-group of the G20, helps to expand Australia's influence and ensure our policy approaches in these forums work to maximise economic benefit for Australia.

The Prime Minister and senior ministers lead CEO delegations to major markets to promote our commercial interests. Austrade organises regular business missions to and from Australia to increase commercial opportunities, with an emphasis on small to medium sized enterprises. Australian officials also work closely with chambers of commerce in Australia and overseas to increase trade and investment opportunities.

Development partners

Our work with a wide range of partners, including NGOs, the private sector and multilateral organisations, helps to magnify the impact of Australia's development assistance program.

NGOs in particular are vital partners in our effort to encourage greater prosperity and stability in our region through the delivery of development assistance. They bring strong connections to local communities, a comprehensive understanding of poverty in local contexts, and deep development expertise. NGOs can often reach vulnerable groups that are otherwise difficult to access, such as those in areas hit by natural disasters. They also make significant contributions to

multilateral processes on issues like climate change and sustainable development, often participating in official Australian delegations.

Partnerships with the private sector boost the impact of Australia's development assistance. The private sector is the primary source of economic growth, incomes and jobs in developing countries. We work with businesses through programs like the Business Partnerships Platform to effect positive change in many sectors, including agricultural development, water management and health care. By sharing assets, networks and expertise with business we can get better results from our assistance.

Our work with multilateral institutions, like UN agencies and multilateral development banks, allows the Government to leverage their influence, technical expertise and convening power. Our multilateral partners help us achieve outcomes on a scale that would not otherwise be possible. For example, Australia and the Asian Development Bank have co-financed the design and construction of the Cao Lanh Bridge across the Mekong River. Once finished, the bridge will carry 170,000 road users a day and link people and markets in the Mekong Delta to the rest of Southeast Asia.

Partnerships with other governments can also achieve better development results. In Bangladesh, we have formed a partnership with the United Kingdom and one of the largest NGOs in the world, BRAC (Building Resources Across Communities), to help vulnerable communities become more self-reliant by providing education, skills training and livelihood assistance.

Diasporas

Australia is a migrant nation. The Government considers our diversity a national strength and ensures that all diaspora communities⁴ in Australia, regardless of origin, enjoy full rights and protections under Australian law.

These communities often have the connections, language skills and cultural understanding to assist Australia to deepen ties with other countries. They help to facilitate trade and investment, including by sharing information on overseas markets and customs. Diaspora communities can also influence how Australia is perceived internationally.

Our diaspora communities often contribute to developing countries through remittances. They also have the knowledge and networks to help improve our understanding of development and humanitarian issues in other countries.

The Government is committed to working with diaspora communities to promote Australia's image and reputation, to encourage trade and investment and, where appropriate, to support our development assistance program.

Soft power

Having the ability to influence the behaviour or thinking of others through the power of attraction and ideas is also vital to our foreign policy. This is known as soft power.

Australia's ability to persuade and influence others is underpinned by some enduring strengths. Among these are our democracy, multicultural society, strong economy,

⁴ We define diaspora communities as those composed of people, including migrants and their descendants, who live outside but maintain active connections to their shared country of origin or ancestry.

attractive lifestyle and world-class institutions. At the same time, globalisation and technological advances, particularly the reach of the internet and social media, continue to change the way influence is exercised.

The Government recognises the greater ability in a globalised world of individuals and non-state actors to shape outcomes on issues of importance to Australia. Digital communication also allows non-government actors and nation states alike to influence public attitudes at a pace and scale not witnessed before, for good and ill.

Strengths

We start from a position close to the top of global surveys of soft power. Australia's democracy, rule of law, strong economy, quality education, cutting-edge science, multiculturalism and environmental protections are all sources of influence. These facets of modern Australia underpin our ability to attract capital and talent from around the world. They enable Australians and Australian institutions to speak with confidence and with credibility on the world stage.

Australia's commitment to solving regional and global challenges underpins our standing as an influential and successful nation. Our development partnerships also expand our points of engagement and international influence.

Our widely envied lifestyle reflects the high standard of living we have forged and the excellence of our cities and government services, as well as world-leading levels of environmental protection. We have strengths in innovation and the creative industries. Our attractiveness as a tourism destination brings substantial economic

benefits and builds influence by encouraging visitors to our shores and showcasing Australia's natural beauty, world-class produce, dynamic economy and the openness of our society.

