

**PERSPECTIVES**

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**ADVANCING THE NATIONAL INTEREST IN A  
GLOBALISING WORLD:  
AUSTRALIA'S INTERNATIONAL POLICY IN  
THE 21<sup>ST</sup> CENTURY**

**KEY TRENDS AND POLICY CHALLENGES FOR AUSTRALIAN  
INTERNATIONAL POLICY AND POLICY-MAKERS:  
REPORT FROM A LOWY INSTITUTE SEMINAR, DECEMBER 2006**

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**Advancing the National Interest in a Globalising World:  
Australia's International Policy in the 21<sup>st</sup> Century**

**A report based on the Lowy Institute for International Policy  
'Australia and the World' Seminar**

In early December 2006, the Lowy Institute for International Policy took the opportunity of the contemporaneous launch of three of its monographs to hold a half-day seminar reflecting on the international policy environment in which Australia finds itself.

The seminar had two basic aims: (1) to reflect on the ways in which the Howard government's foreign, strategic and economic policy had influenced the shape and trajectory of Australia's interests and policies; and (2) to identify the key trends and challenges that will influence them in the coming years.

The seminar involved the authors of the three papers, Paul Kelly, Hugh White and John Edwards presenting their thoughts on the first matter, and five discussants, Takashi Inoguchi, Martin Parkinson, John Hartley, Owen Harries and Warwick McKibbin reflecting on the second. The seminar concluded with an open discussion from the invited audience which included policy-makers, diplomats, journalists, academics and business people.

This report of the seminar is not intended to describe the presentations and the wide-ranging discussions; rather its intention is to integrate the analysis, opinions and insights provided by the speakers and the audience into a coherent essay on Australia's international policy environment, the particular challenges and opportunities that currently exist, and to suggest a number of policy directions which Australia might profitably pursue. It is not, in other words, a summary of the proceedings but the response of one participant to the debate and discussion. Biographical details of the eight speakers can be found at the end of the report.

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## **Introduction**

The ten years of John Howard's government have been a remarkable period. In that time, the Australian economy has continued to sustain an unprecedented expansion; the region has enjoyed a long period without significant conflict, although the Asian financial crisis wrought widespread social and political disruption; China has emerged as a genuine economic powerhouse; the information revolution has been consolidated in the global economy; and the seismic events of 11 September 2001 have led the world's pre-eminent power to take a much more muscular approach to its foreign policy, to mention only some of the more significant developments. Australia faces a decisively different world in 2007 and the legacy of the changes of the preceding ten years is a key component of the future course that Australia must negotiate. There are of course new issues that sit alongside longer run challenges which also need to be brought into policy-making consideration. This report, based on a half day seminar held at the Lowy Institute for International Policy on 6 December 2006, provides an overview of the key issues with which Australian policy-makers will have to deal in the coming years. It begins with a brief reflection on the past decade and the major developments which have shaped the contemporary policy environment. The paper then identifies the broader trends which are most likely to be of greatest significance and concludes with a consideration of their policy implications.

### *The recent past*

Australia's international policy setting is a product of both domestic and international factors. Globalisation is the most important of the international changes, although it is equally the most difficult to pin down. The increased rate, speed and importance of transnational flows of capital, goods, ideas and people has, over the past fifteen years or so, become a central feature of the international system. For Australia, it has meant an increased opportunity to access global markets for capital, investment, trade and labour, as well as an increased vulnerability to threats such as infectious diseases and terrorism which the networks that facilitate these flows create. Second, the Asian financial crisis of 1997-98 brought about a rapid transformation of the economic and political circumstances of Australia's region. The crisis not only severely dented regional confidence, it cleared the way for China's increased influence and also enhanced Australia's regional significance, as it was no longer seen by many as the region's under-performing developed economy. Third, America's economic, military and diplomatic predominance was consolidated. Banished were notions of American decline, multipolarity and neo-isolationism, commonplace in policy debates in the early 1990s. The economic boom of the Clinton presidency, alongside the absence of capacity and appetite among any likely competitors, propelled the US to its unparalleled position. In the

slightly hubristic, though accurate terms, of Madeleine Albright, through the 1990s the US became the 'indispensable nation'. Indispensable in the sense that responses to international crises almost always required American leadership, and more generally, the US was indispensable to the geopolitical stability of Europe and the Asia-Pacific.

