



## Australia's Diplomatic Deficit

Reinvesting in our instruments of international policy

BLUE RIBBON PANEL REPORT

**LOWY INSTITUTE**  
FOR INTERNATIONAL POLICY

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Reinvesting in our instruments of international policy

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### **The Blue Ribbon Panel, March 2009**

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## Preface

*'Given the vast continent we occupy, the small population we have and our unique geo-strategic circumstances, our diplomacy must be the best in the world.'*

Prime Minister Kevin Rudd, National Security Statement, 4 December 2008

In July 2008 the Lowy Institute for International Policy established a Blue Ribbon Panel to review the state of Australia's instruments of international policy. The Panel comprised Jillian Broadbent AO, Professor William Maley AM, Brad Orgill, Professor Peter Shergold AC, Ric Smith AO PSM and Allan Gyngell (Chairman), eminent Australians with backgrounds in government, business and academia. It was supported by the Institute's research staff. This is the Panel's report.

The report is intended to contribute to public debate about the steps we need to take to ensure that Australia remains engaged, prosperous and secure in the 21<sup>st</sup> century. It lays out a comprehensive plan to rebase and refocus our instruments of international policy. Without action, the nation will continue to lack the tools to meet our existing challenges, let alone the Rudd government's ambitious foreign policy agenda.



Blue Ribbon Panel meeting, 5 February 2009



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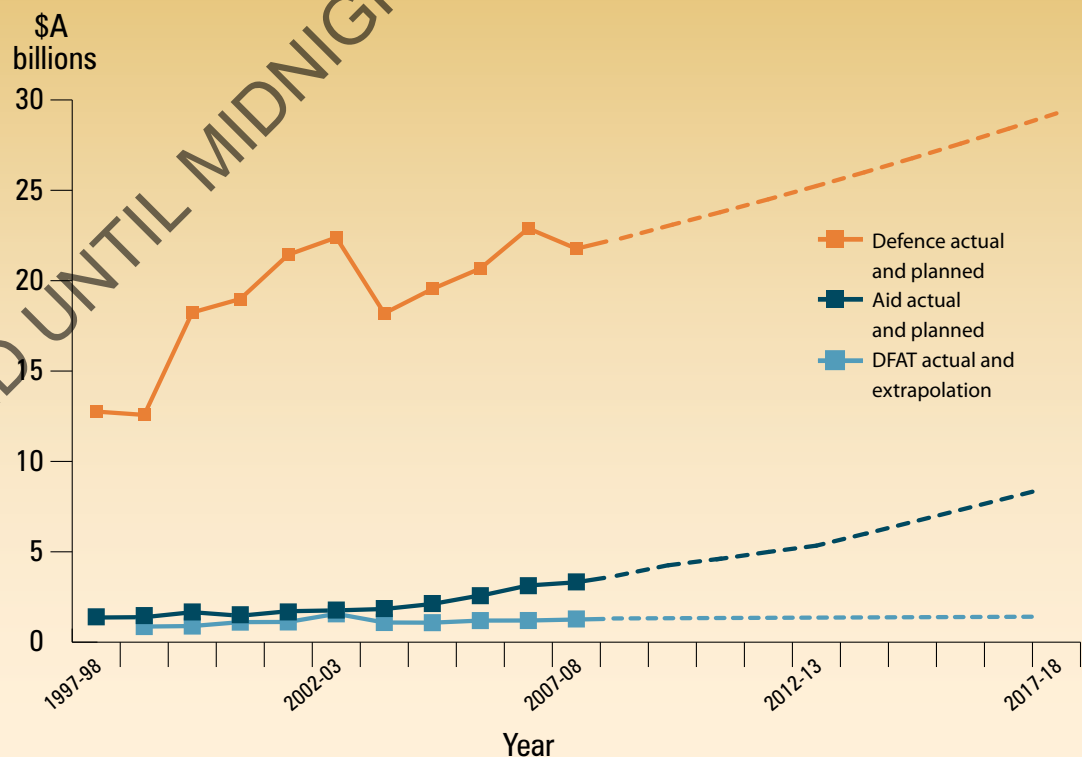
## Executive summary

As the 13<sup>th</sup> most globalised nation on earth, Australia's future is highly dependent on what happens in the outside world. The global financial crisis is a reminder of this interconnectedness and could radically reshape our international economic, political and strategic environment, with unpredictable and potentially major impacts on Australia's security and prosperity for decades to come.

In the face of this and other complex challenges, Australia should be an influential international actor. We have the world's 15<sup>th</sup> largest economy, 12<sup>th</sup> largest defence budget and 13<sup>th</sup> largest aid budget.

We need robust defence, intelligence and law enforcement capabilities. But for Australian taxpayers diplomacy is by far the most cost-effective way to shape the behaviour of other international actors in ways which support our international policy goals. In 2008–09 the Commonwealth budgeted over \$22 billion for the Department of Defence, but less than \$1.2 billion for the Department of Foreign Affairs and Trade (DFAT). With DFAT's operating budget declining and government committed to increasing real defence spending by three per cent annually until at least 2018, this gap will only widen further.

**Australian spending on defence, aid and diplomacy – actual and projected**



Note: Data to 2007-08 is actual departmental expenditure; 2008-09 is budgeted expenditure; 2009-18 is projected expenditure. The defence projection is based on 3% annual growth without inflation; the actual \$A out-turn is likely to be higher. The aid projection reflects the government commitment to 0.5% ODA to GNI by 2015-16. GNI projections based on most recent Treasury GDP forecast growth per annum.



The report paints a sobering picture. Australia's instruments of international policy are a long way from Prime Minister Kevin Rudd's goal of being the best in the world.

Australia's network of overseas diplomatic missions – the government's most important point of immediate contact with the world, and the best way it has of influencing it – is overstretched and hollowed out. It has not kept pace with our interests or with a changing world. This diplomatic deficit is even starker because Australia does not belong to any natural regional grouping or economic bloc to multiply our influence. Our geopolitical circumstances are also significantly more challenging than those faced by most other developed nations.

Australia has fewer diplomatic missions than all but a few OECD countries, leaving us badly underrepresented, particularly in emerging centres of power of significance to our interests. DFAT staff numbers have been steadily falling – particularly front-line positions overseas – with further cuts planned. Years of underfunding have diminished its policy capacity and rendered many overseas missions critically overstretched. Specialist skills – particularly foreign languages – are badly lacking. Over the same period, the consular workload has more than doubled, further displacing our diplomats' capacity to contribute to wider national objectives.

As a result we don't have enough diplomatic missions or trained diplomats overseas to build vital contacts with governments and other important international actors, to interpret events in emerging centres of power, to advocate our interests or to help distressed Australian travellers. Public diplomacy is lacklustre, poorly integrated and untargeted, and Australia's aid program faces significant challenges. The global financial crisis means boosting our exports and supporting Australian jobs is an even more urgent priority.

Our ability to understand our international environment, to anticipate developments affecting Australia's security and prosperity and to generate appropriate responses to them is degrading. Without urgent action to rebuild the intellectual infrastructure needed to support international policy we will fall further behind.

There is a risk that the global financial crisis may become an excuse for delay – or even for further funding cuts. Neither would serve Australia's interests. We recognise that Australia faces a deteriorating fiscal outlook. But the financial crisis makes remedial action more, not less, urgent.

Australia now faces a much less certain international outlook. The full economic, political and strategic implications of the global financial crisis will take time to play out, but are likely to be profound. The crisis strikes at the heart of the open system of trade and investment that has delivered one in five Australian jobs and decades of prosperity. As the rules of the international economic system are rewritten, it is more important than ever that Australia's voice is heard. We will have



*I do feel that the Department of Foreign Affairs ... has been allowed to run down to a dangerously low level ... we can't go on doing more with less ... these sorts of undertakings do need to be properly resourced.'*

Richard Woolcott, former DFAT Secretary, interview with Monica Attard, ABC Radio, 13 June 2008

*'What is clear to me is that there is a need for a dramatic increase in spending on the civilian instruments of national security – diplomacy, strategic communications, foreign assistance, civic action, and economic reconstruction and development.'*

Robert M Gates,  
US Secretary of Defense,  
Landon Lecture, Kansas State  
University, 26 November 2007

to work harder to shape new global and regional institutions, to attract scarce investment and to maintain our overseas markets. We cannot afford to be marginalised at this crucial juncture because we lack the resources to influence international responses.

This is the first public report on Australia's overseas network in over 20 years. In that time the world has changed dramatically. Globalisation, in particular, has reshaped the world and the way governments operate.

Globalisation is driving the emergence of new regional and world powers and a steady shift in the centre of world economic power away from the Atlantic Ocean. A host of new international actors are crowding onto the scene, from multinational corporations and NGOs to terrorists and other transnational criminals. Complex problems are proliferating.

In this environment almost every conceivable policy issue has an international dimension: 18 of 19 Commonwealth departments now have a dedicated international policy area. Effective whole-of-government coordination is becoming both more difficult and more imperative.

Meanwhile, the other major challenges facing our nation have not gone away. Our future will depend on how the world responds to a plethora of complex problems, from food and energy security to climate change to proliferation of weapons of mass destruction. The way shifting power balances play out in Asia will affect the well-being of generations of Australians.

Australia is ill-equipped to secure fundamental objectives internationally that have a direct bearing on all of us, let alone to implement the ambitious international agenda set by the Prime Minister, which includes election to the UN Security Council, establishing an Asia-Pacific Community, and re-invigorating nuclear non-proliferation and disarmament negotiations.

Australia can rise to these challenges, but we will need to build new partnerships and coalitions and consider innovative ways of conducting our international policy. We need to establish new networks leveraging the complementary capabilities of government agencies, businesses and Australia's rich civil society to develop and implement solutions to the complex problems we face.

## Recommendations

The Panel's full recommendations are set out in Part 3 of the report. Highlights include:

### *Closing the diplomatic deficit*

The Panel recommends that government make a major, staged reinvestment in Australia's overseas diplomatic network. This should include:

- new resources to support 75 additional A-based staff over the next three years across overstretched Australian missions
- opening 20 new Australian diplomatic missions over the next 10 years in regional India, regional China, regional Indonesia, Africa, Latin America, North Asia and Central Asia
- setting a goal of raising the proportion of DFAT's A-based staff (excluding passports staff) posted overseas to 40 per cent of the total
- ensuring heads of mission have the leadership ability, organisational authority and resources to direct a cohesive whole-of-government approach.

### *Consular services: recognising reality*

A major reconsideration of consular services is needed. Government should:

- establish a separate head of consular services in DFAT with a discrete and publicly transparent budget, to be responsible solely for consular policy and delivery of all consular services
- provide a one-off injection of funds to boost the pool of consular staff in Canberra and at posts proportionate to the increase in consular cases and put in place an agreed funding formula to ensure consular resources keep pace with future demand
- consider ways to ensure that government's obligation to provide consular support to its citizens is matched on the part of the traveller, including by an obligation to take out travel insurance, register with Smartraveller and, where appropriate, pay for consular services
- explore new media techniques for keeping travellers informed.

*'... the State Department will be firing on all cylinders to provide forward-thinking, sustained diplomacy in every part of the world ... exerting leverage; cooperating with our military and other agencies of government; partnering with non-governmental organisations, the private sector, and international organisations; using modern technologies for public outreach ... the State Department must be fully empowered and funded to confront multidimensional challenges from thwarting terrorism to spreading health and prosperity in places of human suffering.'*

Hillary Rodham Clinton,  
confirmation hearing,  
13 January 2009

## *Diplomats for the 21st century: rebuilding our intellectual infrastructure*

Australia needs to develop a more professional approach to human resources across the entire international policy community. This should include:

- a major reinvestment in language skills (particularly East Asian and Pacific languages, Arabic and Hindi/Urdu) and expansion in the number of language-designated positions and funding for other specialist skills
- a more strategic approach to human resources, supported by human resources professionals, including enhanced training and mentoring for team leaders and a focus on priority specialist skills
- encouraging an organisational culture that promotes leadership and initiative at all levels, is open to ideas and focuses on results and managing rather than avoiding risk, including by giving heads of mission significantly greater flexibility in managing their resources and priorities.

## *Public diplomacy: integration and targeting*

Australia's approach to public diplomacy needs to be overhauled. Government should:

- appoint a senior strategic communications coordinator, to work across government and with civil society, reporting to the National Security Adviser
- review existing guidelines on staff contact with the media, with a view to making them less restrictive
- make a major investment in new media, including blogs, Wikis and video sharing as public diplomacy tools
- reorient cultural diplomacy away from elite audiences towards key target audiences such as youth, potential leaders and Islamic communities.

## *Economic diplomacy: boosting exports and investment and supporting jobs*

In light of the global financial crisis, government will need to work in closer partnership with the private sector. Together they should develop an aggressive plan to grow Australian markets and improve our export performance, particularly in the services and manufactures sectors:

- as well as addressing traditional trade and investment promotion activities, the government's response to the Mortimer Review should also focus on marketing Australia as a destination for students, skilled migrants and tourists.

## *Aid: maximising impact*

We can leverage our aid program better in support of our international policy goals, including by:

- adapting the program quickly to changing needs in recipient countries if necessary because of the effects of the global financial crisis
- retaining a focus on development goals but ensuring AusAID is also conscious of Australia's broader international policy aims
- improving the badging of Australian aid – including for scholarships to study in Australia – and integrating it with whole-of-government public diplomacy objectives
- intensifying engagement with civil society.

## *Improving outreach: building new international policy networks*

The government needs to build a stronger domestic constituency for international policy and leverage a wider range of Australian stakeholders, both groups and individuals. It should:

- establish policy task groups on complex international policy challenges (starting with climate change, energy security, the food crisis and biosecurity). These would be jointly chaired by government and non-government representatives and would bring together relevant government, business and non-government expertise

- use new media (for example, closed-group Wikis, video teleconferences, electronic newsletters) to network government agencies, interested businesses, think tanks and NGOs, and individual citizens.

### *International policy machinery: improving strategic focus and cohesion*

Coordination and integration of policy needs to be further strengthened across agencies. The regular foreign policy statements foreshadowed in the National Security Statement should:

- set a limited number of strategic goals and priorities for agencies involved in developing and implementing international policy, with clear measures of performance against those goals
- include a regular detailed breakdown of language skills and deficiencies in DFAT and across the international policy community.

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## Introduction

All states identify interests that they need to pursue outside their own borders in order to protect their people, expand their economies and, more generally, shape the world in which they want to live. Each government pursues this task in its own way.

To achieve their objectives, governments need tools – or instruments. Since the ancient Greek city-states first shaped the international system, such instruments have involved elements of both coercion and persuasion.

*Coercive* elements most often take the form of military forces, to dissuade others from attacking national territory and interests, or defend them if deterrence fails. These are the *instruments of national security policy*. The end of the Cold War induced many countries to reassess the purpose and structure of defence forces, the way they cooperate with other nations in alliances and coalitions, and their interaction with intelligence agencies and domestic law enforcement bodies. The terrorist attacks of 11 September 2001, gave this debate new impetus. In almost all developed countries, including Australia, the result has been the reform – sometimes extensive – of security institutions and the flow of additional resources to them. The 2008–09 Department of Defence budget was over \$22 billion, and the Rudd government is committed to annual real increases in defence spending of three per cent until at least 2018.

By contrast the instruments of *persuasion* – the other tools with which a government can shape its external environment – can be used to pursue interests and negotiate differences with other states far more cheaply and effectively. They provide the means for governments to convince other nation-states (and increasingly, as we shall see, international actors beyond the state) to act in a certain way, without resorting to force to resolve differences. These tools can build alliances, trade agreements, global institutions, arms control treaties and student exchanges. They provide the means by which states can understand each other and avoid unnecessary conflict.

Often these diplomatic outcomes may seem abstract and intangible – far removed from the concerns of ordinary Australians. Unless they have been unlucky enough to be involved in a consular emergency, few Australians have much contact with Australian embassies. To the extent they think of diplomats at all, their views probably reflect tabloid stereotypes of a jet-setting elite living it up overseas.

We all benefit from incremental increases in regional and global prosperity and stability, but it can be hard to measure these and trace them back to specific government policies, programs and actions. There are exceptions: effective counter-terrorism cooperation with Indonesia has made travelling to Bali and other locations materially safer for Australians; successful trade negotiations open new markets and create jobs; and without the US alliance taxpayers would have to spend

many more billions of dollars on defence. But it is generally only when diplomacy fails – resulting in conflict or serious economic disruption, for example – that the consequences become obvious to businesses and individuals.

Our instruments of international policy therefore often lack a natural domestic constituency. Government, Australia's international policy community and other stakeholders who benefit from international engagement need to do a better job of explaining these vital long-term issues to the Australian community.

The *instruments of international policy* include, most obviously, the traditional infrastructure of diplomacy: the human and physical resources necessary for governments to obtain and interpret information about the international environment, to integrate that information with the domestic environment, to develop responses to it, and finally to advocate and negotiate with international actors to achieve policy goals. The diplomatic infrastructure includes the network of embassies and consulates maintained by government overseas and the public service structures back home necessary to develop policy. But the instruments of international policy also include other agencies of government, such as aid organisations, and – potentially – non-government institutions like philanthropic organisations, think tanks and businesses. To pursue their interests effectively in a complex 21<sup>st</sup> century world, governments must find new instruments (beyond traditional diplomacy) and use the existing instruments in new ways.

## Australia and the world

Australia and Australians have been deeply engaged with the world since European settlement. As a small population occupying a large, resource-rich continent distant from our traditional security partners and markets, our gaze as a nation has typically been outwards.

Australian governments have long recognised that our national security and prosperity are profoundly affected by international events, and have sought to support our interests. The actions they take outside our borders to secure these interests are what we call international policy.

Their international policies have differed in presentation and emphasis, but governments from both sides of politics have attempted to shape Australia's international environment by building strong alliances, engaging Australia's regional neighbours, and supporting an open, rules-based international political and economic system. Australia's long expeditionary military tradition, decades of active diplomacy and aid engagement in Asia and the Pacific, and strong commitment to multilateral trade liberalisation all reflect these enduring Australian geopolitical realities.



*National security requires more than just military deployments or intelligence operations. It depends ultimately upon creating an international environment congenial to the nation's interests. That's the role of foreign policy.'*

John Lewis Gaddis,  
The age of terror and the world  
after September 11, 2002



This review examines the means available to government – the structures, processes, capabilities and resources – to implement international policy in the 21<sup>st</sup> century. We call these Australia's *instruments of international policy*. The most important are:

- *Australia's overseas network*, comprising 91 diplomatic posts (embassies, high commissions, permanent missions, consulates-general, consulates and offices) managed by DFAT and staffed by DFAT and other agencies (as well as 48 honorary consuls)
- *Consular resources*, responsible for the provision of passports, assistance to Australians in distress overseas, and crisis response
- *Public diplomacy tools*, such as Australia's international television and radio service (the Australia Network and Radio Australia), cultural councils, educational scholarships and exchanges, film promotion and public affairs staff at missions
- *Trade and investment promotion agencies*, including the Australian Trade Commission (Austrade) and the Export Finance and Insurance Corporation (EFIC) as well as DFAT
- *Australia's overseas aid program*, managed by the Australian Agency for International Development (AusAID), recognising explicitly that poor and fragile states jeopardise Australia's security and prosperity
- The *Canberra-based international policy machinery*, including: coordinating mechanisms such as the National Security Committee of Cabinet and its supporting structures; those agencies traditionally most involved in the development of international policy (DFAT, the Department of the Prime Minister and Cabinet, the Department of Defence and various intelligence agencies); and a growing number of other departments and agencies previously considered to have primarily domestic policy responsibilities
- *Defence, intelligence and law enforcement cooperation*, which plays an increasingly important role in helping to build institutional capacity and security in neighbouring countries, supporting diplomacy and AusAID's activities
- *Companies, non-government organisations and think tanks* where they contribute directly to the development and implementation of international policy; for example, the role of business and NGOs in delivering development assistance and the part think tanks play in developing policy ideas and in informal 'second track' diplomacy with international counterparts.