A stronger nation brand

The Government is committed to marketing our commercial, educational and cultural credentials. We will develop a stronger nation brand that reinforces our reputation as an internationally competitive investment destination, a great place to visit, a quality provider of education and a trusted exporter of premium quality goods and services. This will complement our broader trade and investment policies and add impetus to our major economic partnerships.

Digital engagement

Digital engagement is increasingly important to attract, build and mobilise support for our foreign policy goals. More broadly, digital engagement supports a more open and consultative form of government, one in which governments both communicate their own messages and listen to diverse views.

Digital communication platforms also help us to monitor international developments and track sentiment towards Australian policy. Through digital media, we can also help to shape debate and understanding of Australia's interests, and improve crisis management and consular services, for example through immediate warning messaging.

The Government will continue to invest in its people to ensure the Australian Public Service has the right digital skills. This includes recruiting employees with technical expertise and investing in staff to develop

the skills they need to engage in digital diplomacy. We will also increase the use of languages other than English through our digital media. We will continue to encourage active use of social media platforms by Australia's overseas posts.

At the same time, we need to be ready to dispel misconceptions and ensure our voice is heard when new and traditional media are used to sow misinformation or misrepresent Australian policies.

Institutions, systems and standards

Australia's systems, institutions and expertise are themselves crucial tools of influence. By sharing our experience with economic reform, sustainable development and regulation, we help other governments with their own challenges.

This enables us to collaborate with partners to tackle common problems, and promote standard setting and regulatory approaches that facilitate commercial engagement by Australian companies. Our institutions and standards in the financial sector, aged and health care, and water efficiency are among several such areas of strength for Australia. The changing world economy gives further scope for Australia to lead in the setting of global standards.

Our delivery of effective development programs also adds to our reputation and helps to showcase Australia's expertise in areas such as education, health and science.

Education

Our commitment to education, training and research exchanges will remain central to Australia's soft power. These exchanges build influence, and strengthen people-to-people links and mutual

understanding. Australia will continue to welcome hundreds of thousands of international students to our shores (Figure 8.1).

For more than 60 years, the Government has supported the education of emerging leaders from developing countries. From the Colombo Plan in the 1950s to today's Australia Awards, more than 80,000 men and women have received an Australian Government scholarship to study in Australia. Each year, the Government invests approximately \$320 million in the Australia Awards program, funding around 3,500 scholarships, fellowships and short courses.

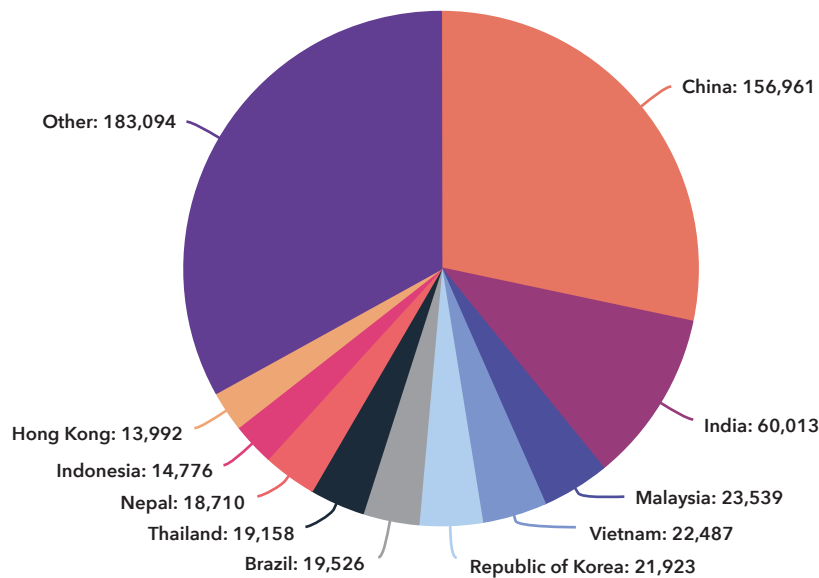
The challenge for Australia is to ensure we capitalise on the opportunity afforded to us in hosting—often for several years—some of the best and brightest from the Indo-Pacific and beyond. To that end, the Government will deliver a new Australia Awards Linkages Framework to connect awardees to leaders in the private sector and government.