However predominant the US became globally, for Australia, of equal importance were two transformations in East Asia. The first was the economic rise of the region and particularly the unparalleled scale and speed of Chinese economic growth. The second, though less well recognised, was the spread of democracy to many crucial parts of the region. In the early 1990s, the Chinese economy was of marginal importance and doubts lingered as to its ability to make good on its potential, equally, the region had few real democracies, with one party authoritarian dictatorships being the political norm. Today, the scale and dynamism of the Chinese economy is vital to Australia and the world. While still young, the arrival of proper democratic processes in South Korea, Taiwan, Thailand,<sup>1</sup> and, most importantly for Australia, in Indonesia, is of vital significance. Finally, and most obviously, the United States has transformed the purpose and conduct of its foreign policy. The Bush administration has developed a doctrine of interventionist predominance to secure its interests in a world in which it suddenly feels a great deal more vulnerable than at any time since the mid 1980s. This has led to increasing demands on its alliance partners, the development of new approaches to war-fighting, and a much more adversarial and explicitly ideological approach to diplomacy.

The external context has involved some dramatic changes, but at home political stability and steady economic growth have been the cornerstones of Australian foreign policy. Howard is Australia's second longest serving prime minister and he has benefited from a good working relationship with Alexander Downer, who has been foreign minister for the duration of the government's term in office. This has meant an unusual coherence to the bureaucratic and electoral context of policy-making. Australia's extraordinary economic growth has not only improved Australia's political and policy influence, its dependence on integration with the world economy has made Australia more vulnerable and thus more closely attuned to the requirements of the external dimension. Beyond these broader elements, foreign policy-making under the Howard government bears a number of features. First, it has the distinctive stamp of the prime minister. While one should not play down the importance of Downer, there is little doubt as to who is the determining force in foreign policy decisions. While centralisation of decision-making is a longer-run policy trend, it is notable that few

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<sup>1</sup> Although Thailand's recent experiences are salutary reminder of democratisation's fragility.

commentators or analysts make reference to Coalition foreign policy, Liberal foreign policy or even the foreign policy of Downer; it is very much Howard's domain. Second, foreign policy has been reactive and in some respects *ad hoc* in style. This is not meant to be derogatory; Howard's approach to international issues appears to start from the view that there is little to be gained from trying to influence the direction in which international affairs is moving, rather one is better served by adapting to issues as they emerge. Moreover, the environment that he has found himself in has not been particularly conducive to longer-term approaches to policy-making.

Third, perhaps more than any other recent prime minister, Howard's foreign policy is driven by domestic political considerations. That is not to say decisions are shaped by purely electoral calculation (although at times they do appear to have that hue). Rather, Howard puts a much greater emphasis on the domestic implications of foreign policy than most. Fourth, the most significant development in Australian foreign policy – and one most clearly strategic in its orientation – has been the development of close relationships with two major powers, the US and China. Howard's cultivation of excellent relations with Washington has involved risky and costly military commitments in Iraq and Afghanistan, and builds on a longer-run and bipartisan tradition of good relations with the US. Beyond the high-profile support of the Iraq invasion and the signing of the Free Trade Agreement, Howard has overseen a qualitative shift in the alliance relationship in which Australia now conceives of its alliance as part of America's global strategic commitment and not merely as a regional defence pact. Finally, under Howard, Australia has become far more willing than ever before to use military force to achieve foreign policy ends. This involves not only the despatch of troops to conflict zones in the service of alliance commitments but also defence force participation in UN peacekeeping missions, regional stability operations, and complex humanitarian emergencies. Under Howard, the ADF has become not only better funded and more highly esteemed by the government, it is seen as a vital cog in the foreign policy machinery.