The overseas diplomatic network and its interaction with the other instruments of international policy is a major focus of this report, because this is where we identified the most glaring deficiencies, and

because it has not been comprehensively reviewed for some time. While we examine the role of the overseas aid program in supporting Australia's international policy goals, a comprehensive review was beyond the scope of this report. Nor did we undertake an in-depth examination of trade promotion activities, in light of the detailed treatment of this topic in the recent review *Winning in world markets – meeting the competitive challenge of the new global economy: review of export policies and programs*<sup>1</sup> (the Mortimer Review).

## Why do we need to shape Australia's international environment?

Australia has always been influenced by its international environment, but never more than during the era of globalisation.

Australia ranked 13<sup>th</sup> in *Foreign Policy* magazine's *Globalization Index 2007* (based on international economic integration, personal contact, technological connectivity and political engagement). As the global financial crisis highlights, our economy is deeply integrated with the global economy and susceptible to external shocks. Exports of goods and services account for a steadily increasing share of our GDP – currently around 21 per cent.<sup>2</sup> While exporters make up only four per cent of businesses, they provide one in five Australian jobs.<sup>3</sup> Foreign investment stock of some \$1.6 trillion<sup>4</sup> is vital to our economy, and with nearly \$1 trillion of Australian investment abroad,<sup>5</sup> the savings of Australians also depend increasingly on developments well beyond our shores. The Australian dollar is the world's sixth most heavily traded currency. Around one million Australians live overseas. Few countries have a greater stake in maintaining a healthy, robust and growing global economy, underpinned by the free flow of trade and investment.

Even before the global financial crisis, Australians were very conscious that our prosperity depends on the global economy. In *The Lowy Institute Poll 2008*, protecting the jobs of Australian workers and strengthening the Australian economy ranked respectively as the first and third highest foreign policy goals for Australians.

## Australia's diplomatic deficit and the global financial crisis

Achieving our international policy objectives would have been hard enough without the global financial crisis. While it is too early to assess the full economic, political and strategic implications, it is already clear they are likely to be immense. The crisis represents a massive shock to Australia's international environment. As a highly globalised economy

located in a fluid part of the world, but not belonging to any natural regional bloc, we are highly vulnerable.

Our largest export markets are suffering sharply reduced growth. Extraordinary fiscal and monetary measures may cushion the blow to our own economy, but it is clear that growth will be sharply constrained, unemployment will rise and capital will be in short supply. Protectionist sentiment is rising around the world, further jeopardising our trade and economic health.

The strategic implications will take longer to emerge. The financial crisis brought an end to over three decades of unparalleled world economic growth, which lifted hundreds of millions of people out of poverty, strengthened forces of integration and built a precarious international consensus in favour of globalisation. The slowdown is likely to fuel social unrest and destabilise weaker, less legitimate governments, making them more difficult partners on a range of important issues. It could generate unpredictable international behaviour from some states and further empower non-state actors antithetical to modernity, including Islamic extremists and terrorist networks. It will distract governments from pressing global challenges such as climate change, energy security and proliferation of weapons of mass destruction. And it could further undermine the legitimacy and effectiveness of international institutions such as the International Monetary Fund, deepen the divide between the developed and developing world, and make effective multilateral cooperation even more difficult.

It is hard to overstate the gravity of these developments for Australia. We need to understand what is happening so we can shape international responses to the crisis, assemble coalitions of countries with similar interests to ours and influence the development of new global and regional economic, political and strategic structures such as the G-20. We will need to keep our markets open through robust international trade negotiations, and attract investment by active, targeted advocacy of Australia's economic robustness and competitiveness.

We will face difficult choices as a community. As the impact of the crisis bites, the call on government resources will only increase – just as the capacity to provide them declines. Many of these demands will seem more immediate than the need to reinvest in our instruments of international policy, and they will certainly be supported by more vocal lobby groups. Priorities will need to be set. However, a failure to increase significantly funding for Australia's international policy would jeopardise the nation's future prosperity and security. Freezing funding at current levels – let alone further cuts – would be debilitating.

## A growing debate

The financial crisis comes against the background of a growing international debate about the appropriate roles of the instruments of





international policy and of national security, and the proper balance between them.

Recent military operations in Afghanistan and Iraq have underlined that the use of force to shape the international environment can be a blunt and costly instrument. US Secretary of Defense Robert M Gates recently ignited a lively debate about bringing America's instruments of national security into better balance with its international policy tools. He pointed to the disparity in funding for the State Department compared with the Pentagon and called for a 'steep increase' in funding for US diplomacy.<sup>6</sup> It is important that Australia retain a highly capable, flexible defence force. But we believe Australia needs to have its own version of this debate, particularly at a time when budget pressures are likely to become severe.

Prime Minister Rudd has set out an expansive international policy agenda: seeking a seat on the UN Security Council in 2013, working towards the elimination of nuclear weapons, resuscitating the Doha round of international trade talks and establishing an Asia-Pacific Community. Each is an ambitious international policy goal in its own right. Credible and effective activist middle power diplomacy will demand a significant investment of resources in creative policy development and energetic diplomacy, to build international support.

Implementing the government's international policy agenda can only further increase demands on our overseas diplomatic network and our other instruments of international policy. At government direction, DFAT – in conjunction with the Department of Finance and Deregulation – has conducted a comprehensive internal review of its resources, activities and priorities. Government is presently engaged in the difficult task of putting together the 2009–10 Budget, which will no doubt consider the results of the internal review. We hope this report will also help to inform those deliberations.

Over the longer term Australia is well placed to respond to the international policy challenges it faces in the 21<sup>st</sup> century, and we should be optimistic about our ability to shape our international environment.

Our economy is more flexible and resilient as a result of several decades of economic reforms. We have proven, durable national institutions, including most importantly a peaceful, vibrant democracy, the rule of law and a diverse, tolerant and pluralistic society. We have a capable defence force and, for the most part, well-functioning government agencies. Our security continues to be firmly anchored in the US alliance, yet fortune has placed us in the same region as the emerging Asian centres of world economic growth. We have well-established links regionally and globally. And our diverse, creative community is a source of considerable potential soft power.

But we cannot be complacent. We need to rethink our existing international policy structures and approaches. Our instruments of international policy need to be properly resourced and to work together

*'It has become clear that America's civilian institutions of diplomacy and development have been chronically undermanned and underfunded for far too long – relative to what we spend on the military, and more important, relative to the responsibilities and challenges our nation has around the world.'*

Robert M Gates,  
US Secretary of Defense,  
speech to the US Global Leadership  
Campaign, 15 July 2008

*'The choice for Australia is between accepting the required costs of effective overseas representation or accepting less independence for the country as a whole, a greater need to accommodate to circumstances influenced or determined by others, and ultimately a greater risk to its values and its value system, and to its material welfare.'*

Department of Foreign Affairs,  
Review of Australia's overseas  
representation, 1986

in new ways to tackle new problems and to create new opportunities. A relatively modest reinvestment in Australia's diplomatic infrastructure – especially when compared with spending on national security – can broaden our national horizons, magnify our influence and equip Australia to make a bigger difference in the world.

## The structure of this report

Do we have the international policy instruments we need? Are their roles clear and do they have the resources necessary to implement our international policy effectively? How can we improve the processes for developing our international policy? Are there new approaches we can bring to the international challenges facing Australia?

This report seeks to answer these questions.

**Part 1** looks at Australia, its engagement with the world and how it has traditionally sought to shape its international environment. It then considers changes in the international system and in the nature of government – many of them driven by globalisation – and their implications for how Australia goes about implementing its international policy.

**Part 2** reviews the instruments available to government to shape our international environment in Australia's national interest. It considers existing structures, processes and capabilities and the resources allocated to them. Direct international comparisons are always difficult, but the report draws some broad conclusions about how Australia's instruments of international policy compare with those of similar countries.

**Part 3** looks at what should be done to adapt Australia's instruments of international policy to these changes. It makes a number of recommendations about steps that could be taken to ensure that they are able to meet the challenges that are likely to confront us as a nation during the 21<sup>st</sup> century.

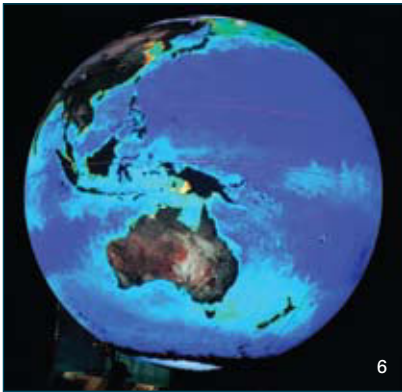


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## Part 1

### Shaping a more challenging world

Australia is a significant nation. It is the world's sixth largest country in area and its ocean territory is the third largest. It has the world's 15<sup>th</sup> largest economy,<sup>7</sup> 12<sup>th</sup> largest defence budget<sup>8</sup> and 13<sup>th</sup> largest aid budget. Properly harnessed, these are important sources of domestic strength and of international influence.



However, Australia is not itself a major economic or military power beyond its immediate neighbourhood. It lacks the strategic weight required to shape its wider international environment through its efforts alone. Moreover, our strategic situation is much more challenging than that of all but a handful of other developed nations.

Nor does Australia belong to any natural regional grouping or economic bloc. Our unique geopolitical circumstances distinguish us from many other countries of broadly comparable size and international weight – for example, Canada or the Netherlands, both members of NATO, and respectively of NAFTA and the EU – that enjoy much more benign strategic environments. For much of the past century Australia has had to take responsibility for protecting its own interests.

We have done this in a variety of ways.

### Traditional approaches

Active diplomacy has been at the forefront of Australia's international policy since it first became truly independent.<sup>9</sup>

We have sought to achieve our international policy objectives by influencing the decisions of other states – particularly traditional allies and countries in our region – in directions conducive to Australia's national interest. We have done this mostly by persuading those states that actions proposed or supported by Australia are also in their own interest.

Maintaining Australia's national security is a fundamental responsibility of government, and much of our diplomacy has been directed to that end. A strong security alliance with the United States has been critical to shaping Australia's international environment for over 50 years. While occasionally controversial, the alliance continues to enjoy strong public and bipartisan political support as a lynchpin of our international policy. A versatile, capable Australian Defence Force – one that can contribute usefully to international coalitions and lead operations in

our region – supports global and regional security and is an important element of national power. Defence, intelligence and law enforcement links with other countries are longstanding and vitally important complements to Australia's international policy toolkit. They can build the capacity of counterpart institutions, generate valuable information and create avenues of potential influence.

Regional engagement has also been an enduring theme of Australia's international policy. Labor and Coalition governments alike have sought to promote a dense web of linkages with Asian countries. These bind Australia into the most important economic, political and strategic developments shaping our region, and give us a voice in how they unfold.

At the global level, we have a long history of activism in forming, joining and supporting coalitions of like-minded countries to establish beneficial rules on particular issues (such as the Cairns Group of agricultural exporters or the Australia Group on chemical and biological weapons), and in advocating reform of multilateral institutions such as the United Nations and the International Monetary Fund.

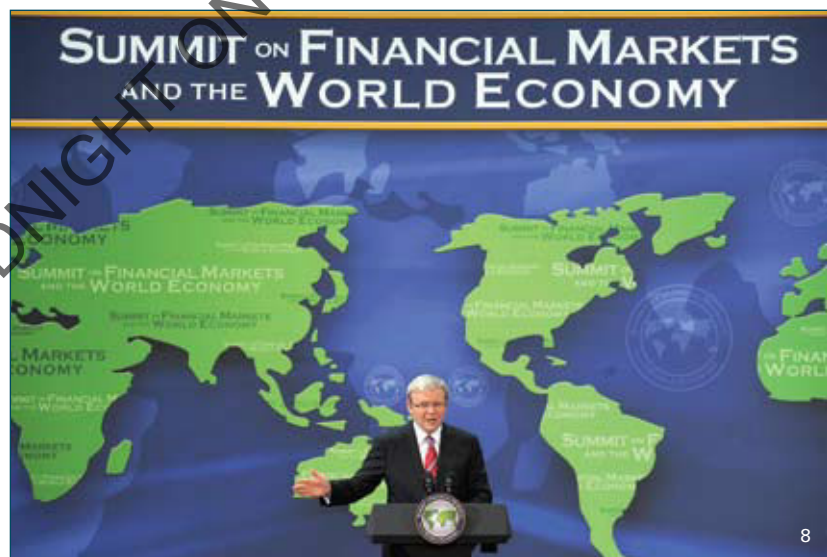
This constitutes traditional diplomacy:<sup>10</sup> advocacy of Australian interests to other governments, representing Australia at multilateral meetings and monitoring multilateral agreements that affect our interest, negotiating agreements to implement Australian government policies, and collecting, analysing and reporting back to Canberra information relevant to the formulation of Australia's international policy.

Our diplomatic activities focus increasingly on economic interests. Australia's economic competitiveness is one of government's most pressing concerns,<sup>11</sup> and globalisation has placed the economy alongside security at the forefront of international policy. Managing the risks of our participation in a global economy – including supporting the world trading system, promoting access for Australian exports, facilitating flows of investment and technology, developing contacts with business, and understanding local conditions and how to influence them in the interests of exporters – are all of increasing importance.

Development assistance is another important traditional tool. From the Colombo Plan in the 1950s to helping Indonesia recover from the 2004 Boxing Day tsunami, Australian governments have used aid to build positive relationships and support Australia's interest in a stable region by strengthening the economies, governance and societies of



7



8



*'... the very unsettled nature of the international system generates a unique opportunity for creative diplomacy ... Never have so many transformations occurred at the same time in so many different parts of the world and been made globally accessible via instantaneous communication.'*

Henry A Kissinger,  
The chance for a new world order,  
International Herald Tribune,  
12 January 2009

neighbouring countries. In 2008–09, Australia will provide \$3.7 billion, around one per cent of Commonwealth expenditure (and 0.3 per cent of forecast GDP<sup>12</sup>), in official development assistance. Our aid program focuses on the Asia-Pacific region and reflects Australia's prominent role in the region, particularly in Papua New Guinea and the South Pacific. These policies have always had a strong element of altruism. But they also reflect a consistent conviction that contributing to a better international environment creates a world in which Australians can ultimately be more secure and more prosperous.

## Power shifts and emerging actors

As a result of these efforts, Australia enjoys an enviable level of prosperity and security. But while we have been well served to date by our instruments of international policy, they must be continually adapted. The world is changing in ways that profoundly challenge traditional international policy approaches, and require an enhanced and updated suite of international policy instruments.

Two forces in particular – globalisation and the information revolution – are transforming the international environment and the way government operates.

Globalisation is driving the emergence of new regional and world powers. It is also propelling a steady shift in the centre of world economic power away from the Atlantic Ocean to Asia, which now accounts for over 30 per cent of global GDP (in purchasing power parity).<sup>13</sup> The consequences for Australia are profound.

China is predicted to overtake the United States as the world's largest economy some time after 2020.<sup>14</sup> India's GDP is forecast to grow to six per cent of global GDP over the same period,<sup>15</sup> and will probably overtake Japan to become the world's third-largest economy in the coming decades;<sup>16</sup> it is already Australia's sixth-largest export market,<sup>17</sup> with exports growing rapidly at over 30 per cent per annum.<sup>18</sup> Within a few decades Asia is forecast to produce more than twice what it does today; incomes in the region will also have doubled, as will consumption and living standards.<sup>19</sup>

The rise of China and India is transforming Australia's region but is part of a global phenomenon. The rise of a global middle class in developing nations, estimated at 400 million in 2005<sup>20</sup> and projected to number more than three billion by 2030,<sup>21</sup> is driving the emergence of new regional centres of economic and political power such as Shanghai, Mumbai and Sao Paulo.

Looking beyond the financial crisis, Australia – as a major exporter of resources and potentially of services – is well placed to benefit when growth recovers in major developing economies. The rise of the global middle class is transforming the world economy and will generate

massive new markets for goods and services, as well as sweeping social change, powerful new political constituencies, and enhanced military capabilities. It is also increasing global competition for national resources, including food, energy and water. Understanding what is happening inside these large, dynamic and sometimes opaque societies will be vital.

Globalisation is also expanding the geographic scope of Australia's engagement with the world. Australia's focus, never limited to its immediate region, is broadening from its longstanding ties with Europe, North America and East Asia. Our economic and security interests are growing in the Middle East and Africa: for example, Toyota exports around 70 per cent of its annual production in Australia to the Gulf countries (two years ago, the figure was around 50 per cent) and Holden more than 64 per cent (up from around 25 per cent two years ago).<sup>22</sup> Our forces operating in Afghanistan and Iraq depend on basing and support from a range of Gulf countries, and counter-terrorism cooperation is important and growing. Investment (actual and prospective) by Australian companies in the resources sector in Sub-Saharan Africa was negligible at the turn of the decade, but has climbed to US\$20 billion.<sup>23</sup> And Australian travellers are seeking new and exotic destinations away from traditional routes, in turn creating demand for consular services in more remote locations.

Globalisation also means that Australia is pursuing its national interests in an increasingly crowded and complex international environment.

For one thing, there are more states. The number of UN member states has risen from 51 in 1945 to 192 in 2009. Many international organisations give each country an equal vote, irrespective of its global weight or importance to resolving the problem at hand. With so many voices and interests to accommodate, reaching agreement on increasingly complex issues such as global trade talks or climate change targets is becoming progressively more difficult and is putting formal multilateral mechanisms – whether the United Nations, the World Trade Organization, the Nuclear Non-Proliferation Treaty or the Kyoto Protocol – under growing strain. Ensuring these institutions evolve in directions consistent with Australia's interests will require sustained, informed and properly resourced advocacy. However, traditional multilateral diplomacy will be necessary but not sufficient. The growing influence of non-state actors and the complexity of the policy problems we face mean that Australia will need to become more adept at informal multilateralism – the ability to assemble coalitions including other governments, but also non-government groups. Often these coalitions will work outside traditional international structures.

By the beginning of this decade, 29 of the world's 100 largest economic entities (including nations) were transnational corporations,<sup>24</sup> and last year Australia was home to eight of the world's 500 largest corporations by revenue.<sup>25</sup> A wider number of Australian companies have global operations and countless domestic companies are linked

*'Especially in dealing with the Asian major powers, we will have to rely more on our own national diplomatic skills and resources ...'*

Peter Varghese, Director-General of ONA, Speech to the Australian Strategic Policy Institute's Defence and Security Luncheon, 25 September 2008



*'Otto von Bismarck's dictum that "diplomacy is the art of gaining friends abroad" remains valid. What has changed is that the sheer number of friends that need to be gained has increased exponentially.'*

Jorge Heine,  
Global governance and  
diplomacy: worlds apart?



to global supply chains. At the same time, global production chains and complex corporate structures make the domicile of companies increasingly meaningless.

Traditional boundaries between the government and non-government sectors are also breaking down, bringing separate challenges – particularly in terms of accountability. The outsourcing of numerous support tasks in the Iraq and Afghanistan conflicts is one high-profile example, and companies are taking up other business opportunities where previously governments dominated. The private sector is becoming a more important partner to government in delivering development assistance. Australian businesses operating overseas often have their own extensive networks and information-gathering systems, including in places where Australia does not have diplomatic representation or where government resources are stretched. This offers important new opportunities for cooperation, but also requires government to realign its diplomatic resources with significant emerging Australian commercial interests.