Endeavour Scholarships and Fellowships and Endeavour Mobility Grants also build Australia's reputation for excellence in the provision of education and research. Since 2004, tens of thousands of Australian and overseas students have benefitted from study, research or professional development under the program.

New Colombo Plan

The Government is committed to ensuring one of its signature initiatives, the New Colombo Plan (NCP), becomes a transformative program for Australia. Under the NCP, thousands of young Australians study and undertake internships in the Indo-Pacific. This builds institutional and people-to-people links with the region.

Figure 8.1 International students in Australia (2016)



Source: Department of Education and Training

The NCP is a practical manifestation of Australia’s commitment to learn from our neighbours, just as we know students from our region benefit from their experiences in Australia. The Government wants it to become a rite of passage for young Australians to live and work in our region. The NCP must be an investment that endures for the long term.

Each year, the Government provides \$50 million to fund about 10,000 students under the NCP. By 2018, we will have supported more than 30,000 Australian undergraduates to study and undertake internships in the Indo-Pacific (Figure 8.2). We will nurture the NCP’s alumni network by linking NCP alumni to international students in Australia.

Countries across the Indo-Pacific have embraced the NCP at the highest levels. The Australian business community and

many foreign companies are also essential partners, including by providing internships.

Alumni and expatriates

More than 2.5 million international students have studied in Australia in the past 50 years. Many foreign government and business leaders, including heads of state, ministers and CEOs, have studied in Australia and understand our institutions, values and perspective on the world. This is a significant asset for Australia. These former international students, together with Australians who have studied overseas, make up Australia’s global alumni community.

Our strategy to build a global alumni community promotes Australia and advances our national interests. The Government is working in partnership with Australian universities to keep alumni

connected to Australia and to each other through online communities and learning opportunities.

We also have an estimated one million Australians living overseas. We will continue to leverage the knowledge, networks and expertise of our expatriates through chambers of commerce and organisations such as Advance.

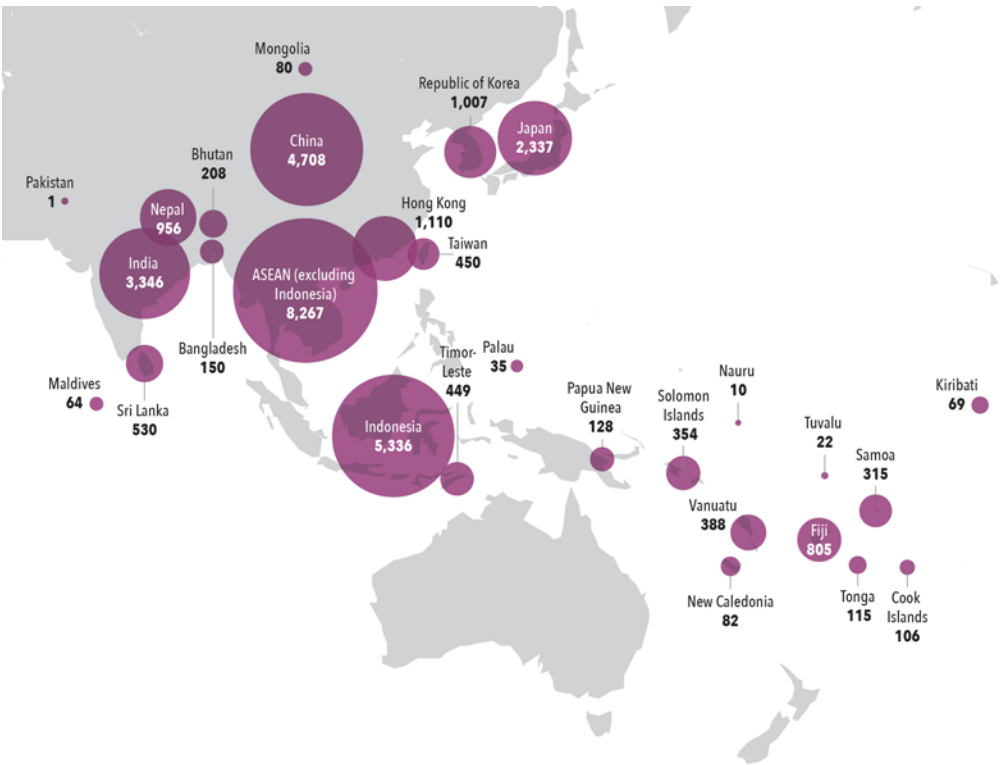
The Government will maintain its 60 year commitment to funding Australian volunteers to share their expertise in our region. This year we will support more than