Australia now faces an intriguing international environment. It has an experienced and pragmatic decision-maker who keeps one eye firmly on the domestic front in all his foreign policy dealings. It is affluent, confident and part of a region which is economically dynamic, although strategically uncertain, and it has an excellent relationship with the world's pre-eminent power. But there is good reason to think that the future will hold a set of challenges for which the immediate past may not be a good guide. The remainder of this report examines the key issues for which Australian policy-makers will need to be prepared in the coming years.

## **Major issues confronting Australian foreign policy**

### *Great powers, old and new*

The constitution of the major powers, the character of the relations they have among themselves and the relationship Australia in turn has with them are the defining features of Australia's international policy. Although the US is the most important power at present, the growing influence of a number of others at both the regional and global levels, the longer-run relative decline of US power, as well as a lack of clarity as to how any transition from unipolarity will be managed makes this a particular challenge in the coming years. Moreover, uncertainty as to how the US will conduct itself following the failures in Iraq poses fundamental questions for Australia.

Howard clearly believes that American predominance is here to stay and this has underpinned recent efforts to bind Australia closely to the US. While it is certain that, in the short term, there are few powers who wish to challenge US pre-eminence, and none that are capable of even matching it militarily, such confidence in the long-term US global role may not be justified. At the very least it is prudent to think through the consequences of a significant narrowing of the gap between the US and the other major powers. Most importantly, the Iraq intervention, however one wishes to spin it, has taught America, and its adversaries, that unparalleled military power does not automatically equate to desired policy outcomes. Not only will Iraq make America more cautious about its use of force in the coming years, it will make potential competitors, or at least those wary of American influence, feel somewhat more relaxed about the strategic utility of America's immense military power.

Beyond the difficulty the US has encountered in trying to convert its power advantage into policy outcomes, one must recognise that, outside the military realm, America is not as dominant as it may appear. The US is an extremely important part of the global economy, but it is no longer a hegemonic power and, relative to the rest of the world, is in long-term decline as US output shrinks in comparison with global output. While it still retains a degree of insulation from global economic movements due to the size and structure of its domestic economy, America is increasingly dependent on the rest of world and is particularly reliant on imported capital, energy and manufactured goods. The US may have the greatest and most sophisticated military in the world (although whether it can continue to afford this in the longer run remains to be seen), but it is not the economic overlord of the global economy. Over the medium to longer run, it is unlikely that the US dominance in world affairs that has been the norm for the past fifteen or so years will continue. This does not mean an emasculated America or some revival of isolationism: the US will continue to be a great

power in the coming century, but it will not be the only one. Predominance is unlikely to last and a policy built on its presumed perpetuation may not be the most prudent way forward for Australia.

In more immediate terms, the most pressing question about the US role lies in the nature and style of its foreign policy. Under Bush, the US has moved away from its post-1945 status quo posture and embraced a more revisionist approach to its foreign policy ends and means. While prompted by the 11 September terrorist attacks, the move has a domestic foundation that predates 2001. US foreign and strategic policy has been dominated by two separate but related aims: 1) the use of military force to actively snuff out threats to America, broadly conceived; and 2) to reshape the international order in line with American interests and values. This has been variously described as the Bush Doctrine, the Global War on Terror, and most recently as the 'Long War'. For some, the November 2006 congressional elections are thought to mark an end of this approach, symbolically represented by the resignation of Defence Secretary Rumsfeld. But it is hard to envisage any significant departure in substance or tone from Bush or his principal policy-makers. It is just as difficult to see either party nominate a presidential candidate for 2008 who is as hawkish, divisive and adventurous with regard to the use of force as Bush has been. That said, while the more extreme edges of US foreign policy are surely going to be softened, it appears that the underlying thrust of the American approach – to use force to overcome security threats, wherever they may be, to sustain global military predominance, to advance political change in line with American interests and values, and to back this up with an activist and extensive diplomatic service – has strong bipartisan and electoral support. The way force is used may be more judicious and the role of diplomacy may be increased, but in all likelihood the general tenor of the current phase is set to continue well into the next president's term.