Other non-government actors are also growing in importance and can profoundly affect Australia's international environment and our interests. Government works closely with NGOs across the range of contemporary policy challenges, whether disaster relief and development assistance, refugee relief, protection of the environment, or international security.<sup>26</sup> These webs of relationships will continue to grow as NGOs become increasingly specialised, networked and capable of delivering services that governments are unable or unwilling to provide themselves. Some NGOs have developed enormous sway, and governments ignore them at their peril. They shape policy in a number of ways and in some circumstances can drive it, as with the global initiatives to ban landmines and conflict diamonds, and the Jubilee 2000 initiative to reduce third world debt.

At the other end of the spectrum, terrorist and other extremist organisations exploit globalisation and the information revolution to threaten and destabilise states, and may not be susceptible to traditional approaches such as persuasion or deterrence.

Globalisation and the information revolution have also conferred new policy influence on individuals and the broader community: powerful individuals such as Bill Gates, George Soros and Li Ka-shing exercise enormous influence internationally through their philanthropic networks.

Private philanthropy – estimated at \$11 billion per annum in Australia<sup>27</sup> – has fostered growth in the number of NGOs and think tanks and expanded the international policy debate.

One result of shifts in the global power balance is that Australia needs to be at the forefront of efforts to reform and reinvigorate these institutions. This will require sustained, informed and properly resourced advocacy. Another result is the emergence of 'informal multilateralism', as governments and non-government groups alike

seek to juggle growing demands for action from their constituents with the reality that no state or non-state entity acting alone can resolve the major policy issues of the day.

## Wicked problems

These new issues on the international agenda – energy and climate change, terrorism and extremism, state failure, the proliferation of weapons of mass destruction and small arms, pandemic diseases, transnational crime, food security and economic crises – share the common characteristic of extreme complexity. Dealing with them requires collective action, but traditional international cooperation mechanisms are not always well suited to the task.

Scholars have labelled these problems ‘wicked’ because they are ‘unbounded in scope, time and resources, and enjoy no clear agreement about what a solution would even look like, let alone how it could be achieved’.<sup>28</sup> These wicked problems reflect the collapse of the traditional distinction between domestic and international policy: 18 of the 19 Commonwealth departments now have a dedicated international policy area. Virtually every contemporary policy issue can have international dimensions. As a result, a thick but uneven web of practical, transnational relationships has built up. Properly harnessed, these networks can be a valuable diplomatic resource. Good examples include the Bali Process on People Smuggling, Trafficking in Persons and Related Transnational Crime (co-chaired by Australia and Indonesia), the Proliferation Security Initiative and the Asia-Pacific Partnership on Clean Development and Climate, but there are many others.

This shift, and the fact these issues cut across so many layers of government, has created new challenges for government. A survey of non-government stakeholders conducted by the Lowy Institute for this review (see Annexure 3) highlighted the difficulties in coordinating and synchronising international policy processes across such a broad range of participants. Effective management requires a collaborative network of government departments and agencies, the private sector and civil society. Business, industry and non-government organisations have significant on-the-ground knowledge and expertise which responsive and collaborative governments can harness to their advantage.

Government is adapting structures and processes to meet these challenges, for example by:

- amalgamating domestic policy elements previously located in the Environment Department with the international policy and negotiating experience of DFAT, in the new Department of Climate Change
- developing new models for deploying capabilities offshore such as the Australian Federal Police International Deployment Group





*'Such a connected world ... is increasingly vulnerable to shocks, disruption and uncertainty ... In this global network, issues switch effortlessly from the domestic to the international arena, and increasingly diverse interests need to be coordinated and harnessed.'*

Charlie Edwards,  
National security for the  
twenty-first century, Demos, 2007

- using less formal and hierarchical 'regulatory networks': clusters of government officials from various disciplines, meeting regularly to coordinate and cooperate on international issues
- investing traditional inter-departmental committees with increased seniority and authority
- convening ad hoc task forces for fast-tracking policy responses, drawing from several areas of government and incorporating non-government expertise (for example, to combat people smuggling or to manage interventions such as those in East Timor or Iraq)
- developing and nurturing relevant expertise across government and beyond, for example through support for the Asia-Pacific Centre for Civil-Military Cooperation
- leveraging informal policy networks across government.

## The information revolution and new challenges for government

As well as empowering new international actors, the information revolution challenges existing government structures and processes by introducing instant communications and an oversupply of information. In 2007–08, DFAT's overseas posts alone produced 101,657 reporting cables.<sup>29</sup> Adding to these and other official flows is the enormous volume of news media from almost every corner of the globe, as well as streams of reports from civil society including NGOs, businesses and think tanks, all facilitated by the internet.

This superabundance of instantaneous, open-source information is a valuable tool for government. Ministers and advisers have myriad sources with which to compare and test official departmental advice and from which to form their own opinions. An Open Source Branch was incorporated into the Office of National Assessments (ONA) in April 2005, and publicly available information is 'the single largest source of material for ONA reporting'.<sup>30</sup> DFAT used to be one of only a few sources of reliable information about Australia's international environment. Today, however, it has lost that near-monopoly and DFAT's reports and advice are now more easily contested whether by other agencies within government or by non-government organisations and public advocacy groups. The international policy-making process has therefore become more publicly accountable, rigorous and – arguably – democratic.

However, this comes at a cost. The information revolution has greatly increased the speed at which international policy is made. This increases the potential for rushed decisions made on the basis of incomplete information, especially in an environment of 24-hour news cycles which

demand immediate responses from political leaders. The overwhelming tide of information makes it increasingly difficult for any single agency – let alone an individual – to maintain oversight of the whole picture and easier for potentially important information to fall through the cracks. It places growing importance on information technology and means assessment agencies have to allocate more resources to collating, integrating and validating vast volumes of information. It makes it more, rather than less, important that different parts of government retain a capacity to analyse information and test policy proposals. Sifting and interpreting it requires specialist geographic and thematic knowledge and skills. Inevitably, the proliferation of information makes for a more ambiguous and contested policy environment, placing a premium on government's capacity to 'sell' policies both to domestic and international audiences.

## Policy activism in a difficult operating environment

The Rudd government has an ambitious international policy agenda. In addition to the headline goals mentioned above, the Prime Minister's National Security Statement recognised the many non-traditional challenges that now need to be addressed in order to ensure Australia's security, including economic development in the South-west Pacific, Australia's e-security capability and the implications of climate change and energy security. In the same speech the Prime Minister foreshadowed the need for changes in Australia's machinery of government to address these issues. He said:

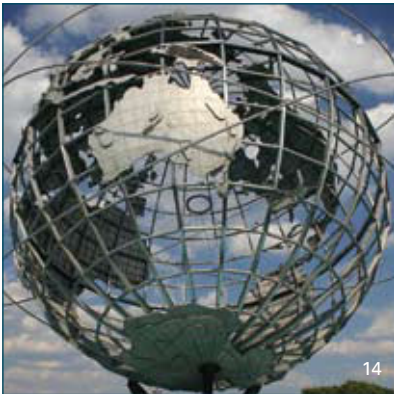
*First, the departments and agencies concerned ... should be regarded as a community... to enable the Government to make strategic judgements across a wide range of hazards ... Second, the departments and agencies concerned must be well connected and networked, and cultural, technical and other barriers minimised.<sup>31</sup>*

The government seems to acknowledge that this policy agenda cannot be achieved without better resourced instruments of international policy: 'Australia's national security policy calls for diplomatic resources that are more in depth and more diversified than currently exist.' But the urgency of this task has been underestimated: 'This must be built over time.'<sup>32</sup> In our assessment Australia cannot afford to wait to begin the task of redressing our diplomatic deficit.



## Part 2

### Australia's instruments of international policy



Combined, Australia's instruments of international policy represent a significant allocation of national resources. Precise quantification is difficult because of problems in costing the international role played by agencies with domestic responsibilities, as well as the incalculable contributions of non-government entities. Our instruments of international policy should, of course, be assessed on their effectiveness and efficiency as well as their resourcing. But aggregating the annual funding of DFAT, the aid program and Austrade provides a useful guide. Based on total revenue, spending on international policy in 2007–08 was approximately \$4.4 billion – just 13 per cent of the \$34.3 billion spent on national security (the combined budgets of Defence,<sup>33</sup> ASIO, ASIS and ONA).<sup>34</sup>

This part outlines the roles, capabilities and resources of Australia's key instruments of international policy.

Precise comparisons with other countries are always difficult, primarily because governments use different accounting methods, but also because no two countries have the same geography, political, strategic and economic interests or international linkages. That said, our research has enabled us to make a number of broad conclusions about the structure and resourcing of Australia's instruments of international policy relative to other nations.

### Australia's overseas diplomatic network

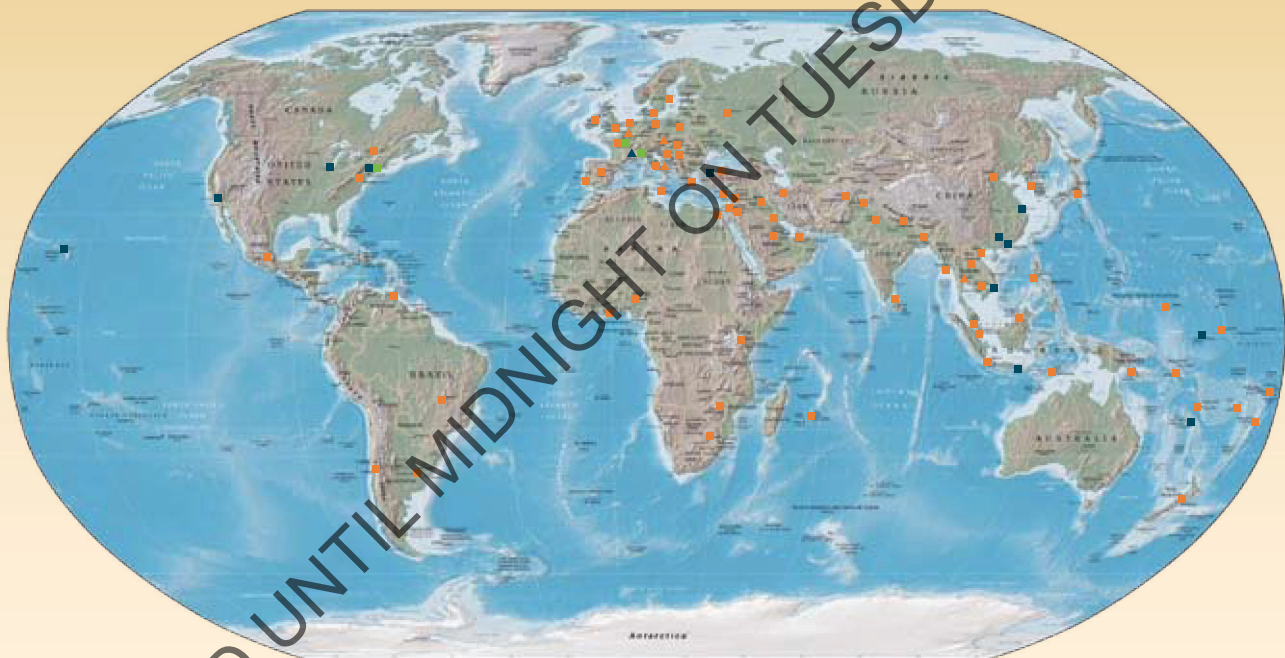
The sharp end of Australia's diplomacy is the overseas diplomatic network. As at July 2008, the Australian government was represented overseas by 91 diplomatic missions or posts (73 embassies and high commissions, 12 consulates-general and consulates, four permanent missions/delegations and two offices – see map next page).<sup>35</sup> These posts are managed by DFAT, with staff often attached from other Commonwealth agencies to represent other portfolio interests (Austrade manages an additional 17 consulates).

Decisions on the location of diplomatic missions reflect a range of factors including the extent of Australia's political, economic and security interests in the host country, the relative political, economic and strategic influence of the host country, and domestic political factors,

such as whether or not the host country has a domestic constituency in Australia. Closing posts is always diplomatically awkward and politically difficult, and opening new ones is expensive. Moreover, opening and then quickly closing posts can come at a cost to our international credibility. As a result of these realities, our diplomatic footprint tends to lag our evolving international interests.

## Australian diplomatic missions

- Embassy or High Commission
- Consulate-General or Consulate
- ▲ Embassy and Permanent Mission
- ▲ Consulate and Permanent Mission
- Permanent Mission



The last comprehensive public report into Australia's overseas diplomatic representation was by the then Secretary of the Department of Foreign Affairs, Stuart Harris, in 1986.<sup>36</sup> That review acknowledged that Australia's wider interests – particularly economic interests – required representation, but recommended that our diplomatic presence be largely focused on the Asia-Pacific as the region of critical strategic importance to Australia. This is reflected in the current geographical spread of our diplomatic network, with 29 per cent of DFAT posts in Asia. The next largest proportion of posts is in Europe (24 per cent), followed by the South Pacific, the Americas and the Middle East (12 per cent each), Africa (7 per cent) and multilateral posts (4 per cent).



*'Because Australia does not belong to a natural grouping we are not in a position to rely on the efforts of others in protecting and advancing our interests in international affairs.'*

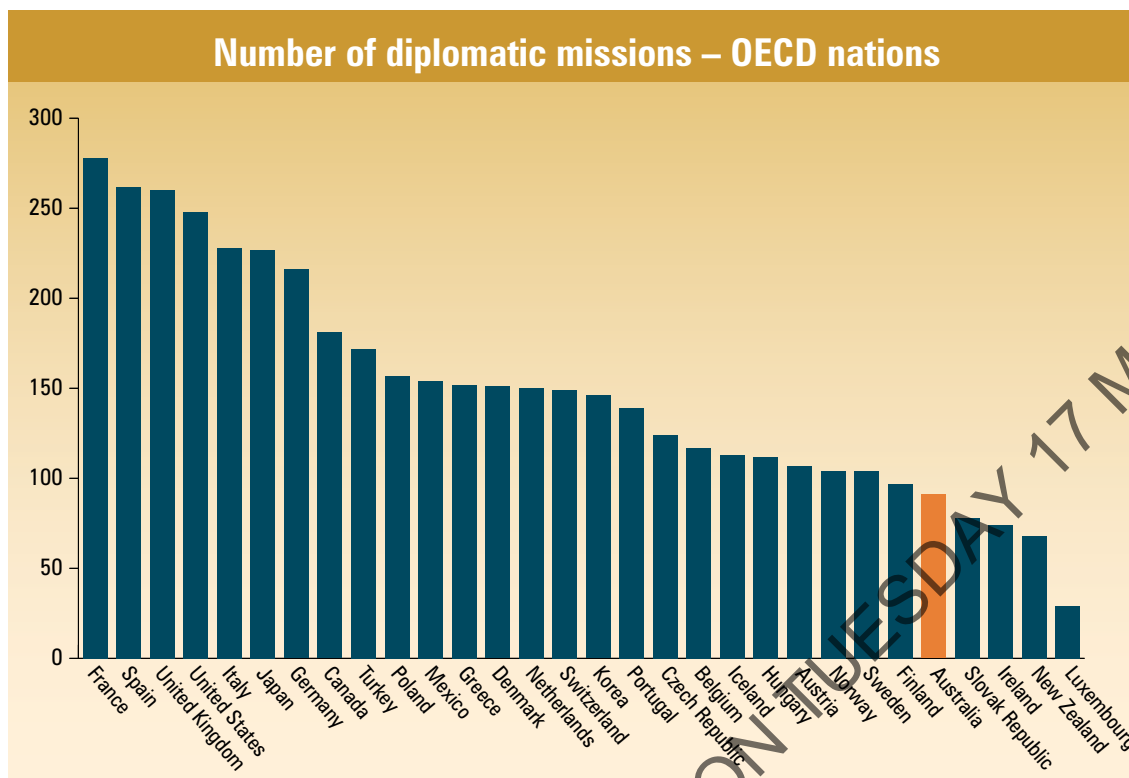
The late Ashton Calvert, former DFAT Secretary, The role of DFAT at the turn of the century: speech to the Canberra branch of the AIIA, 4 February 1999

As outlined in the previous part, the world has changed significantly since 1986, with the rise of China and India transforming Asia, and potential powers such as Brazil emerging as leaders of their respective sub-regions. Other nations are expanding their diplomatic presence in recognition of these trends. Turkey recently announced it will open 15 new embassies in Sub-Saharan Africa and four new consulates-general in India.<sup>37</sup> Former Secretary of State Condoleezza Rice's transformational diplomacy initiative foreshadowed a major shift in US diplomatic resources into emerging regions and population centres through the establishment of new posts.<sup>38</sup> Prominent US officials<sup>39</sup> and think tanks<sup>40</sup> have called for large increases in the State Department's budget to meet these and other changing international policy needs. India recently approved plans to expand its Ministry of External Affairs by creating 514 new positions over the next 10 years.<sup>41</sup>

Our review has identified a number of critical issues facing Australia's overseas diplomatic network. It underlines not only the need for additional resources but for the government to take a more comprehensive, strategic approach to Australia's overseas representation, to ensure that resources are properly aligned with our evolving interests. That approach needs to address a number of shortcomings with significant potential to undermine Australia's capacity to shape its international environment.

### *(a) Australia operates significantly fewer overseas diplomatic posts than comparable countries*

By international standards, Australia operates a disproportionately small diplomatic network. Our total of 91 missions compares very poorly with the OECD average of 150. Of 30 OECD countries, only Ireland, Luxembourg, the Slovak Republic and New Zealand operate fewer diplomatic posts (see chart next page), with populations of only 4.2, 0.5, 5.4 and 4.2 million respectively, and economies ranked 31<sup>st</sup>, 63<sup>rd</sup>, 56<sup>th</sup> and 51<sup>st</sup> in GDP.<sup>42</sup> Australia, highly globalised, with its population of over 20 million, and the world's 15<sup>th</sup> largest GDP, is significantly underrepresented. Moreover, Australia – unlike many other OECD nations – is not a member of any supranational body such as the European Union and cannot rely on the consequent diplomatic 'force multiplier' effect.



Data sourced directly from governments where possible, and ministry of foreign affairs (MFA) websites in other cases. Count includes embassies, high commissions, consulates and multilateral missions managed by the MFA. As far as possible, the count excludes posts managed by a department or agency external to the relevant MFA. Even if the 17 trade consulates managed by Austrade were added to Australia's overseas post count, it would still be placed equal to Norway and behind Iceland, Hungary and Austria in its overseas representation.

***(b) Australia is underrepresented in regions of growing importance to our interests, including emerging centres of power***

Australia has opened 12 new diplomatic missions since 1996 but closed four (Almaty, Bridgetown, Cape Town, and Caracas). Two were closed and reopened (Nauru and Copenhagen), and one was opened then closed (Damascus). Since taking office, the Rudd government has appointed Australia's first resident ambassador to the Vatican, and will open a new mission in Lima, Peru.

More will be needed:

- Australia is underrepresented in India, the world's second most populous nation and an emerging economic power with three of the world's largest metropolitan areas (Mumbai, New Delhi and Kolkata) and rapidly expanding trade and immigration links with Australia. DFAT is not represented outside the capital, New Delhi
- we have growing economic and consular interests in central China, while our diplomatic coverage is mostly in coastal

regions, and in regional Indonesia as power devolves increasingly to the provinces

- our commercial, security and diplomatic interests are also expanding in Africa,<sup>43</sup> where we have only six posts
- coverage in the Middle East<sup>44</sup> and Latin America, where we have only 11 (including an office in Ramallah) and four (five once Lima opens) posts respectively, is also lagging our emerging commercial and wider interests
- Central Asia will be increasingly important, particularly in terms of resources security and mining interests
- running a successful candidacy for the UN Security Council will also require enhanced diplomatic resources globally, as would credibly supporting an active role on the Council, should we be elected.