1,000 Australian volunteers to work with local organisations and governments in partner countries to promote social and economic development.

Science and research

Australia has a global reputation for excellence in science and research. Our scientific community showcases Australia’s scientific excellence at home and abroad. Many Australian researchers are experts in their field and hold influential positions in international organisations. Our science

Figure 8.2 New Colombo Plan students by destination (2014–2018)



Source: Department of Foreign Affairs and Trade

Note: Data includes both the New Colombo Plan Mobility Program and Scholarship Program; Scholarship Program figures for 2018 were not available at the time of publication

diplomacy, such as our joint research initiatives with China and India, strengthens bilateral relationships.

Our international science collaboration generates new ideas to respond to emerging research opportunities and challenges. It provides our scientists and researchers with networks at home and overseas. We also encourage some of the world's best and brightest to pursue opportunities in Australia to deepen our talent pool. The talent we attract drives the development of new products and knowledge, linking Australia to technological developments needed for the industries of the future.

Australia is also a leader on a range of health issues, including emergency preparedness and response, health technology and assessments, regulatory processes for medicines, medical devices and cell and tissue products, tobacco control, and ageing and health care. By sharing our expertise in health we add to our influence in a sector fundamental to the wellbeing and prosperity of all nations.

Creative excellence

The arts are more than a cultural export. Collaboration on cultural projects helps build influence and partnerships internationally and creates shared understanding. The Government's promotion of Australian excellence in culture and the arts works to establish networks and encourage collaboration and exchanges between Australian artists and arts organisations and their international partners. It helps to expand audiences and markets for Australian artistic work and creative products. We also promote Australian expertise in arts production and management, and build

our reputation as a culturally rich and diverse society.

We will continue, for example, to invest in exporting Australia's software development and interactive content expertise to take advantage of growth in digital games development. The Government will continue to partner with the private sector and state governments to ensure Australia is recognised as a world-class filming destination. We also showcase Australia's creative industries in dedicated international programs, such as G'day USA, which promotes Australia every year in the world's largest consumer market.

Sports diplomacy

Australia is recognised globally as a high-performing and passionate sporting nation. Our sports diplomacy showcases Australia's expertise in areas such as event management, elite sports and sports medicine. Sport enables us to connect and engage with people and institutions around the world, including by hosting major events such as the 2018 Commonwealth Games and the men's and women's T20 Cricket World Cups in 2020.

Visits and exchanges

One of the most effective ways to promote Australia is through sponsored visits and exchanges. The International Media Visits program, for example, exposes influential foreign journalists to contemporary Australia and aims to generate accurate and informed overseas media reporting.

Other programs, such as the Special Visits Program, showcase Australian expertise, institutions, governance, culture and lifestyle, and explore opportunities for

collaboration. The leaders of China and India and the Secretary-General of the Arab League are some of the many distinguished alumni from the Special Visits Program.

Government agencies regularly conduct exchanges and training programs with emerging leaders and senior officials from counterpart agencies. Defence and police-led diplomacy and personnel exchanges are an example. These activities and institutional relationships facilitate the development of networks, and build long-standing partnerships and strong personal connections, often at the highest levels. More broadly, these programs help to promote Australia's interests, priorities and policies internationally.