*(c) Many of Australia's current overseas posts are too small to carry out even core diplomatic functions*

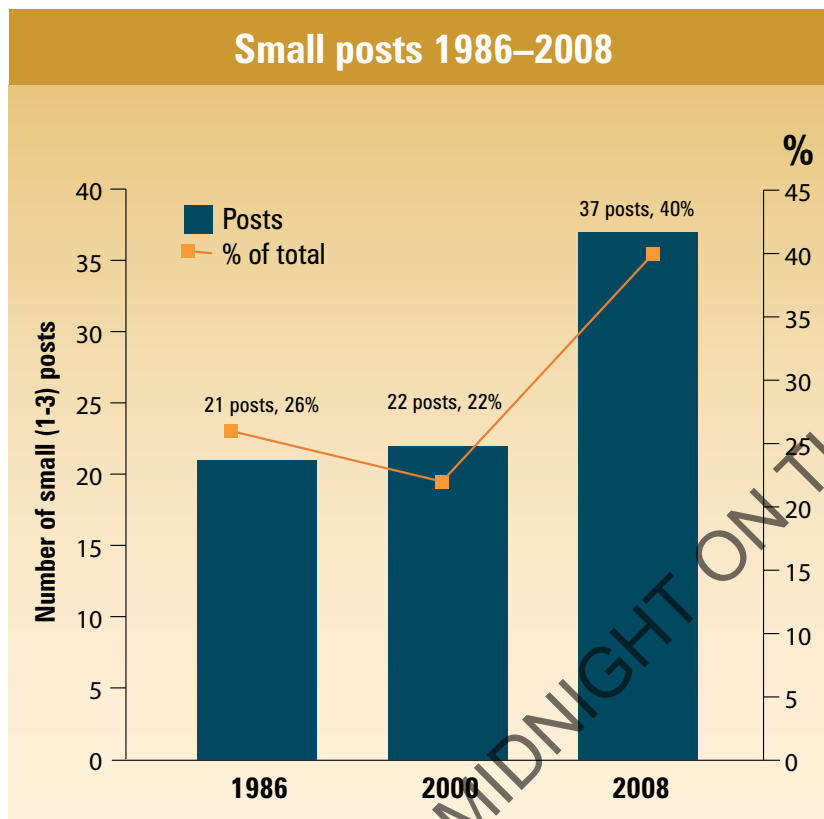
One way DFAT has tried to reconcile Australia's expanding international interests with shrinking resources is to reduce the size of diplomatic missions. Forty per cent of Australia's missions have three or fewer Australia-based (A-based) DFAT staff: the head of mission and up to one or two others to carry out the rest of the post's functions, including consular responsibilities, policy work and administration. These resources are augmented by locally-engaged staff (LES) and are supplemented from headquarters or other posts on an ad hoc basis where required, for example in the event of a consular emergency or to support a major event. In many cases these small posts are accredited to multiple host governments.

Of Australia's six diplomatic missions in Africa, four are small posts, as are 59 per cent of missions in Europe, 30 per cent in the Asia-Pacific region and 45 per cent in the Americas. The proportion of small posts has grown sharply since 2000 (see chart next page), reflecting the impact of recent budget cuts.

Staff at small posts perform their duties with diligence and versatility, sometimes in difficult and even dangerous conditions. But combined with constrained travel budgets, the lack of A-based staff at these posts means that in some cases the only contact heads of mission have with the governments to which they are accredited is an introductory call and a farewell call. Once extensive departmental reporting processes and staff leave are taken into account, in practice small posts lack the resources to do much more than raise the flag and administer



themselves. Little scope exists for anything beyond diplomatic contact with the foreign ministry necessary to maintain formal diplomatic relations. Travel outside the capital is sharply constrained, as are opportunities for contact with civil society and creative input to policy. Further budget cuts would risk an even greater number of small, marginally-functional posts.



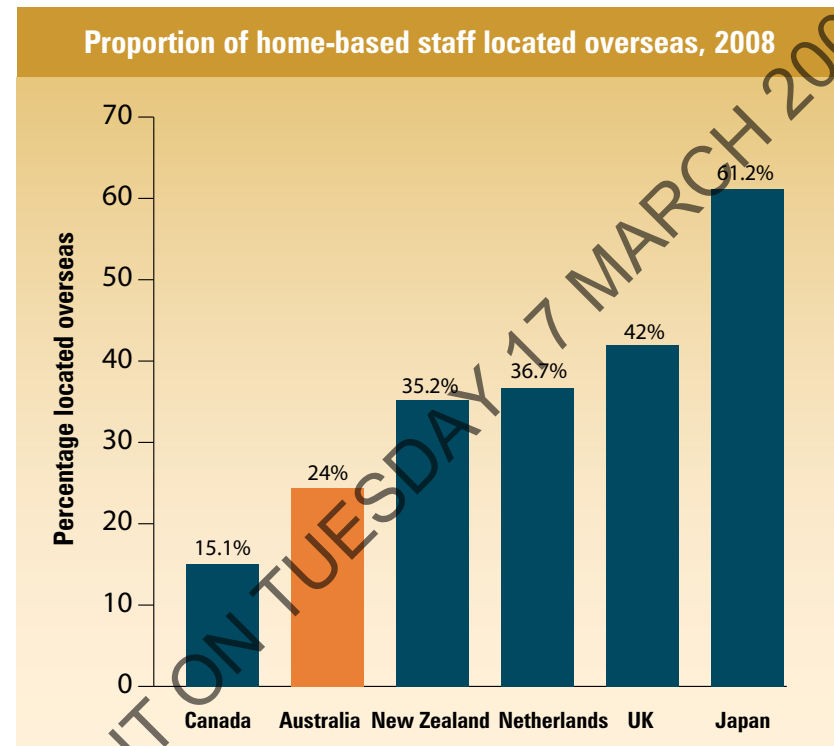
Based on number of Australia-based staff at each post.

***(d) Australia has too few professional diplomats overseas, particularly compared with DFAT staff at headquarters***

At the end of 2008 DFAT had 163 fewer A-based staff overseas than in 1996 – a 25 per cent drop. Only 517 – about one quarter of the Department's total staff – were serving overseas (with 25 overseas positions removed during 2008). Staff based in Canberra numbered 1,336 and the remaining 275 were based at state offices, many of them passports staff.

This proportion is low compared with other foreign services reviewed (see chart next page). The average for leading industrial (G8) countries is around one overseas home-based officer for each one at headquarters.<sup>45</sup> Moreover, other governments are moving to increase the proportion of their resources deployed in the field. For example, the UK's Foreign

and Commonwealth Office has *increased* frontline positions overseas by nine per cent since 2003–04.<sup>46</sup>



Source: Australia – DFAT annual reports. Other countries – data supplied by governments to the Lowy Institute. Note that Canada has 1,141 Canada-based staff overseas, compared with Australia's 517 A-based personnel.

There are several possible justifications for declining DFAT staff numbers overseas:

- their functions have been taken over by less expensive locally engaged staff
- their functions have been replaced by fly-in visits by ministers or senior officials, or by direct contact between capitals facilitated by modern communications
- their functions have been taken over by specialists from other agencies.

We deal with the third proposition in more detail below. The evidence does not support either of the other two propositions.

DFAT employs 1,548 LES around the world in a range of functions including security, administration, maintenance and public affairs. LES can provide vital local knowledge and specialist skills. As LES are less expensive than A-based officers it makes sense to maximise their use. But:

- the number of LES employed by DFAT has fluctuated only slightly since 1996 (between 1,400 and 1,600) and does not necessarily correlate with the loss of A-based positions

- Australia has a comparatively modest force of LES (42 per cent of total staff) compared with the review countries (for example, 49 per cent of Japan's total foreign ministry staff and 71 per cent of UK staff are LES)<sup>47</sup>
- security and other requirements mean there will always be a core of functions that can only be performed by A-based staff.

There is no doubt that face-to-face contacts between heads of government, ministers and senior officials and regular direct communications between capitals are increasing in number and importance. But it is wrong to assume that modern IT and air travel lessen the need for overseas representation. On the contrary (as Stuart Harris argued in his 1986 review):<sup>48</sup>

- only diplomats on the ground for a sustained period can develop the networks of contacts and in-country knowledge to understand properly local context, its implications for Australian policies and, vitally, how to get things done. This applies particularly to more closed societies, but it can apply elsewhere (for example, in the United States, the most open country in the world)
- by their nature, face-to-face contacts can only be episodic; diplomats on the ground provide continuity in relationships
- burgeoning face-to-face contacts generate their own demands: they often put in place new processes and structures, creating additional demands for information and analysis from capitals; more frequent visits are significantly increasing the workload for posts around the world (including setting up meetings, providing logistics and policy support during visits and then implementing outcomes), generally without any offsetting reduction in other tasks
- the proliferation of information means there is more to be sifted and followed up on the ground by people with the requisite specialist knowledge, skills and contacts.

### *(e) DFAT's 'true operating' budget and staffing have been falling for much of the past decade*

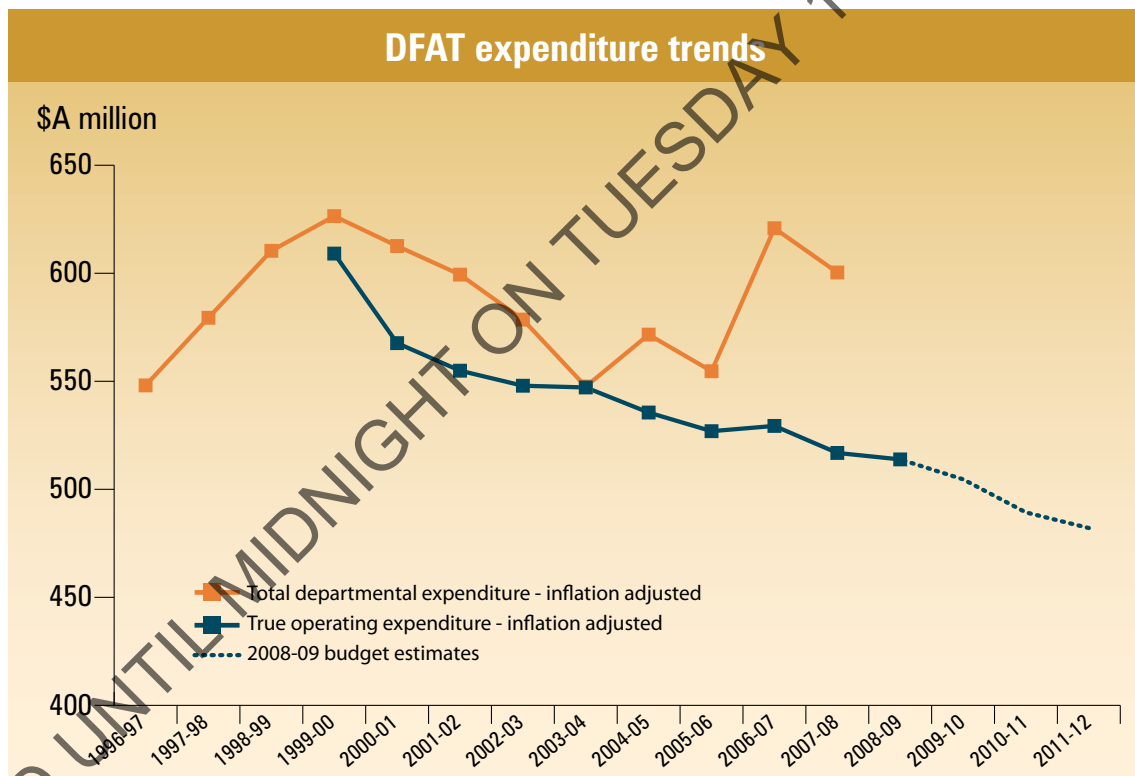
DFAT has 2,153 Australia-based staff, 15 per cent fewer than in 1996. Passports staff fluctuate according to demand and mask the underlying picture. When they are excluded, DFAT has a total Australia-based staff of 1,807, a 20 per cent reduction since 1996.

By comparison:

- the Australian Federal Police (AFP) grew from 2,630 staff in 1998 to 6,598 in 2008 (a 151 per cent increase)

- the Australian Security Intelligence Organisation (ASIO) grew from 625 staff in 1996 to 1,492 in 2008 (a 139 per cent increase)
- the Office of National Assessments grew from 83 staff in 1996 to around 145 in 2008 (a 75 per cent increase)<sup>49</sup>.

This picture reflects not only post 9/11 growth in those agencies but the fact that what we define as DFAT's 'true operating' budget has been in steady decline at least since 2000.<sup>50</sup> In 2007–08, DFAT's true operating budget was \$693.5 million (after adjusting for inflation from 1996–97, \$516.8 million).<sup>51</sup> The chart below shows that this budget has declined steadily since at least 1999–2000 (adjusted for inflation using the base year of 1996–97).



Source: DFAT.

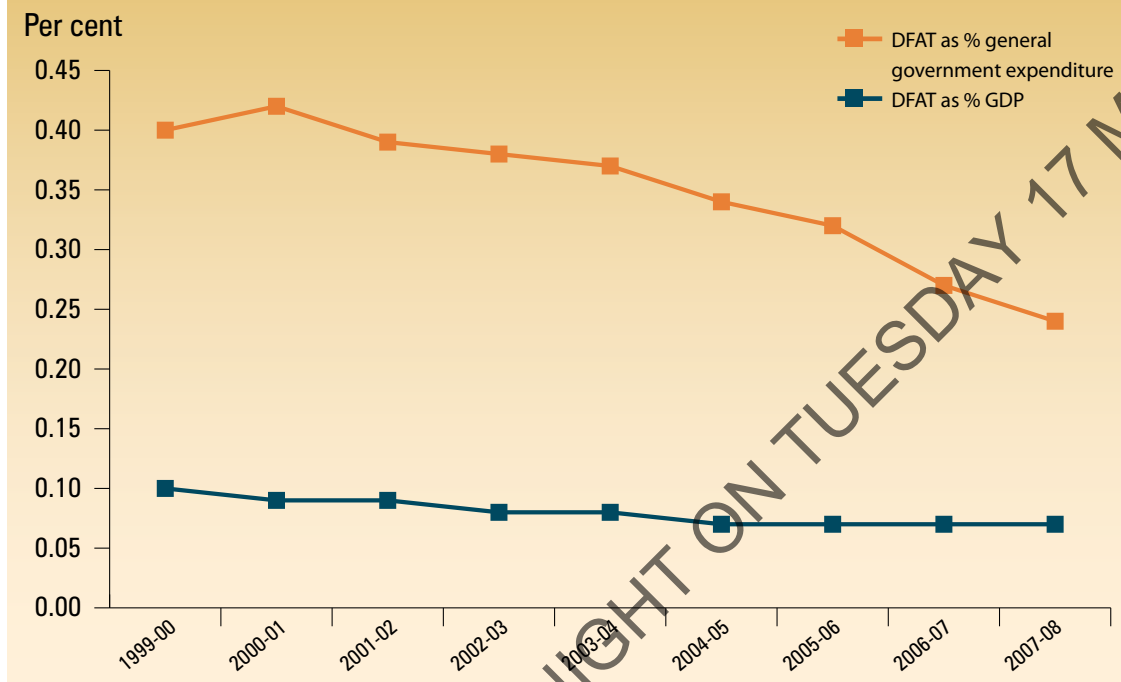
Note: DFAT's true operating expenditure (blue line) is adjusted to best reflect base operational funding: see note 51. Inflation adjustment base year 1996–97.

DFAT's true operating funding currently amounts to 0.08 per cent of GDP and has been at or below 0.1 per cent of GDP since 2000. This figure has been declining for most of this decade (see chart next page), as has DFAT funding as a proportion of general Commonwealth government expenditure overall.

The Rudd government endorsed for 2006–07 the previous government's one-off sustainability injection to DFAT's budget (the step visible in the DFAT expenditure trends chart), but has also announced \$124 million in cuts to DFAT's budget over four years from 2008–12. In response, DFAT has so far cut 25 overseas positions and 18 in Canberra, as well as

removing \$20 million in cultural relations funding and reducing funding for the Australia-China Free Trade Agreement (FTA) negotiations. If the government's previously announced cuts stand, another 25 overseas positions will be removed.

### DFAT funding as a share of general government expenditure and GDP



Source: DFAT.

Note: General government expenditure is that of agencies which are funded from the budget and which provide services that are mainly non-market in nature, or entail the redistribution of income, and are financed mainly by taxes. (Parliamentary Library, 'Budget Review 2008-09', 26 May 2008, no. 31, 2007-08). All budget data is based on current prices. DFAT budget data excludes passports, one-offs and depreciation. Expenditure on GDP, current prices, Australian System of National Accounts, ABS 5204.0, 2006-7.

Beyond their negative impact on staffing levels, particularly overseas, budget cuts have dramatically reduced the effectiveness of remaining DFAT staff. Dwindling funds for travel mean that officials are often unable to attend international meetings relevant to Australia's interests, visit regions they are meant to cover or conduct outreach with non-government groups. Representation allowances – a vital tool for building and sustaining contacts – are being cut back. And a combination of reduced funds and other pressures means staff development opportunities are often not available.

### *Vital language and other skills are underfunded*

The Rudd government came into office with a commitment to boost Asian languages nationally, and the 2008-09 Budget included an additional \$62.4 million over three years for Asian language studies in secondary schools.

Publicly available information about language skills in DFAT and across the broader international policy community is scant, but there are indications that language skills of DFAT staff have been in decline over the last two decades. The number of A-based DFAT staff with professional or higher proficiency<sup>52</sup> in at least one other language besides English was about 26 per cent at the close of 2008. Despite the significant role Asian and Pacific languages play in Australia's international policy objectives, it has been reported that only 227 diplomats are proficient in any Asian language, compared with 107 fluent in French.<sup>53</sup> Other important languages – such as Arabic and Hindi/Urdu – are also neglected.

This may reflect diminishing real investment in language training: in 1995–96, the DFAT budget for language training was \$2.16 million, almost identical to the budget ten years later (\$2.19 million in 2005–06).<sup>54</sup> Taking into account inflation since that time, this represents a considerable fall in funding.

The need for appropriate language and other specialist training extends beyond DFAT, however, to the many other agencies with staff overseas performing diplomatic functions. A more strategic approach is required across the Australian international policy community, not only to language training, but also other specialised skills that will be essential to rebuilding Australia's diplomatic muscle. This will require professional human resource managers, public diplomacy experts and new media specialists.

To ensure it can fulfil its increasingly important coordination role overseas, DFAT will need to make sure it develops and retains high-quality managers with a whole-of-government perspective – and ideally experience in more than one agency – able to handle this responsibility.

## Consular services

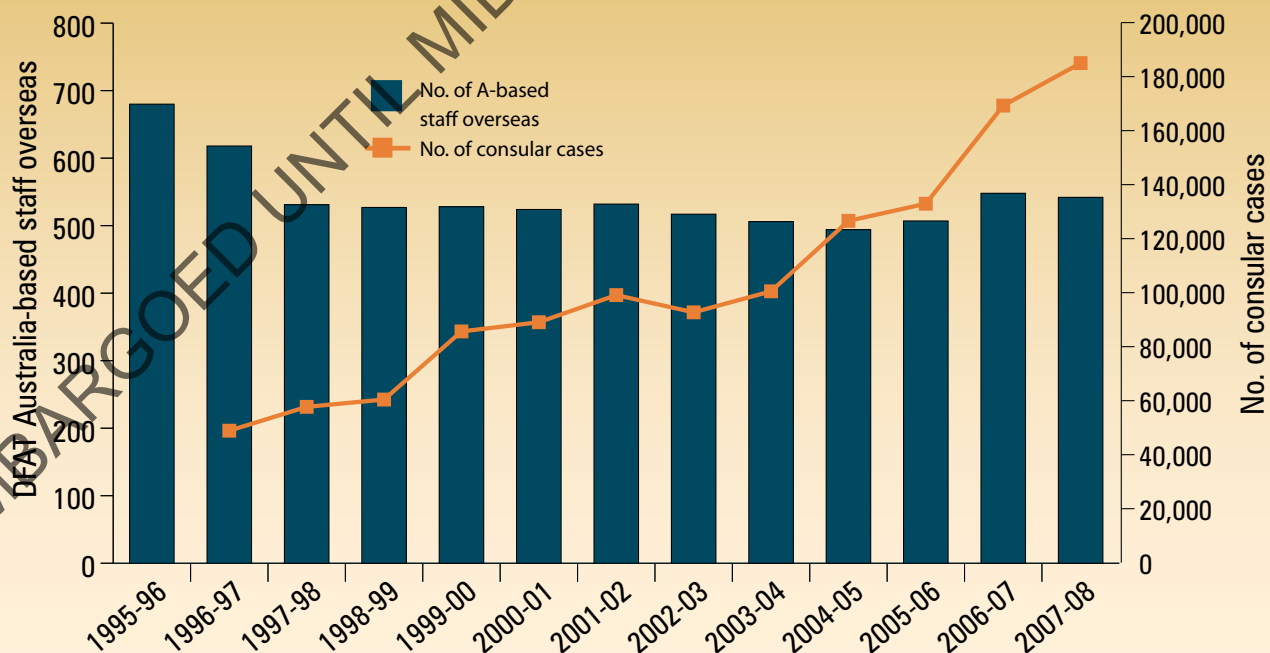
The impact of reduced real funding on DFAT is compounded by the exponential growth in international travel by Australians and the consequent increase in demand for consular services. Around six million Australians depart the country each year, almost double the number ten years ago. Just last year, departures rose 11 per cent.<sup>55</sup> Almost half the population hold passports, and close to five per cent live overseas. Flourishing people-to-people links bring many benefits and are themselves an important asset to Australia's international engagement.

Australian taxpayers have a legitimate expectation that their government will provide reasonable consular assistance. But expanding international involvement by Australian citizens and businesses is putting consular services under growing strain:



- the overall number of consular assistance instances recorded by DFAT rose from 57,706 in 1996–97 to 184,992 in 2007–08 (221 per cent)
- the numbers of missing persons, hospitalisations, deaths overseas and arrests have risen overall during the last decade<sup>56</sup>
- travel to dangerous locations, major international consular crises<sup>57</sup> and an increasingly diverse cross-section of travellers (including more holiday travel by impecunious or mentally ill people) have contributed to a more complex and demanding consular environment; in some respects DFAT has become an overseas extension of the Australian social security system
- the global threat of terrorism places enormous pressure on government to ensure the travel advisory system contains all the latest relevant threat information. In 1998–99 DFAT issued 122 travel advisories covering 80 destinations; in 2007–08 it issued 1,165 travel advisories covering 165 destinations
- as discussed above, DFAT has fewer staff overseas and in Canberra to service the growing caseload. For example, the number of consular staff in Canberra has grown 130 per cent since 1996, but they deal with a consular case workload which has more than doubled since 1997.

### Rising consular demands on Australian diplomats



Source: DFAT data and annual reports. Consular assistance cases are the total number of Australians provided with consular assistance, being cases involving Australians in difficulty, plus notarial acts (at posts, Canberra and in state and territory offices). Pre-1998 data does not include Canberra/state office notarial acts.

*'Consular work has ceased, in some respects, to be the "Cinderella service" as it was in the past; it has gained in visibility and become a benchmark to judge the performance of the foreign ministry. The reputation of the foreign ministry is also now seen to hinge on the quality of services it provides to its citizens in foreign countries.'*

Challenges for foreign ministries: managing diplomatic networks and optimising value. 1 June 2006, DiploFoundation Conference, Geneva



Soaring expectations on the part of the travelling public have compounded the problem.<sup>58</sup> Sixty-eight per cent of Australians think that protecting Australian citizens abroad is a very important foreign policy goal.<sup>59</sup>

Australians are increasingly able to travel to risky destinations. But their expectations of the Australian government when travelling overseas often far exceed its capacity to provide assistance. Ironically, many have come to expect a much higher level of government support outside Australia than they would in similar circumstances at home. Nor do travelling Australians necessarily take responsibility for their own actions. There seems to be a widespread misunderstanding, for example, that Australia's domestic laws apply overseas and override local laws, and many Australians depart without the simple precaution of taking out travel insurance or registering with Smartraveller (the Australian government's online travel advisory and consular assistance service).

Domestic media and governments can share much of the blame for this cycle. The media appetite for high-profile foreign crises involving Australians is voracious: Factiva<sup>60</sup> records over 1,000 media reports on the Laphorne case in Australia alone over a three-month period. Consular activity is often complex,<sup>61</sup> and DFAT operates one of the best consular services in the world. Despite almost always responding quickly and efficiently to consular emergencies, it often receives ill-informed or unfair media criticism. Media pressure often induces government to apply standards of consular service inconsistently, and results in a bidding up of the level of consular support and uneven outcomes.

The way the passports function is funded obscures how the growing consular workload is diverting departmental resources from other priorities, particularly policy work. DFAT did not provide a detailed breakdown of consular activities as a proportion of its overall workload or how this may have changed over time, and the passports and consular expenditure data provided in DFAT's annual reports miss the full picture. This is because the passport function is funded according to a pre-agreed formula between DFAT and the Department of Finance and Deregulation, and rises proportionally to the increase in passport applications (50 per cent since 1996–97). As a proportion of the total departmental budget, however, the consular and passport function combined<sup>62</sup> remains steady at about 19 per cent of departmental resourcing, despite both the consular and passport workloads increasing dramatically over the last decade. We infer from this that the consular function is increasingly underfunded. Compounding the problem is the shrinking A-based workforce at overseas posts – the staff at the coalface of the consular function.

For missions dealing with a growing workload with reduced staff, crisis management – including high-profile consular cases – increasingly sets priorities. In these circumstances damage control becomes the norm. Less urgent policy work, arguably more important in advancing Australia's broader interests, is abandoned. There are signs of this

already: for example, funding for the China FTA negotiations – which the Prime Minister undertook during his 2008 visit to Beijing to fast-track – has been cut. Small posts handling a complex, high-profile consular case often have little or no capacity left for other work.

Consular work can be difficult, sensitive and emotionally draining. It requires very particular skills. Consular emergencies demand the capacity to surge resources – without disrupting other priority tasks. But successful resolution of difficult situations on the ground often requires local knowledge, language skills where appropriate, and well-tended networks. The malady affecting the Australian overseas diplomatic network as a whole cannot be remedied without putting consular services on a sustainable footing.

## Public diplomacy

Public diplomacy is diplomacy directed at the public, rather than governments of foreign countries, to shape opinion in those countries in a way that furthers policy objectives.<sup>63</sup> It is becoming increasingly important in a world where more and more non-state actors can affect Australia's interests. Australia's public diplomacy has tended to be a marginal activity comprising various unfocused and poorly coordinated efforts at national branding. But many governments around the world have recognised that public diplomacy is about influence, not just image. Rather than being an adjunct, it is a core element of effective international policy responses to contemporary threats such as extremism, terrorism and people smuggling and to other complex international challenges. Public diplomacy needs to be thought of less as a marginal sideline and much more as a bread-and-butter activity to be conducted by all effective Australian diplomats.

DFAT ostensibly leads the Australian government's public diplomacy activities through its Images of Australia Branch. The coordination task is enormous: the Branch is charged with synchronising the efforts of many parts of government that perform public diplomacy functions. This includes most departments, 21 agencies and nine foundations, councils and institutes – from AusAID and Defence's work in emergency situations to the Australian Sports Commission, Austrade and Tourism Australia. Other key players include the Department of Education, Employment and Workplace Relations, and Australian Education International. These agencies help support Australia's important education diplomacy.

The Australia International Cultural Council is primarily responsible for *cultural diplomacy*. This is a subset of public diplomacy that seeks to influence international perceptions of Australian society and culture, mostly by supporting exhibitions and performances overseas by artists and performers. The Australian Film Commission (Embassy Film Roadshow),<sup>64</sup> the Australia Council for the Arts and Museums

*'Australia is in intense competition with other countries also seeking to be heard on matters of importance to them ... the whole [of Australia's public diplomacy] is not as great as the sum of the parts.'*

Senate Standing Committee on Foreign Affairs, Defence and Trade,  
Australia's public diplomacy:  
building our image. August 2007



*'... the ability to shape proactively the global agenda and operating environment in ways favourable to the United States' enduring interests and objectives ... requires coherent and persuasive public diplomacy backed by sufficient resources and shaped by a long-term vision of the nation's strategic interest.'*

Advisory Committee on  
Transformational Diplomacy,  
Final report of the State Department  
in 2025 Working Group

Australia also contribute, although these activities do not directly support international policy goals.

The Australia Network and Radio Australia are key public diplomacy vehicles in the Asia-Pacific. Both produce dedicated programming for the region: the Australia Network is available in 22 million homes in over 44 countries across Asia, the Pacific and the Indian subcontinent. But their mandate specifically precludes direct support for international policy: government funds both but has little or no input into programming decisions.

Heads of mission spend much of their time conducting public diplomacy. Careful targeting both in terms of message and audience can achieve specific international policy goals. In a crowded international marketplace, smaller nations can achieve better results through targeted, integrated public diplomacy rather than struggling to project vaguer notions like 'national brands'.<sup>65</sup> Examples of effective Australian public diplomacy include the work of a range of Australian agencies at the Jakarta embassy, in cooperation with Indonesian authorities, to dissuade illegal fishing in Australian waters and the efforts of the Washington embassy to build an essential coalition of US business supporters for the Australia-US Free Trade Agreement.

Recognising the importance of public diplomacy, Canada, Denmark, Norway, the United Kingdom, and the United States have initiated significant strategic and organisational reforms to their public diplomacy programs over the last few years.<sup>66</sup> These include:

- centralising and strengthening the strategic direction of the public diplomacy function, either within the foreign ministry or by creating a semi-autonomous authority
- tightening public diplomacy strategy and messages. Canada, for example, is pursuing a more aggressive public diplomacy strategy since its 2006 International Policy Statement<sup>67</sup>
- coordinating public diplomacy across stakeholder groups (for example, by creating specific stakeholder management roles, as the British Foreign and Commonwealth Office did in 2006, appointing a senior Oxfam official to develop strategies for and manage NGO and stakeholder engagement)
- providing additional resources. Attempting to combat terrorism in particular, the United States has started to reverse post-Cold War spending cuts to public diplomacy, with expenditure increasing gradually since 2000<sup>68</sup>
- using new media techniques: the MFAs of Canada, Denmark, the Netherlands and the United Kingdom are making use of a range of new media techniques, including blogs, podcasts, Youtube, Flickr and Twitter pages and video contests.<sup>69</sup>

Beyond these government and government-funded efforts, many groups in Australian civil society – including up to one million Australians living outside Australia – can potentially play a part as ‘citizen diplomats’, informal envoys for Australian views and interests.<sup>70</sup>

Australia’s public diplomacy effort suffers from some key weaknesses. These include:

- conceptual muddle: despite its lead role, much of DFAT’s public diplomacy funding is allocated to cultural diplomacy. This may be worthwhile in terms of promoting Australian arts and culture, but it is not an instrument for shaping the views of key target audiences in support of specific international policy goals. DFAT’s public diplomacy objective – to ‘*project a positive and contemporary image of Australia and promote a clear understanding of Government policy and programs*’<sup>71</sup> – reflects this lack of precision
- a lack of integration: reflecting this uncertainty about its purpose, Australia’s public diplomacy has often been poorly integrated with international policy development and implementation. Public diplomacy tends to be seen as a separate and often marginal activity rather than a mainstream part of the policy process to be integrated with it at every stage (Defence’s concepts of ‘strategic communications’ and ‘information operations’ are more sophisticated)
- poor coordination: as outlined above, the number of players in public diplomacy is large, as is, therefore, the coordination task. A Senate Committee that reported in 2007 on Australia’s public diplomacy activities heard that they were ‘fragmented’ and described the outcomes of the inter-departmental coordination committee chaired by DFAT as ‘unremarkable’.<sup>72</sup> As a result, Australia’s public diplomacy often takes the form of a disconnected series of activities such as cultural events and trade expos intended to cultivate favourable, if vague, impressions of Australia and to promote the nation as an attractive destination for tourism, investment and migration – rather than to pursue specific international policy goals
- inadequate measurement of effectiveness: despite the growing importance of public diplomacy, the Australian government conducts little regular, rigorous testing of views among key international target audiences on Australian policy positions or perspectives. Although it has recently subscribed to an international brand monitor, DFAT’s funding for surveying international public and elite opinion is inadequate, and public diplomacy goals are not articulated systematically in a way which would facilitate measurement of results. DFAT in its annual reporting focuses almost exclusively on outputs of public



diplomacy activities rather than outcomes:<sup>73</sup> it lists activities, without measuring impact

- inadequate resources: at a time when other governments have been increasing public diplomacy funding, the spending of DFAT – Australia's lead agency for public diplomacy – has been trending downwards for the last nine years.<sup>74</sup> Discretionary funds available to most posts to pursue their own targeted public diplomacy activities are inadequate.

## International policy machinery

Although their degree of personal engagement varies, Australian prime ministers generally set the strategic direction of international policy, as for other areas of policy. The speed of information flows and pressure on government to respond swiftly to events have accelerated the centralisation of decision-making power with the prime minister, his office and the Department of the Prime Minister and Cabinet (PM&C). At the same time these imperatives, combined with the growing interconnectedness of policy issues, are driving a move to inter-agency, team-based solutions and broadening of responsibility for policy implementation.

At the structural level, the most important changes have been the amalgamation of the departments of Foreign Affairs and Trade (part of a broader reorganisation of government by the Hawke government in 1987), the establishment of the National Security Committee of Cabinet in 1996 (supported by the Secretaries' Committee on National Security and below that an edifice of other coordination mechanisms) and PM&C's greatly expanded role and size.

PM&C's National Security and International Policy Group comprises three divisions and one other unit: International Division; Homeland and Border Security Division; Defence, Intelligence and Research Coordination Division; and the International Strategy Unit. Together in 2007–08 the International and National Security divisions had over 80 staff. By comparison ten years earlier the International Division had only around 30 staff to cover a similar range of issues (although it gave considerably less attention to domestic security).

While these structures are important, crises and the 24-hour media cycle have seen them increasingly augmented by flexible, ad hoc bureaucratic responses. These facilitate rapid information exchanges and effective development and implementation of whole-of-government policy responses, for example:

- interdepartmental task forces. These take different forms, depending on the issue, but critical to their success is their ability to bring together different agencies with an interest in a given policy challenge and personnel from across government with



the right skills and experience to develop and apply solutions. They can be formed quickly and then fade away as an issue is resolved or can be handled through routine bureaucratic channels. They are well suited to managing complex stabilisation and reconstruction operations. Examples include the East Timor Policy Group, led by PM&C to respond to that crisis in 1999, and the Iraq Task Force, chaired by DFAT from late 2002

- informal policy networks. One of the advantages of Australia's relatively small international policy community, the intensity of the recent international policy agenda and increased mobility between agencies is a growing web of personal relationships at all levels. These can also serve as conduits for information, short-cutting cumbersome bureaucracy to get results and generally 'greasing the wheels' of government.

The Rudd government has made its own modifications, including:

- appointment of a National Security Adviser (and a Deputy) within PM&C to provide improved strategic direction within the national security community, support whole-of-government national security policy development and crisis response, and promote a cohesive national security culture
- the recently created International Strategy Unit, which is intended to have a longer-term focus and generate international policy ideas
- commitment to periodic National Security Statements and regular Foreign Policy Statements to parliament
- establishment of a National Intelligence Coordination Committee, chaired by the National Security Adviser, to ensure that the national intelligence effort is fully and effectively integrated and aligns with Australia's national security priorities
- consideration of a crisis coordination centre to improve inter-agency management of major crises.

These arrangements aim to enhance strategic direction and coordination of international policy and to integrate it with national security policy. They will need time to bed down before judgments can be made about their effectiveness. But they will almost certainly accelerate the centralisation mentioned above. The international policy bureaucracy will continue to face significant challenges, including:

- accountability. Policy-making is becoming more open to public scrutiny, but the emergence of less formal decision-making channels pose challenges for traditional models of accountability
- the traditional distinction between intelligence and policy is also becoming blurred as sources of information proliferate. This

*'At the bureaucratic level, then, the conduct of international policy is now commonly seen as a "whole of government" activity. But this raises the problem of coherence and coordination. Who, if anyone, takes the lead? Not surprisingly, foreign ministries may claim this role; but they are confronting simultaneously growing demands and shrinking resources.'*

Brian Hocking, Reconfiguring public diplomacy: from competition to collaboration

challenges established structures and raises complex questions about the appropriate allocation of national security and international policy resources to open-source, diplomatic and clandestine collection methods

- policy cohesion and decisiveness can be casualties when the policy loop is broadened too far. Judging who really needs to be at the table becomes critical to avoid inertia and lowest-common-denominator outcomes
- balancing legitimate security needs with the imperative to share information rapidly. Determining who has a genuine 'need to know' challenges deep-seated cultural assumptions in the intelligence community and more broadly poses significant IT connectivity problems
- the continuing expansion of PM&C's role and size will affect the balance of the system as a whole and requires careful management. It will be essential to ensure that PM&C has staff with the right skills and leadership to take on its increased responsibilities. At the same time, the risk will grow that the best-qualified personnel will gravitate towards PM&C, denuding other agencies required to implement policy of vital expertise. Roles and responsibilities of agencies need to be clearly defined to avoid overlap and issues falling through the cracks. More coordination and, where appropriate, harmonisation of human resources policies and practices will be required across the international policy community to balance the need for mobility and staff development with government's requirements overall for particular skills and expertise.

DFAT faces particular challenges. It remains responsible for the day-to-day management of Australia's international relationships and the overseas diplomatic network, but in a very different environment.