Glossary of terms

2030 Agenda for Sustainable Development	Globally agreed, long-term roadmap for development. It comprises the 17 Sustainable Development Goals and the Addis Ababa Action Agenda on Financing for Development.
AANZFTA	ASEAN – Australia – New Zealand Free Trade Agreement, which entered into force in 2010.
Additive Manufacturing	Use of technologies that add layers of material to build an object. 3D printing controlled by a computer is an example.
Asian Development Bank (ADB)	Multilateral bank established in 1966 to promote sustainable economic growth and poverty reduction in Asia through loans, equity investments, technical assistance and other support.
ASEAN Defence Ministers' Meeting Plus (ADMM Plus)	Meeting established in 2010 to strengthen security and defence cooperation in the Indo-Pacific. Members are the 10 ASEAN countries, as well as Australia, China, India, Japan, Republic of Korea, New Zealand, Russia and the United States.
Aid for trade	Assistance to address constraints to trade, such as cumbersome regulations and poor infrastructure.
Asian Infrastructure Investment Bank (AIIB)	Multilateral bank established in 2016 to focus on infrastructure investment in Asia.
ANZUS Alliance	Military and strategic alliance agreement between Australia, New Zealand and the United States signed in 1951.
Asia-Pacific Economic Cooperation (APEC)	Economic cooperation forum established in 1989 to link 21 economies in the Asia-Pacific, including Australia.
Association of Southeast Asian Nations (ASEAN)	Political and economic association of Southeast Asian countries established in 1967. Members are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.
ASEAN Economic Community	Plan adopted by ASEAN leaders in 2015 to move towards a single market and production base, with a free flow of goods, services, skilled labour and capital across the ten member states of ASEAN.
ASEAN Regional Forum (ARF)	Forum for security dialogue in Asia established in 1994. Members are the 10 ASEAN countries, as well as Australia, Bangladesh, Canada, China, Democratic People's Republic of Korea, European Union, India, Japan, Republic of Korea, Mongolia, New Zealand, Pakistan, Papua New Guinea, Sri Lanka, Russia, Timor-Leste and the United States.

Australia Awards	Australian scholarships and fellowships that fund study, research and professional development in Australia, and support the study of Australian students overseas.
Australia Group	Informal forum of countries that seeks to ensure that exports do not contribute to the development of chemical or biological weapons.
Bali Process on People Smuggling, Trafficking in Persons and Related Transnational Crime	Regional forum of 48 members that helps to address the challenges of people smuggling, trafficking in persons and related transnational crime.
Belt and Road Initiative	Chinese economic and strategic initiative to invest in major infrastructure projects along land and sea routes. Also referred to as One Belt One Road.
East Asia Summit (EAS)	Regional leaders forum established in 2005 for strategic dialogue and cooperation in the Indo-Pacific. Members are the 10 ASEAN countries, as well as Australia, China, India, Japan, Republic of Korea, New Zealand, Russia and the United States.
Exclusive Economic Zone (EEZ)	Area claimed by a coastal state that can extend up to 200 nautical miles from baselines along its coast. Within the zone, a state has jurisdictional rights, including to explore and exploit natural resources. Other states retain certain rights in the zone, including freedom of navigation and overflight.
Export Finance and Insurance Corporation (EFIC)	Australian Government's export credit agency. It facilitates and encourages export trade on a commercial basis by providing financial support to Australian-based companies that are exporting, integral to a global supply chain or seeking to grow internationally.
Foreign Direct Investment (FDI)	When an individual or entity from outside Australia establishes a new business or acquires 10 per cent or more of an Australian enterprise.
Five Power Defence Arrangements (FPDA)	Series of regional security agreements signed in 1971 committing Australia, Malaysia, New Zealand, Singapore and the United Kingdom to consult in the event of an attack on Malaysia or Singapore.
Financial Stability Board (FSB)	Forum of international financial officials and central bank representatives from G20 countries established in 2009 that aims to coordinate policies to promote financial stability.
Free Trade Agreement (FTA)	International treaty to reduce barriers to trade and investment between two or more countries by eliminating or lowering tariffs and other restrictions.
Group of Twenty (G20)	Premier international forum for cooperation on global economic issues. Members are Argentina, Australia, Brazil, Canada, China, European Union, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom and the United States.
Gross Domestic Product (GDP)	Total value of goods and services produced in an economy, including net exports.