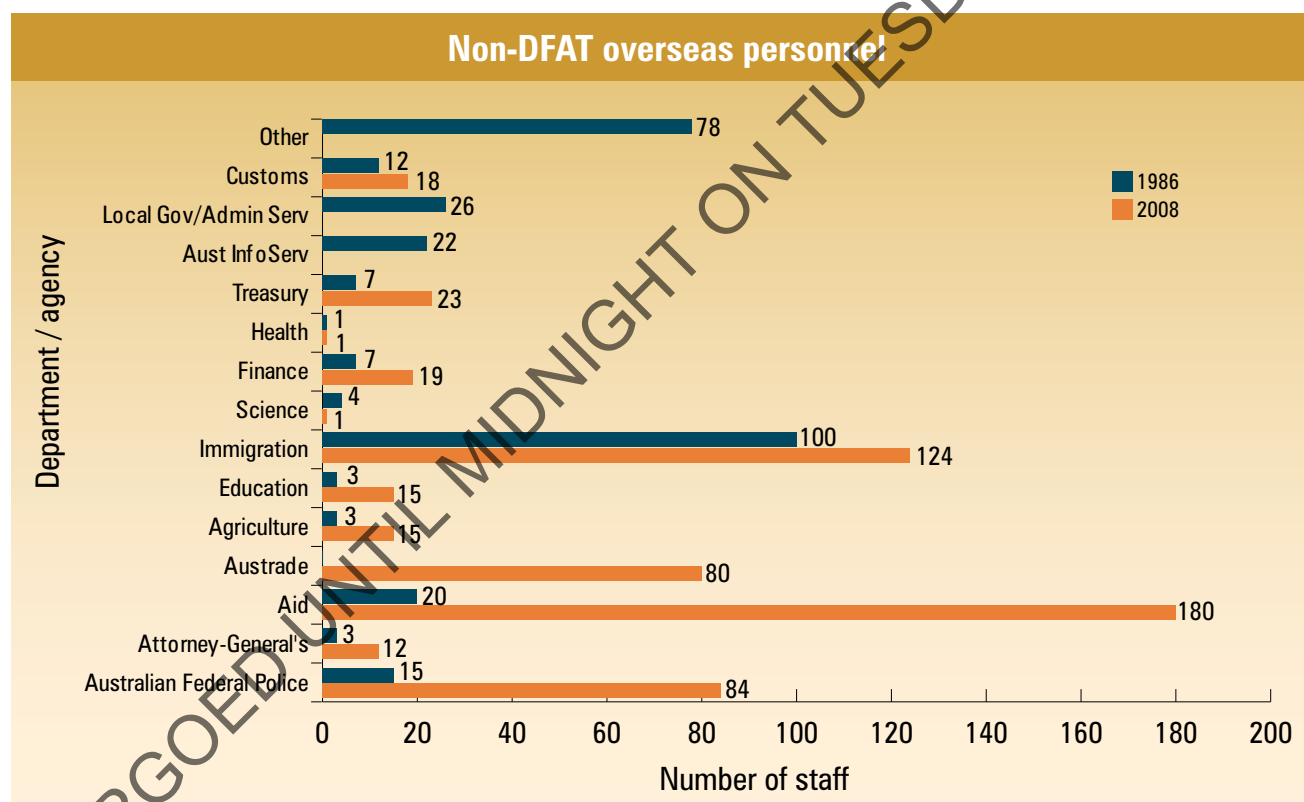
The changing international environment and the emergence of new formal and informal government structures and networks have fundamentally altered DFAT's *raison d'être*. Declining resources and new priorities have eroded its capacity to contribute to the development of policy, to warn of the unconsidered consequences of proposals and to guard against undue reliance on foreign sources of information and assessment. DFAT has lost its near monopoly on information about foreign events and finds itself operating in a more competitive policy environment. At the same time, budget cuts and the consular workload are squeezing the resources the department has available to develop informed contacts and understand local context, collect and analyse information and report it to Canberra in an actionable timeframe.

Many of the challenges DFAT faces call for more flexibility and an openness to new ideas and approaches, rather than traditional organisational responses that tend to be centralised and hierarchical. DFAT also has to be able to engage new audiences, both overseas and

in Australia. Our stakeholder survey found that DFAT's engagement with business and NGOs can lack structure and coherence and that less senior staff are sometimes tentative in their dealings with the non-government sector (see Annexure 3).

DFAT's role in international policy is changing, but it remains important. In the increasingly complex and challenging policy environment outlined above, DFAT's convening and coordinating function has grown significantly over the past two decades, particularly at posts. More than ever, DFAT needs the people, authority and other resources to perform a whole-of-government leadership role overseas.

A growing range of agencies is represented overseas, including in Australian missions (see chart below). Combined, other government departments and agencies now have over 2½ times as many staff deployed overseas as DFAT.



Source: DFAT, Review of Australia's overseas representation, 1986 and data supplied by Commonwealth departments and agencies.  
Note: Defence excluded.

Defence accounts for the overwhelming majority, with approximately 840 overseas-based staff<sup>75</sup> in 2008, compared with around 100 in 1986.<sup>76</sup> But even excluding Defence, other government departments and agencies combined now have more overseas personnel than DFAT (572 compared with DFAT's 517).<sup>77</sup> Besides Defence, AusAID, the Department of Immigration and Citizenship, the Australian Federal Police and Austrade account for the largest numbers. In 1986, however, only 438 non-DFAT agency staff were posted overseas, fewer than half the number of DFA

and Trade staff (944). DFA alone had 780 A-based staff overseas in 1986, 263 more than the 517 in the now-combined DFAT of 2008.

There are good reasons for this development, which has not been strategically planned but is driven by the trends outlined in Part 1 above. In a complex and internationalised public policy environment, traditional diplomats armed only with traditional diplomatic skills are no longer sufficient. Agencies seek the continuity of contact and other advantages that can only be achieved by overseas representation, and heads of mission often need to call on their own in-house specialists.

In this sense the traditional embassy – staffed by a core of foreign affairs officers augmented by ‘attached’ specialists, or attachés – is being superseded by the diplomatic mission as ‘offshore whole-of-government hub’. The agencies represented will vary depending on the size and nature of the particular relationship, but Australia’s larger diplomatic missions – for example, in Beijing, Jakarta and Washington – are much more microcosms of government than microcosms of DFAT with bits grafted on. DFAT staff are often well and truly outnumbered by other agencies at posts.

This approach has its advantages. Agencies often bring unique knowledge and capabilities to Australian diplomatic missions. Organisations such as the Australian Federal Police, Defence and the individual armed services, the Australian Security Intelligence Organisation, the Australian Secret Intelligence Service, Customs and the Department of Immigration and Citizenship play an increasingly important role in helping to build institutional capacity and security in neighbouring countries. Broad representation at posts can give an effective head of mission a comprehensive overview of the workings of a large, multifaceted relationship that cannot be replicated in Canberra. It can be much easier to forge a whole-of-government approach at posts than through a sometimes unwieldy international policy bureaucracy back home. And additional resources from other agencies have undoubtedly freed up DFAT staff from *some* tasks they used to perform on behalf of the rest of government before the relevant agency sent staff overseas.

But any reduction in the overall workload of DFAT staff at posts is more than offset:

- even when other agencies are represented at a post with their own thematic expertise, they often rely heavily on DFAT capabilities to support them. These include the head of mission’s inherent authority and, ideally, influence; local knowledge and contacts; and specialist skills such as language expertise, reporting and negotiation. Posts frequently establish small in-house teams to work on important policy issues, in which DFAT staff typically have a leading role
- the presence of other agencies requires a major investment in coordination, generally by the head of mission or the deputy chief of mission. In larger missions such as Jakarta or Washington, the range of agencies represented spans almost the entire Commonwealth

bureaucracy. In a well-functioning post, coordination becomes a major activity in its own right, not just at the most senior level but across the mission. This model, with DFAT leading whole-of-government team-based approaches at posts, has been vital to many recent Australian diplomatic successes, such as counter-terrorism cooperation in Southeast Asia

- the presence of other agencies also imposes a significant additional administrative overhead on DFAT, which is not fully reflected in the existing funding arrangements agreed with the Department of Finance and Deregulation. The scale of this burden was evident even in 1986, when it was estimated that Australia-based DFA and Trade personnel (separate at that point) provided by far the highest amount of staff time per annum to other departments at post (70 per cent of all staff hours shared between departments at post).<sup>78</sup> With the increasing representation of agencies and departments other than DFAT overseas, it is reasonable to assume this burden has increased further
- anecdotally, the overall workload of posts has grown; the gap continues to widen between expectations of small posts in particular – many of them operating in difficult circumstances in unstable countries – and the resources available to them.

### Diplomats for the 21st century

Traditionally, diplomacy has been conducted by professional career foreign service officers. They tended to operate as members of an elite global club with its own rules and protocols. Until recently Australia's diplomats were concerned mostly with government-to-government relationships: representing Australian government interests in host capitals, reporting developments back to Canberra and negotiating international agreements with other governments. These remain important tasks. But today our diplomats are more diverse, and we ask much more of them.

It makes sense in the 21st century to consider diplomacy as a skill set rather than a profession. Today's Australian diplomat is not necessarily from DFAT. Other Commonwealth agencies have over a thousand staff around the world, each with their own networks, specialist skills and expertise. When they are effectively integrated with our other instruments of international policy, their efforts are increasingly central to shaping Australia's international environment.

The work done by Australia's diplomats has changed too. Their tasks have greatly expanded. In a typical day – and depending on their role and the size and location of the mission – an Australian diplomat may perform some or all of the following:

- resolving a market access problem for an Australian company
- following up a consular inquiry
- giving a public presentation at a think tank
- getting to know an opposition political blogger, trade unionist or newspaper editor
- spending hours on the telephone with local officials negotiating the text of a joint statement
- setting up appointments for a visiting Australian minister or parliamentarian
- dealing with media inquiries on a fast-breaking controversy
- attending a coordination meeting with other agencies represented at the mission
- completing staff performance appraisals, managing locally engaged staff and responding to increasingly burdensome administrative requirements
- researching a political, economic or security issue and reporting back to Canberra – by telephone, email and sometimes by more formal diplomatic 'cable' message.

Much of this 21st century diplomacy can best be described as 'complexity management'.<sup>79</sup> In addition to having traditional skills and aptitudes, an effective diplomat today must be comfortable dealing with ambiguity and working across traditional policy divides and levels of government. Shaping and persuasive skills are vital. The job is about projecting Australian policy perspectives, outreach to a wide range of actors and servicing different clients, not just attending receptions or handing over third-person notes to the local foreign ministry. This is 'networked diplomacy'. It requires people with problem-solving skills who are motivated, adaptable, practical and able to create and leverage opportunities. They need strong strategic leadership, but also the resources, authority and autonomy to achieve results in a less hierarchical world.

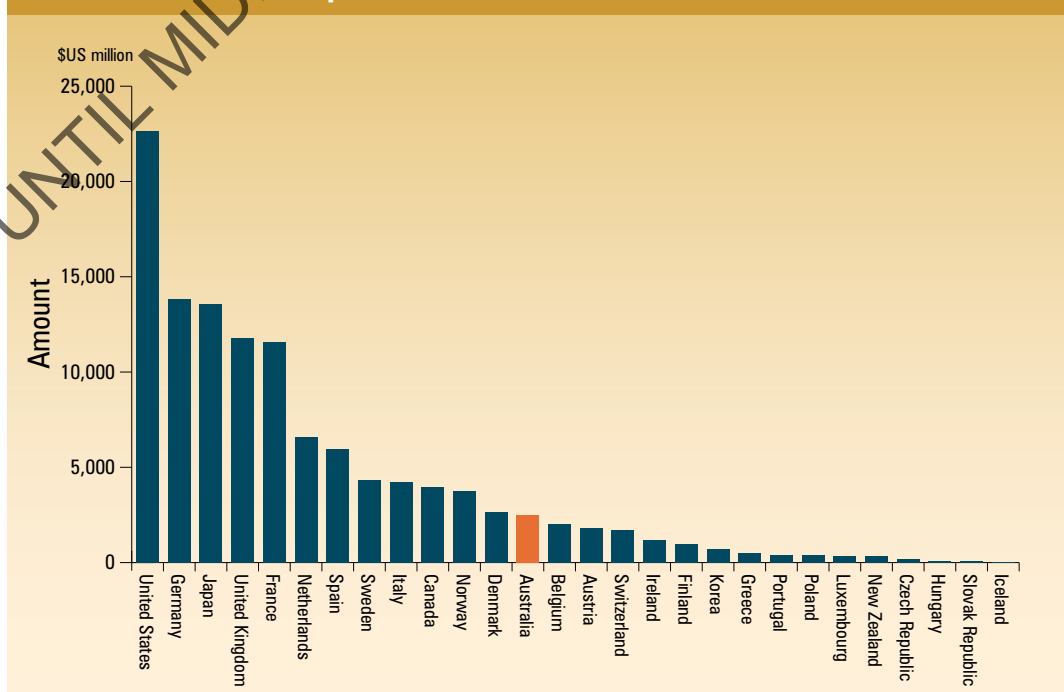
## Australia's overseas aid program

Australia's overseas aid program is managed by AusAID, a Commonwealth agency within the Foreign Affairs and Trade portfolio reporting directly to the Minister for Foreign Affairs. In theory, this should help ensure that AusAID's activities are coordinated with the other instruments of Australia's international policy.

The program aims to reduce poverty in developing countries. It also contributes to regional security, by helping partner governments improve law and order, prevent and recover from conflict, and manage transnational threats such as people trafficking, illicit drugs, HIV/AIDS and other communicable diseases. Building stronger communities and more stable governments in our region supports Australia's economic and security interests.

Australia's funding for Official Development Assistance (ODA) is broadly comparable with other developed nations', with a 2008–09 budget of \$3.7 billion (0.3 per cent of forecast GDP).<sup>80</sup> It ranked 13<sup>th</sup> among the OECD nations in terms of total ODA spending in 2007, and 15<sup>th</sup> in ODA spending as a proportion of Gross National Income (GNI), placing it in the middle cluster of developed countries by aid expenditure (see chart below).<sup>81</sup> The government's commitment to increasing Australia's aid as a percentage of GNI to 0.5 per cent by 2015–16<sup>82</sup> – assuming it is sustained despite the deteriorating Commonwealth Budget outlook – will ensure that Australia's aid contributions remain broadly competitive by international standards

Official development assistance from OECD countries, 2007

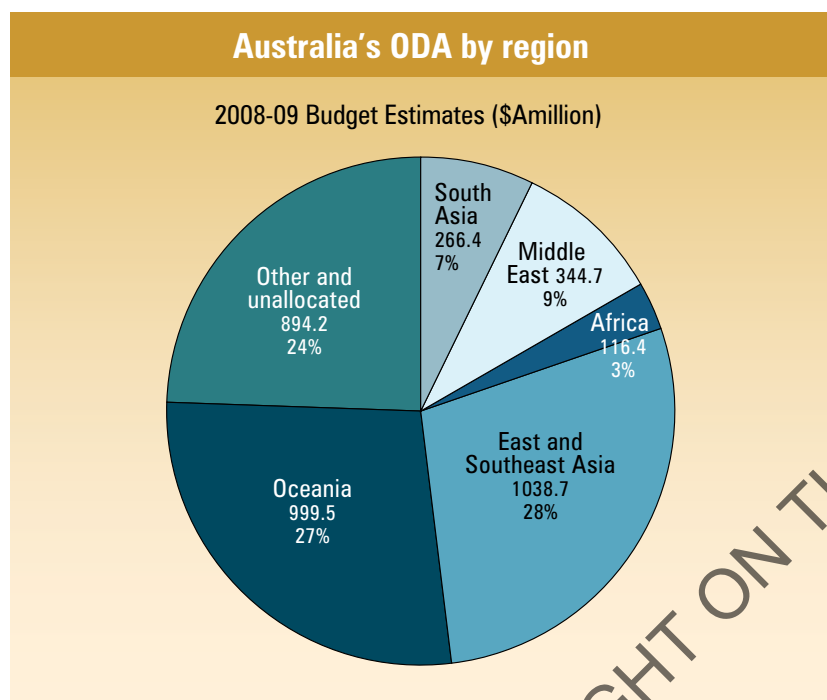


Source: OECD Statistics Database, ODA by Donor (April 2008).

Note: 2007 data for Thailand and Turkey were not available at the time of preparation.



Australia's ODA is allocated primarily to countries in our region (see chart below). In recent years, however, there has been an increasing focus on South Asia (seven per cent), the Middle East (nine per cent) and, to a lesser extent, Africa (three per cent), reflecting growing Australian security and commercial interests in those regions.<sup>83</sup>



Source: Australian Budget 2008-09 overview.

The scale of the national resources allocated to the aid program (around 5½ times DFAT's true operating budget) makes it potentially one of Australia's most important and influential instruments of international policy.

Scholarships for foreign students to study in Australia are an important way of pursuing both our development and our international policy goals. Over the period 2006–11, 19,000 scholarships will be administered by AusAID and the Department of Education, Employment and Workplace Relations. The aim is to double the number of scholarships offered to students from Asia-Pacific countries, at a cost of \$1.4 billion. In 2007–08, AusAID alone provided 1,967 scholarships at a total cost of \$132 million. The Department of Innovation, Industry, Science and Research also runs a postgraduate research scholarship program.

In June 2006, the former Coalition government released a White Paper, *Australian aid: promoting growth and stability*. It also established the Office of Development Effectiveness to monitor the quality and evaluate the impact of the Australian aid program.<sup>84</sup> The Rudd government is yet to conduct its own comprehensive review of the aid program.

AusAID does much good work.<sup>85</sup> Nevertheless, a number of significant challenges face the aid program and need to be addressed. These include:

*'Australia will need to manage the rapid increase of its aid volume to avoid undermining its strategic focus and to maintain complementarity while continuing to work constructively with other donors, in a context where capacity of partner countries to absorb aid can be limited.'*

Development Assistance Committee  
Peer Review of Australia,  
OECD, 2009

- greatly increased aid volumes, to be delivered in a way which maximises effectiveness and efficiency. The Rudd government is committed to increases which are likely to stretch AusAID's existing delivery capacity
- a need for proper badging. It will help our broader international policy goals, in a competitive environment, if beneficiary communities have a strong awareness that the development or humanitarian assistance originated in Australia. This is a growing challenge when AusAID and other agencies are increasingly using multilateral institutions and NGOs to deliver aid – often for good development reasons
- coordination with the other instruments of Australian international policy, including both other government agencies and non-government actors involved in delivering aid. AusAID works closely with international institutions, not-for-profit organisations and the private sector to deliver development assistance on the ground; this trend will only grow. The first Annual Review of Development Effectiveness, released in March 2008, identified scope for better coordination of Australian government agencies engaged in the aid program.<sup>86</sup>
- managing the tension that can sometimes exist between pursuing development goals and leveraging aid in support of international policy goals. This can never be fully resolved, and nor should we seek to. But some elements of the aid program – for example, capacity-building assistance and scholarships for foreign students to study in Australia – can play an important role in developing people-to-people links, building future influence and burnishing Australia's international image
- measuring the effectiveness of aid. This is notoriously difficult,<sup>87</sup> but AusAID needs to ensure it has rigorous processes in place to ensure that our swelling aid allocation is well spent. This will be important for sustaining public support for spending increases, particularly in a more difficult economic climate
- creating a greater focus on private sector development in regional countries, and greater engagement by Australian business in working with the aid program to stimulate development in the region<sup>88</sup>
- ensuring that, as more of Australia's aid is delivered through private sub-contractors, their activities are consistent not just with development objectives but also with public diplomacy goals.

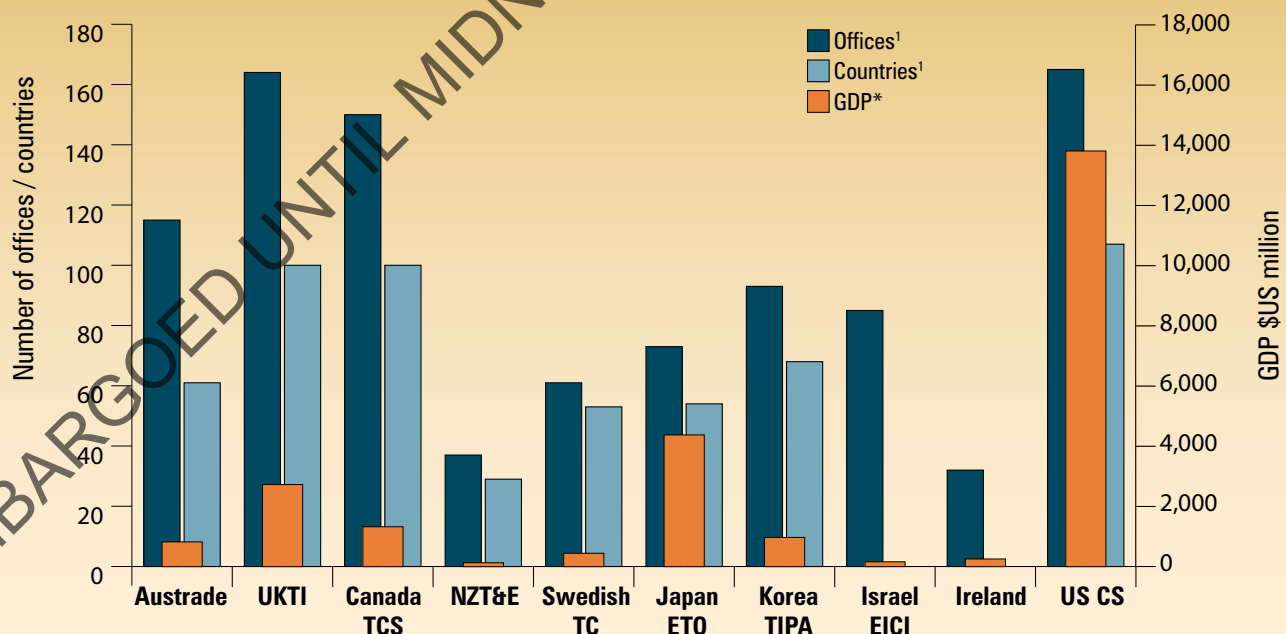
## Support for Australian business

Supporting Australian business in an increasingly competitive global marketplace has become a major priority for our instruments of international policy.

This increasing integration of trade issues with the international policy agenda was the main driver for the 1987 amalgamation of the separate departments of Trade and Foreign Affairs. DFAT has the lead role in trying to shape the system of international rules governing trade and investment to meet Australia's interests. It does this in consultation with other agencies – with input from exporters – through trade policy development and leading international trade negotiations, including multilateral talks in the World Trade Organization and bilateral free trade agreements.

Austrade and EFIC are the primary providers of support services for individual companies (providing respectively information, advice and grants, and finance and insurance). Austrade receives approximately \$360 million in funding from the Commonwealth,<sup>89</sup> while EFIC (the government's official export credit agency) is self-funded. But education and tourism are also vital and need to be better integrated into our economic diplomacy.

Comparative trade resourcing – offices and countries



<sup>1</sup> Overseas networks of selected trade and investment promotion organisations, 'Winning in world markets: meeting the competitive challenge of the new global economy: review of export policies and programs', 1 September 2008 (Mortimer Report); \*GDP \$USmillion 2007, World Bank, 1 July 2008. Country data not available for Israel and Ireland.



On the face of it, Australia's overseas trade and investment promotion coverage compares reasonably well (see chart opposite).

That said, several influential observers have argued that Australia's recent export performance has been disappointing, suggesting that Australia cannot afford to be complacent. For example, the Mortimer Review concluded that Australia's export and investment performance needs to improve significantly if Australia is to remain economically strong and internationally competitive.<sup>90</sup>

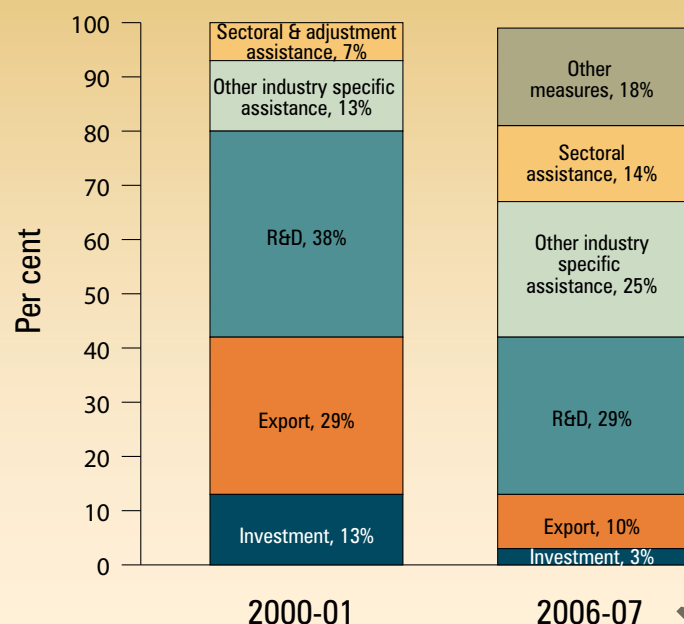
While the balance of the global economy is shifting towards Australia's region, growth in Australian exports has slowed in this decade. International trade was growing quickly before the financial crisis, with exports as a share of world GDP rising from around six per cent in 1950 to over 20 per cent in 2008.<sup>91</sup> Australia's exports as a share of its GDP grew far more modestly, however, from around 14 per cent in 1964 to approximately 20 per cent in 2007.<sup>92</sup>

The Mortimer Review concluded that future growth must come not only in the commodities sector, but in the underperforming services and manufactures export sectors.<sup>93</sup> Several mitigating factors need to be taken into account when evaluating Australia's export performance, however. In particular, Australia's export performance is likely to have been influenced by changing patterns of comparative advantage in the world economy.<sup>94</sup> Australia's resource exports – while benefitting from high prices – have been limited by significant supply-side constraints. Services exports may also have been dampened by the hit to international tourism produced by terrorism earlier this decade.

Ultimately, private industry does the exporting and investing. Yet government has an important role in helping to create a favourable environment for trade and investment and offering support to individual enterprises to find new markets and attract foreign investment. Government resourcing of trade and investment promotion has fallen significantly this decade. As a proportion of total government assistance to industry,<sup>95</sup> it declined from 42 per cent of total assistance in 2000–01 to 13 per cent in 2006–07 (see chart next page). And our overseas trade representation looks undergunned. In 2008 Austrade had a total overseas staff of 592; only 74 (12.5 per cent) were officials posted from headquarters, with 87.5 per cent locally engaged staff. By contrast, trade competitor Canada has a total overseas trade promotion staff of 1,050, fewer than 40 per cent of whom are LES; and only 43 per cent of the Japanese External Trade Organisation's overseas staff are LES.<sup>96</sup>

The Mortimer Review recommended a range of strategies to rejuvenate Australia's export performance, with a phased program of action over a number of years.<sup>97</sup> The recommendations included removing infrastructure and regulatory impediments within Australia, stimulating innovation and research, better allocating financial assistance to business, working to free up international trading conditions and aligning trade development programs to specific market opportunities.<sup>98</sup>

## Australian government budgetary assistance to business



Source: Productivity Commission, Annual Report Series, Trade and assistance review 2006-07 and 2000-01.

The Review pointed to some areas of potential improvement in the coordination and delivery of existing government trade-support programs: for example, in 2006-07, around 80 per cent (\$450 million) of EFIC's Commercial Account facilities were lent to only two companies in the mining sector. To encourage smaller exporters, the Review recommended raising awareness of EFIC's services through better cooperation and communication with Austrade.<sup>99</sup>

Government is yet to respond formally to the Review, but some of its recommendations would require additional resourcing, primarily through DFAT and Austrade. DFAT's reporting (on four broad 'outcomes') does not allow identification of trade-specific funding. In terms of staffing, however, the number of DFAT Canberra-based staff involved in trade functions has remained relatively static, at about 13 per cent of total staff at headquarters (175 of 1,336 Canberra staff in 2008).

## Non-government actors

In Part 1 we described how globalisation and the information revolution have fed an explosion in the number and influence of non-government actors. Over 61,000 multinational corporations have been joined by NGOs and think tanks as influential actors in the international system.<sup>100</sup>

*'Public opinion holds more sway than any previous time in history. Information and communication technologies are cheap and ubiquitous. A dense network of private companies, non-governmental organizations, and social movements exert ever more influence relative to governments.'*

Kristin M Lord, Voices of America:  
US public diplomacy for the 21st  
century, The Brookings Institution,  
November 2008

By one estimate there are now 5000 think tanks internationally<sup>101</sup> and as many as 35 in Australia.<sup>102</sup> As well as the Lowy Institute, the Australian Institute of International Affairs, the Australian Strategic Policy Institute, the United States Studies Centre and the Centre for Independent Studies all make active contributions to the international policy debate. These organisations – which in their classic form are engaged in applied research in public policy – introduce new voices and policy options into the international policy-making process. They also provide a mechanism for engaging and influencing new international partners. Some receive funding from government, but generally their distance from government frees them to test ideas that governments may not be ready to endorse as formal policy, and to lead the development of new relationships.

Think tanks, for example, help anchor public debate in evidence; they are the source of new ideas, and can float proposals that are too risky for governments. They also bring together different non-government groups in second-track dialogues,<sup>103</sup> the Lowy Institute's Australia–India and Australia–UAE dialogues are two recent instances. NGOs can be enormously influential, as was demonstrated through international efforts to ban landmines and the pressure environmental groups have brought to bear on governments in the climate change debate.

These actors can also play a part in policy implementation. For example, NGOs and religious organisations were critical players in the interfaith dialogue process founded by Australia and Indonesia to combat extremism. Private philanthropy – particularly from big businesses – can augment government resources. The Bill & Melinda Gates Foundation, for example, is greatly expanding its work on HIV/AIDS, tuberculosis and malaria in the Pacific.

Many of the thousands of Australian civil society groups have active links with similar groups around the world. These networks represent a considerable reservoir of untapped diplomatic potential.



Australia-India Roundtable, Lowy Institute for International Policy,  
November 2008

The vast growth of non-state actors presents governments with the challenge of successfully engaging with them and working towards similar objectives where possible. The International Strategy Unit within PM&C is moving down this path – holding workshops and roundtables with non-government experts on issues such as energy security and regional architecture. DFAT has mechanisms for engaging with NGOs on human rights issues and with businesses on trade and investment liberalisation. Its Global Issues Branch also engages a range of non-government experts. However, the outreach process needs to become much more comprehensive and part of the core business of the international policy community.



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## Part 3

### Reinvesting in our diplomatic infrastructure

Our review identified significant shortcomings in Australia's instruments of international policy. The Panel recognises that resources are finite. We consider, however, that the following steps are necessary to protect Australia's interests:

#### The overseas network: closing the diplomatic deficit

Australia's overseas diplomatic network is hollowed out and under increasing strain. Unless this is addressed urgently, Australia will struggle to protect its interests in an increasingly challenging and competitive world. The Panel recommends that government make a major, staged reinvestment in Australia's overseas diplomatic network. This should include:

- new resources to provide 75 additional A-based staff over the next three years across overstretched Australian missions. Priorities should include bulking up existing posts in India, Afghanistan, Pakistan, Iraq, Iran, the Gulf States, Africa, Turkey and Latin America
- opening 20 new Australian diplomatic missions over the next 10 years in: regional India (including Mumbai); regional China (including Chengdu and Chongqing); regional Indonesia (including Makassar); Africa (including North Africa); Latin America; North Asia (including North Korea and Mongolia); and Central Asia (including Kazakhstan)
- setting a goal of raising the proportion of DFAT's A-based staff (excluding passports staff) posted overseas to 40 per cent of the total. This should be achieved by providing additional resources for overseas staff (as recommended above) rather than further reductions to policy resources in Canberra
- ensuring heads of mission have the leadership ability and organisational authority to direct and project a cohesive whole-of-government approach, including by giving them more discretionary resources, holding them accountable for results, and streamlining administration and reporting requirements.

## Consular services: recognising reality

Taxpayers are entitled to appropriate support from government when they are travelling overseas, but soaring and, in many cases, unrealistic demands for consular services are a major reason for the hollowing out of the overseas diplomatic network and DFAT's policy capacity. Government should:

- establish a separate head of consular services in DFAT with a discrete and publicly transparent budget, to be responsible for consular policy and delivery of all consular services
- provide a one-off injection of funds to boost the pool of consular staff in Canberra and at posts proportionate to the increase in consular cases and put in place an agreed funding formula to ensure consular resources keep pace with future demand
- consider ways to ensure that government's obligation to provide consular support to its citizens is matched on the part of the traveller, including an obligation to take out travel insurance, register with Smartraveller and, where appropriate, pay for consular services
- explore new media techniques for keeping travellers informed
- increase regional hubbing of consular resources and appoint regional consular directors
- engage the media about consular issues in a more structured way (for example, through a familiarisation program and ongoing information updates)
- establish clear standards of consular service, publicise them and apply them consistently

## Diplomats for the 21<sup>st</sup> century: rebuilding our intellectual infrastructure

We need to reconceptualise how we think about diplomats and diplomacy. Diplomacy is now a skill set rather than a profession. Australia needs to develop a more professional approach to human resources across the entire international policy community. This should include:

- a major reinvestment in language skills (particularly East Asian and Pacific languages, Arabic and Hindi/Urdu) and expansion of the number of language-designated positions
- funding for other specialist skills including regional expertise, international finance and economics, public diplomacy, new media and civil society

- a more strategic approach to human resources, supported by human resources professionals, including enhanced training and mentoring for team leaders and a focus on priority specialist skills
- enhanced mobility between government agencies. For example, DFAT should end its practice of requiring lateral entrants to start at the bottom of the relevant salary band and provide incentives for managers to undertake secondments with other agencies
- training in diplomatic skills for staff representing agencies other than DFAT in roles abroad with a significant diplomatic component
- developing an effective surge capacity to respond to urgent policy, consular or other demands (for example, consular emergencies or stabilisation and reconstruction operations) while minimising diversion of resources from other priorities
- encouraging an organisational culture that promotes leadership and initiative at all levels, is open to ideas and focuses on results and managing rather than avoiding risk.

## Public diplomacy: integration and targeting

Australia is lagging behind public diplomacy best practice. We need a better resourced, more focused public diplomacy effort to shape the views of increasingly influential non-state actors and key communities. Our public diplomacy needs to be informed by experts and integrated with all stages of international policy development and implementation, and across government. Government should:

- hire strategic communications professionals and integrate them fully within the policy process
- introduce professional public diplomacy training for all staff involved in international policy
- appoint a senior strategic communications coordinator, to work across government and with civil society, reporting to the National Security Adviser
- separate the public diplomacy function from the consular role in DFAT
- review existing guidelines on staff contact with the media, with a view to making them less restrictive
- give posts significantly more discretionary resources for public diplomacy activities
- develop an Australian government international broadcasting strategy

- make a major investment in new media, including blogs, Wikis and video sharing as public diplomacy tools
- reorient cultural diplomacy away from elite audiences towards key target audiences such as youth, potential leaders and Islamic communities.

## Economic diplomacy: boosting exports and investment and supporting jobs

Efforts to bolster Australian exports and attract foreign investment have taken on new urgency with the onset of the global financial crisis:

- government and business will need to work in closer partnership to develop an aggressive plan to grow Australian markets and improve our export performance, particularly in the services and manufactures sectors
- as well as addressing traditional trade and investment promotion activities, the government's response to the Mortimer Review should also focus on marketing Australia as a destination for students, skilled migrants and tourists.

## Aid: maximising impact

Australia's aid program makes an important contribution to development and humanitarian relief, particularly in our immediate neighbourhood. We can also leverage our aid program in support of our international policy goals. AusAID will need to be conscious of a number of major challenges:

- the substantial increase in the Australian aid budget could stretch delivery capacity
- the program may have to adapt quickly to changing needs in recipient countries as a result of the global financial crisis
- the aid program should naturally retain a focus on development goals, but AusAID needs to be conscious of Australia's broader international policy goals in developing and implementing projects
- the badging of Australian aid needs to be improved and it should be better integrated with whole-of-government public diplomacy objectives
- scholarships for foreign students to study in Australia are particularly important, as the Colombo Plan demonstrated, but greater consistency in branding would be desirable

- AusAID needs to intensify its engagement with civil society – both in Australia and abroad – because the development task is so difficult, the actors involved so diverse and the answers so uncertain.

## Improving outreach: building new international policy networks

The government agencies responsible for developing and implementing Australia's international policy need to give higher priority to outreach activities, engaging a wider range of non-government groups in a more systematic way. The government's capacity to influence the world will be greater if it can build a stronger domestic constituency and leverage stakeholders beyond government for international policy ideas and delivery. Government should:

- establish policy task groups on complex international policy challenges (starting with climate change, energy security, the food crisis and biosecurity). These would be jointly chaired by government and non-government representatives and would bring together relevant government, business and non-government expertise. They should also seek to engage the broader Australian public, including through online media
- increase outreach by agencies at all levels, and make it a mainstream activity, for example, by providing appropriate resources for engaging business and other civil society stakeholders such as academia and think tanks
- facilitate links between Australian civil society organisations and their overseas counterparts where this reinforces Australia's international policy goals
- use new media (closed-group Wikis, video teleconferences, electronic newsletters etc) to network government agencies, interested businesses, think tanks and NGOs.

## International policy machinery: improving strategic focus and cohesion

Coordination and integration of policy across a steadily expanding array of agencies is an imperative if Australia is to develop effective responses to the complex international problems we face. In December 2008, the Rudd government announced a number of modifications to Australia's national security arrangements in its inaugural National Security Statement, including regular foreign policy statements. These statements should:

- cover trade as well as foreign policy



- set a limited number of strategic goals and priorities for agencies involved in developing and implementing international policy
- establish clear measures of performance against those goals
- assess performance and the allocation of resources across the instruments, including detailed information about progress in implementing the ten year plan for expanding the overseas network outlined above
- ensure that the instruments of national security policy (including intelligence, law enforcement and defence cooperation) are coordinated with the instruments of international policy and support international policy goals
- provide comprehensive information about human resources across the international policy community
- provide a regular detailed breakdown of language skills in DFAT and across the international policy community more broadly, and set targets for remedying deficiencies in priority languages, particularly East Asian and Pacific languages, Hindi/Urdu and Arabic.

## Annexure 1

### The Blue Ribbon Panel



**Jillian Broadbent AO** is a member of the Board of the Reserve Bank of Australia and a director of CocaCola Amatil Ltd and the Special Broadcasting Service (SBS). She has had a distinguished career in banking and finance both in Australia and overseas and was a director of Woodside Petroleum Ltd and a senior executive of Bankers Trust Australia. In 1987, Ms Broadbent was named the Qantas/Bulletin Business Woman of the Year and in 2003 she was made an Officer of the Order of Australia.



**Professor William Maley AM** is the Foundation Director of the Asia-Pacific College of Diplomacy, Australian National University. He taught for many years in the School of Politics, University College, University of New South Wales and the Australian Defence Force Academy. He is a Barrister of the High Court of Australia, a member of the Executive Committee of the Refugee Council of Australia, and a member of the Australian Committee of the Council for Security Cooperation in the Asia Pacific (CSCAP). In 2002, Professor Maley was appointed a Member of the Order of Australia.



**Brad Orgill** recently retired from UBS where he was a member of the global Group Managing Board and Chairman of UBS Australia. His career, across Asia and Australia, included roles as UBS CEO/ Country Head for each of Hong Kong, China, Singapore and Australia. He holds degrees in Economics and Asian Studies and has served in industry, business and advisory groups including the BCA, AFMA, YPO and the Malaysia Stock Exchange.



**Professor Peter Shergold AC** is the Macquarie Group Foundation Chair of the Centre for Social Impact, University of New South Wales. He served as Secretary of the Department of the Prime Minister and Cabinet from 2003 to 2008, and was a CEO in the public service over two decades. He is on the Board of AMP and is the Chair of the Australian Rural Leadership Foundation. He is also a Senior Visiting Fellow of the Singapore Civil Service College. Professor Shergold was made a Member of the Order of Australia in 1996, and in 2007 was elevated to Companion of the Order of Australia.



**Ric Smith AO PSM** had a distinguished career in the Australian Public Service after joining the Department of External Affairs in 1969. He was Secretary of the Department of Defence, and served as Australian Ambassador to the People's Republic of China and to the Republic of Indonesia. He was previously also a diplomat in New Delhi, Tel Aviv and Manila and Consul-General in Honolulu. Mr Smith was named an Officer of the Order of Australia in 1998 and was awarded the Public Service Medal in 2003. He retired from the Australian Public Service in 2006. In 2008 he undertook a Review of Homeland and Border Security for the Commonwealth government.