Global Value Chain	Production process across jurisdictions to bring a product from conception to end use. This includes research and development, manufacturing, design, management, marketing, distribution and/or post-sale services.
International Energy Agency (IEA)	International organisation established in 1973 to ensure reliable, affordable and clean energy for its 29 member countries, including Australia.
International Monetary Fund (IMF)	International organisation established in 1945 to ensure the stability of the international monetary system.
Indo-Pacific	Region ranging from the eastern Indian Ocean to the Pacific Ocean connected by Southeast Asia, including India, North Asia and the United States.
Joint Comprehensive Plan of Action (JCPOA)	Accord between Iran, the United States, United Kingdom, France, Russia, China, Germany and the European Union to ensure Iran's nuclear program is used for exclusively peaceful purposes.
Landing Pads	Austrade program that provides Australian start-ups with access to facilities and advice in five of the world's global innovation centres to help them find new customers, investors, mentors and partners.
Lombok Treaty	Informal name for the Agreement between the Republic of Indonesia and Australia on the Framework for Security Cooperation (2006).
Mercosur	Economic and political bloc established in 1991 comprising Argentina, Brazil, Paraguay and Uruguay.
MIKTA	Plurilateral partnership between Mexico, Indonesia, Republic of Korea, Turkey and Australia.
North Atlantic Treaty Organization (NATO)	Political and military alliance established in 1949 between the United States and 28 other countries.
Treaty on the Non-Proliferation of Nuclear Weapons (NPT)	Multilateral treaty designed to prevent the spread of nuclear weapons, to further the goal of nuclear disarmament and to promote cooperation in the peaceful uses of nuclear energy.
Organisation for Economic Cooperation and Development (OECD)	Economic forum established in 1961 to promote policies that improve economic and social wellbeing. It comprises 35 member countries, including Australia.
Pacific Agreement on Closer Economic Relations (PACER) Plus	Comprehensive trade agreement between Australia, New Zealand and Pacific island countries expected to enter into force in 2019.
Paris Agreement	Global agreement to address climate change and support a transition to a lower-emissions, climate-resilient global economy.
Permanent Court of Arbitration (PCA)	International court based in the Netherlands to facilitate arbitration and other forms of dispute resolution between states.

Pacific Islands Forum (PIF)	The Pacific's premier political grouping, founded in 1971 as the South Pacific Forum. The Forum comprises 18 members, including Australia.
Purchasing power parity (PPP)	Alternative to using market exchange rates to compare economic measures, such as GDP and income. PPP accounts for the difference in prices of goods and services between countries.
Regional Assistance Mission to Solomon Islands (RAMSI)	Regional stabilisation and state-building intervention led by Australia at the request of the Solomon Islands Government. The intervention ran from June 2003 to June 2017.
Regional Comprehensive Economic Partnership (RCEP)	Proposed regional FTA that would include the 10 ASEAN member states, as well as Australia, China, India, Japan, Republic of Korea and New Zealand.
Regulatory equivalence	Recognises that another country's legal, regulatory and/or supervisory regime is equivalent to a corresponding framework in your own country.
Regulatory harmonisation	Creates common laws, regulations or standards across jurisdictions or countries.
Trans-Pacific Partnership (TPP) Agreement	Regional free trade agreement between Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam. The United States has since withdrawn. The eleven remaining participants are sometimes known as the TPP11.
United Nations Convention on the Law of the Sea (UNCLOS)	Comprehensive treaty governing the oceans and their resources. It includes mechanisms for the settlement of disputes.
United Nations Security Council (UNSC)	The 15 member UN body with primary responsibility for the maintenance of international peace and security.
United States Force Posture Initiatives	An extension of Australia's existing defence relationship with the United States. Signed in 2014, the initiatives support our common interest in promoting regional security and stability. Through combined training and improved interoperability, the initiatives enhance the capabilities of both forces to respond to emergencies and natural disasters.
World Bank Group	189 member multilateral bank with a mission to end extreme poverty and promote shared prosperity by providing finance, policy reform analysis and advice, and technical assistance.
World Health Organization (WHO)	International organisation established in 1948 to work with governments and NGOs to improve health outcomes.
World Trade Organization (WTO)	Global body established in 1995 to regulate trade between nations, including by settling disputes.

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