**Allan Gyngell** is the Executive Director of the Lowy Institute for International Policy. From 1993 to 1996 he was a foreign policy adviser in the office of the Australian Prime Minister, Paul Keating. He served as an Australian diplomat in Rangoon, Singapore and Washington and worked with the Office of National Assessments for a number of years. He also held the position of First Assistant Secretary in the International Division of the Department of the Prime Minister and Cabinet.

## Annexure 2

### How the Panel functioned

In a first for an Australian foreign policy think tank, in mid 2008, Allan Gyngell, the Executive Director of the Lowy Institute, asked five other eminent independent experts to join him on a panel to review Australia's instruments of international policy. At the initiative of the Institute, the Panel's task was to determine the fitness of those instruments to meet the complex and evolving challenges of the 21<sup>st</sup> century and recommend ways to adapt them to develop and implement more effectively Australia's foreign and trade policies.

The Panel, chaired by Mr Gyngell, met formally four times: 11 August, 2 September and 4 November 2008 and 5 February 2009. The Panel's work was supported by a research team coordinated by Lowy Institute Director of Studies, Andrew Shearer, with the assistance of research associates Fergus Hanson and Alex Duchon. Together they served as the principal drafters of this Panel report.

The Panel aimed to develop as comprehensive a picture as possible of Australia's instruments of international policy, their operating environment and the challenges confronting them.

To this end the research team reviewed the relevant academic and other literature, including reports by other think tanks and governments, and prepared draft reports, research papers and other supporting documents for consideration by the Panel. It also surveyed attitudes of key non-government stakeholders.

While bearing in mind the challenges of comparing international data in this field, the Panel also sought to assess the resources of Australia's instruments of international policy relative to those of broadly comparable countries. Data generously and expeditiously provided by the diplomatic missions in Australia of Canada, Japan, the Netherlands, New Zealand and the United Kingdom gave valuable insights, and the embassies of several other OECD countries also provided helpful assistance. The comprehensive information on budgets and staffing provided by the foreign affairs ministries of these nations helped the Panel to reach informed conclusions about the appropriate resourcing of Australia's instruments of international policy.

Reflecting the whole-of-government scope of Australia's contemporary international policy interests and representation, a wide range of Commonwealth departments and agencies also provided useful data on their overseas resourcing. These included the departments of Foreign Affairs and Trade; Defence; Treasury; the Attorney-General; Agriculture, Fisheries and Forestry; Education, Employment and Workplace Relations; Finance and Deregulation; Immigration and Citizenship; Innovation, Industry, Science and Research; and Health and Ageing. They also included the Australian Federal Police, AusAID, Austrade and state government agencies.

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## Annexure 3

### Survey of major non-government stakeholders

In early December 2008, the Lowy Institute for International Policy conducted eight interviews with representatives of major Australian non-government stakeholders. The interviews sought to examine civil society's engagement with the major Commonwealth departments and agencies involved in international policy.

Participants in the survey were drawn from industry associations, research institutions, and NGOs involved in protecting human rights and the delivery of aid. The participants – World Vision Australia, the Australian Industry Group, the Human Rights Council of Australia, CARE Australia, the Business Council of Australia, the Minerals Council of Australia, the Strategic and Defence Studies Centre at the Australian National University, and Oxfam Australia – described their engagement with government. This included consulting and input into policy and strategy, implementing international programs, bidding for grants, and engagement in the field – such as civilian-military cooperation in emergency, disaster and conflict zones – and dealing with development banks and Treasury on foreign investments. Participants answered open-ended questions about their engagement with government and were asked to suggest recommendations for government's future engagement with civil society in the policy process.

### Survey findings

On the whole, the survey participants considered that the conduct of international policy in Australia would benefit from better coordination (between departments, agencies and non-state stakeholders). This could help synchronise the implementation of policy and projects and more efficiently allocate what they perceived as the shrinking resources of government. Many respondents noted the increasing internationalisation of many policy issues and the number of government departments and agencies now involved in international issues.

Some observers suggested that relationships with DFAT, and opportunities for international engagement, would benefit from better coordination and planning at all levels: within DFAT, between DFAT and other departments and agencies, and between DFAT and non-government entities. While some praised DFAT staff for their responsiveness, other participants observed a degree of discomfort, 'tentativeness' and 'caution' in their dealings outside government.



Participants believed strongly that non-state entities had a substantial amount of knowledge and expertise gained from experience in the field, which would benefit government and agencies who were receptive to reciprocal information sharing. This would assist with country and situation analysis, which is critical in the policy process. Some noted that ministers were often more responsive to external input than the bureaucracy.

## Recommendations from participants

Several strong recommendations emerged from the survey and were independently offered by participants. These included:

- targeted ad hoc roundtables bringing together small groups of experts, government representatives, NGOs and academics to develop strategies for tackling specific cross-cutting issues (for example, energy security)
- creation of an effective inter-departmental coordination body for international issues and programs
- more consultation and information sharing between government and NGOs (a reciprocal obligation), including regular unclassified briefings on issues of mutual concern
- engaging specialists in important policy areas (including economists with international economic integration expertise)
- establishment of staff training programs on the role of civil society in the international policy process, and potentially the funding of internships with NGOs or UN agencies.

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## Notes

<sup>1</sup> Commonwealth of Australia, *Winning in world markets: meeting the competitive challenge of the new global economy: review of export policies and programs*. Canberra, 2008.

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<sup>10</sup> On the key dimensions of diplomatic activity see Christer Jonsson and Martin Hall, *Essence of diplomacy*. Studies in diplomacy and international relations. London, Palgrave Macmillan, 2005.

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<sup>12</sup> Australian Treasury, *Budget Paper No 1, Statement 3: Fiscal Strategy and Outlook*. 2008–09 Federal Budget, 13 May 2008.

<sup>13</sup> IMF World economic outlook database, October 2008.

<sup>14</sup> In purchasing power parity terms. *Winning in world markets: meeting the competitive challenge of the new global economy: review of export policies and programs*, p 34; Peter Varghese, *The strategic consequences of shifting global economic power*. Speech for the Australian Strategic Policy Institute, 25 September 2008.

<sup>15</sup> *Winning in world markets: meeting the competitive challenge of the new global economy: review of export policies and programs*, p 34.

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<sup>17</sup> DFAT, *Direction of merchandise exports 2007–08*. DFAT 2008: [http://www.dfat.gov.au/publications/stats-pubs/dme/direction\\_exports\\_0708.pdf](http://www.dfat.gov.au/publications/stats-pubs/dme/direction_exports_0708.pdf).

<sup>18</sup> Tim Harcourt, *Destination anywhere: which markets matter most to Australian exporters?* Australian Trade Commission, 13 November 2007: <http://www.austrade.gov.au/Default.aspx?PrintFriendly=True&ArticleID=5486>.

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<sup>20</sup> The World Bank, *Global economic prospects 2007: managing the next wave of globalization*. 1 December 2006.

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<sup>33</sup> Including Defence Materiel Organisation and Defence Housing; all data from Australian Treasury, *Budget Paper No 4: Agency Resourcing*. 2008–09 Federal Budget, 13 May 2008.

<sup>34</sup> Figures based on agency annual reports.

<sup>35</sup> DFAT, *Annual report 2007–2008*. Canberra, October 2008.

<sup>36</sup> Department of Foreign Affairs, *Review of Australia's overseas representation*.

<sup>37</sup> Ali Babacan, Speech delivered by the Turkish Minister of Foreign Affairs. Council on Foreign Relations, New York, 22 September 2008.

<sup>38</sup> US Secretary of State Condoleezza Rice, Transformational diplomacy, Georgetown University, Washington, DC, 18 January 2006; see also reports of the Secretary's Advisory Committee on Transformational Diplomacy. See also US DOS Advisory Committee on Transformational Diplomacy, *Final report of the State Department in 2025 Working Group*. 28 January 2008.

<sup>39</sup> Hillary Rodham Clinton confirmation hearing statement, Washington, DC, 13 January 2009; Robert M Gates, US Global Leadership Campaign speech by the US Secretary of Defense. Washington, DC, 15 July 2008.

<sup>40</sup> See, for example, The American Academy of Diplomacy, *A foreign affairs budget for the future: fixing the crisis in diplomatic readiness*. October 2008; Center for Strategic and International Studies, CSIS commission on smart power, *A smarter, more secure America*. Washington, DC, CSIS, 2007: <http://www.csis.org/smartpower>.

<sup>41</sup> Cabinet nod for MEA expansion. *Indian Express*, 21 August 2008. See also: Govt announces 249 more posts for MEA. *The Times of India*, 22 August 2008.

<sup>42</sup> The World Bank, *World Development Indicators Database*, 2007 GDP data, revised 10 September 2008.

<sup>43</sup> Donnelly and Ford, *Into Africa: how the resource boom is making Sub-Saharan Africa more important to Australia*.

<sup>44</sup> Bubalo, *So what? Matching policy to Australian interests in West Asia*.

<sup>45</sup> Foreign Affairs and International Trade Canada, *Canada's international policy statement: a role of pride and influence in the world*. FAIT, April 2005.

<sup>46</sup> Foreign and Commonwealth Office, *Active diplomacy for a changing world: the UK's international priorities*. March 2006, p 47.

<sup>47</sup> Data provided to the Lowy Institute by the Embassy of Japan and the UK High Commission.

<sup>48</sup> Department of Foreign Affairs, *Review of Australia's overseas representation*, p 20.

<sup>49</sup> Agency annual reports, budgets and Phillip Flood, *Report of the inquiry into Australian intelligence agencies*. 20 July 2004.

<sup>50</sup> The point at which accruals budgeting was introduced; although comparisons before then are problematic, DFAT – like other Commonwealth departments – underwent particularly deep cuts in the 1996–97 and 1997–98 budgets.

<sup>51</sup> This figure is an adjustment from the total reported 'departmental outputs and administered expenses' (\$1,198,526,000) to reflect true base operational expenditure controlled by DFAT.

It excludes: items not under the control of the department ('administered expenses' such as contributions to international organisations and UN peacekeeping operations, grants to non-profits, costs of employee pension schemes, write-down of assets, and costs of administering EFIC); costs which are 'fixed' in nature such as the funding of the passports operation; costs which are unavoidable, such as depreciation, parameter adjustments and FOREX adjustments; and one-off costs such as the tsunami relief effort, the Lebanon crisis response and the APEC forum. This methodology was developed in consultation with DFAT with a view to giving the most accurate resource picture possible.

<sup>52</sup> S3R3 (DFAT classification: Speaking proficiency 3 Reading proficiency 3; the highest rating is S4R4 which is equivalent to the proficiency of a native speaker).

<sup>53</sup> Cameron Stewart, Most envoys can't speak Asian. *The Australian*, 13 October 2008.

<sup>54</sup> DFAT, *Annual report 1995–96*. Canberra, September 1996; DFAT, *Annual report 2005–2006*. Canberra, October 2006.

<sup>55</sup> Between July 2007 and June 2008; DFAT, *Annual report 2007–2008*, p 181.

<sup>56</sup> DFAT annual reports.

<sup>57</sup> Bali bombings October 2002, Boxing Day tsunami December 2004, Lebanon conflict and evacuation 2006, Bangkok airport protests November 2008.

<sup>58</sup> Hugh White, *Looking after Australians overseas*. Sydney, Lowy Institute Policy Brief, October 2007, p 2; DFAT, *Annual report 2006–2007*. Canberra, October 2007, Secretary's review.

<sup>59</sup> Fergus Hanson, *The Lowy Institute Poll 2008*. Sydney, Lowy Institute for International Policy, September 2008, an increase of five percentage points from 2007.

<sup>60</sup> Media monitoring and citation service.

<sup>61</sup> Luke T Lee and John Quigley, *Consular law and practice*. 3rd ed. Oxford, Oxford University Press, 2008.

<sup>62</sup> These functions are amalgamated in departmental reporting.

<sup>63</sup> For background, see Jan Melissen (ed), *The new diplomacy: soft power in international relations*. London, Palgrave Macmillan, 2005.

<sup>64</sup> The Australian Film Commission (Embassy Film Roadshow) has been described as 'one of the department's [DFAT's] most popular and effective PD initiatives' in DFAT, *Annual report 2006–2007*, p 213.

<sup>65</sup> Senate Standing Committee on Foreign Affairs, Defence and Trade, *Australia's public diplomacy: building our image*. 16 August 2007, p xi; Brian Hocking, *Reconfiguring public diplomacy: from competition to collaboration*. Foreign and Commonwealth Office 2008: <http://www.fco.gov.uk/en/about-the-fco/publications/publications/pd-publication/reconfiguring-pd>.

<sup>66</sup> Chris Wilton, Jonathon Griffin and Andrew Fotheringham, *Changing perceptions: review of public diplomacy*. London, Foreign and Commonwealth Office, 22 March 2002; Lord Carter of Coles, *Public diplomacy review*. London, Foreign and Commonwealth Office, 13 December 2005; US DOS Advisory Committee on Transformational Diplomacy, *Final report of the State Department in 2025 Working Group*; Foreign Affairs and International Trade Canada, *Canada's international policy statement: a role of pride and influence in the world*. FAIT, April 2005.

<sup>67</sup> Foreign Affairs and International Trade Canada, *Canada's international policy statement: a role of pride and influence in the world*.

<sup>68</sup> Center for Strategic and International Studies, *CSIS commission on smart power: a smarter, more secure America*, pp 47–48.

<sup>69</sup> For example, Ministry of Foreign Affairs of the Netherlands, *Policy agenda*. 2008; Denmark Ministry of Foreign Affairs, *Annual report 2007*, p 12.

<sup>70</sup> Senate Standing Committee on Foreign Affairs, *Australia's public diplomacy: building our image*, p 135; Michael Fullilove, *World wide webs: diasporas and the international system*. Sydney, Lowy Institute Paper 22, 2008, p vii; US Center for Citizen Diplomacy: <http://www.uscenterforcitizendiplomacy.org>.

<sup>71</sup> DFAT, *Promoting a positive image of Australia*. DFAT 2007: [www.dfat.gov.au/corporateplan/2007/index.html](http://www.dfat.gov.au/corporateplan/2007/index.html).

<sup>72</sup> Senate Standing Committee on Foreign Affairs, *Australia's public diplomacy: building our image*, pp 103–104.

<sup>73</sup> Ibid, pp 170–171.

<sup>74</sup> Ibid, p 186; DFAT annual reports.

<sup>75</sup> These are defence personnel on long-term duty or deployment as distinct from the approximately 4,000 personnel currently deployed on operations overseas.

<sup>76</sup> Department of Foreign Affairs, *Review of Australia's overseas representation*.

<sup>77</sup> Australian Federal Police figures exclude International Deployment Group personnel.

<sup>78</sup> Department of Foreign Affairs, *Review of Australia's overseas representation*, p 31, based on survey of staff in September 1985.

<sup>79</sup> Heine, *On the manner of practising the new diplomacy*.

<sup>80</sup> AusAID, *Australia's international development assistance program 2008–09: budget highlights*. 13 May 2008, p 1.

<sup>81</sup> Organisation for Economic Cooperation and Development, *Debt relief is down: other ODA rises slightly*, appendix. OECD 4 April 2008: <http://www.oecd.org/dataoecd/27/55/40381862.pdf>.

<sup>82</sup> Stephen Smith and Bob McMullan, *Media release: 2008–09 international development assistance budget*. AusAID 13 May 2008: [http://www.ausaid.gov.au/media/release.cfm?BC=Media&ID=5748\\_7603\\_7093\\_1168\\_6081](http://www.ausaid.gov.au/media/release.cfm?BC=Media&ID=5748_7603_7093_1168_6081).

<sup>83</sup> Australian Government, *Australia's international development assistance program 2008–09*. 13 May 2008, p 6 (table 2: Australian ODA by partner countries and regions).

<sup>84</sup> AusAID Office of Development Effectiveness, *Development effectiveness*. AusAID January 2008: <http://www.ausaid.gov.au/ode/default.cfm>.

<sup>85</sup> OECD Development Assistance Committee, *DAC peer review of Australia*. 2009.

<sup>86</sup> AusAID Office of Development Effectiveness, *Annual review of development effectiveness 2007*. March 2008, p viii.

<sup>87</sup> Doug Porter, Bryant J Allen and Gaye Thompson, *Development in practice: paved with good intentions*. London, Routledge, 1991.

<sup>88</sup> Jenny Hayward-Jones, *Beyond good governance: shifting the paradigm for Australian aid to the Pacific Islands region*. Sydney, Lowy Institute Policy Brief, September 2008.

<sup>89</sup> Australian Treasury, *2008–09 Budget Paper No 4: Agency Resourcing*. Foreign Affairs and Trade.



<sup>90</sup> *Winning in world markets: meeting the competitive challenge of the new global economy: review of export policies and programs.*

<sup>91</sup> Ibid, p 35.

<sup>92</sup> Ibid, p 175. While it is true that exports as a share of GDP are lower for Australia than for most other OECD economies, in large part this likely reflects structural features of the Australian economy, including its geographical location. Simon Guttman and Anthony Richards, *Trade openness: an Australian perspective*. Research Discussion Paper 2004–11. Sydney, Reserve Bank of Australia, December 2004.

<sup>93</sup> *Winning in world markets: meeting the competitive challenge of the new global economy: review of export policies and programs*, p 20.

<sup>94</sup> The recent resources boom, for example, boosted Australia's terms of trade and so contributed to an appreciation of the exchange rate. This almost certainly dented Australian export competitiveness, particularly for the country's manufacturing exporters, who were also facing increased competition from low-cost producers in emerging Asia.

<sup>95</sup> That is, \$3.8 billion in 2000–01 (or \$4.5 billion adjusted for inflation using 2006–07 as base year) and \$6.5 billion in 2006–07: Productivity Commission, *Trade and assistance review 2006–07*. Annual Report Series. Canberra, March 2008, ss 2.5–2.8 and Productivity Commission, *Trade and assistance review 2000–01*. Annual Report Series. Canberra, December 2001, pp 49–54. 'Industry assistance' comprises program outlays (such as R&D start, innovation investment funds, and CSIRO funding), and tax expenditures (such as passenger motor vehicle tariff concessions, the automotive competitiveness investment scheme, and R&D tax concessions). The largest portion of budgetary assistance to industry is given to R&D activities (around 30 per cent of all assistance).

<sup>96</sup> Information provided to Lowy Institute by Canadian Trade Services Commissioner, personal communication, December 2008; Japan's trade agency (JETRO) has 485 Japan-based staff in its overseas workforce (57 per cent of the total).

<sup>97</sup> *Winning in world markets: meeting the competitive challenge of the new global economy: review of export policies and programs*, pp 158–160.

<sup>98</sup> Ibid, pp 19–27.

<sup>99</sup> Ibid, p 130.

<sup>100</sup> United Nations Conference on Trade and Development, *World investment report 2004: the shift towards services*. New York and Geneva, United Nations, July 2004, p 8.

<sup>101</sup> James McGann, *2007 survey of think tanks: a summary report*. Philadelphia, PA, Foreign Policy Research Institute, August 2007.

<sup>102</sup> Allan Gyngell, *Think tanks and foreign policy*. Sydney, Lowy Institute Perspectives, May 2008, p 3.

<sup>103</sup> Ibid, p 5. See also Shankari Sundararaman, *Research institutes as diplomatic actors*. In Andrew F Cooper, Brian Hocking and William Maley (eds), *Global governance and diplomacy: worlds apart?* London, Palgrave Macmillan, 2008.

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