What does this mean for Australia? Australia's recent tightening of its American relationship has been divisive at home but thus far it has had little electoral impact and is unlikely, on its own, to be a significant election issue. It is also important to emphasise that Howard and Downer are not courtiers eager to please an imperial America; the policy direction taken by the government has a clear strategic rationale that, while not uncontested, is the product of a convergence of views in Washington and Canberra. The dispute most serious critics have is not that the current calculus is wrong – that the benefits of an extremely close relationship outweigh the costs – but that Australia can have the positives without paying such high dues. While it is not necessary to predict precisely what will follow, the key issue is to determine how close Australia wishes to be to an America that looks set to continue an interventionist and fairly ideological approach to its global role, even while that approach does not appear to

be the most suitable to its policy goals, and which is becoming extremely expensive in fiscal, human and political terms. The second issue that Australia faces is how to manage the consequences of the eventual decline in US hegemony.

One of the prices that Australia appears to be paying under the current relationship is a lack of room for strategic manoeuvre within the alliance. The area in which this is most obviously a potential challenge is in Australia's relations with China. Howard presently sees no contradiction or potential conflict between Australia's alliance commitments and its good relationship with the PRC. Recent experiences also appear to confirm the government's confidence that close relations with the US do not preclude good bilateral and regional relations in East Asia. The problem lies not so much in the extreme and unlikely event of 'having to choose' between the US and the PRC, but in the constraints on diplomatic freedom the competing demands of the relationships may impose. Australia has tried to signal a need for some regional flexibility, most obviously through Downer's 2004 claim that ANZUS would not automatically come into play in the event of a conflict over Taiwan, but this was not well received in Washington. The Bush administration puts a particular premium on loyalty and it would seem unrealistic for Australia to expect any immediate change in the existing terms of the relationship. After 2008, policy-makers will have to determine how much room for flexibility there is likely to be and what costs may emerge if the current trajectory continues into the next presidential term. It is likely that Australia will need to make some subtle but significant adjustments in its relations with the US due to the need to have greater scope for independent action. This will be difficult to manage, but with judicious diplomacy there is no reason that Australia cannot maintain good relations with the US while developing greater autonomy within the relationship.

In recent years the prospect of a genuinely multipolar international order has gained currency. The rapid economic rise of China and India, the increased influence of Brazil, the revival of Russia's economic and political heft, as well as the consolidation of the European Union, have made the idea that the 21<sup>st</sup> century will remain an exclusively American domain seem unlikely. While none presently match, or indeed come close to US influence, the international order is clearly in a state of flux. For Australia, the growth in power and influence of other players beyond the US poses two particular questions. The first and most pressing relates to the way in which Australia will pursue its international policy in a region which is increasingly influenced by the PRC. The second involves determining how best to chart a course through the shifting dynamics of major power relations. China's economic importance to Australia is well known, but less well recognised has been China's growing regional and global diplomatic weight. China has been the key figure in the Six Party talks in Korea, it is

continuing to try to dominate regional economic institution building, and its no-strings-attached aid in the South Pacific and elsewhere in the developing world is challenging those who are trying to tie development to governance and human rights concerns. From a strictly commercial point of view this is no bad thing for Australia. But there are several looming problems. China presently prefers a more narrow conception of regional economic cooperation than do some and it has no great desire to include Australia in region-wide trade, investment or monetary agreements in which the more exclusivist ASEAN+3 framework is its preferred mode of operation. Australia would not be well served by being left out of such agreements and the recovery of its enthusiasm for APEC as well as participation in the East Asia Summit has been prompted by this development. The future is likely to require more nimble diplomacy to ensure a seat at the regional table, or, more worryingly, having to deal with being left out of an East Asian institutional system. The other problem is more political. Australia has for some time managed to square its long-term support for human rights and democracy with a fairly pragmatic attitude to China. It is not clear that Australia can assume that such pragmatism will be forever easy to manage nor that China will happily evolve into a democracy. The very practical approach to managing the relationship has been effective to date, but careful thought needs to go into determining how Australia will deal with either a rise in domestic demands for human rights advancement in China or, more likely, how it would respond to a significant clampdown in one of the urban centres. More generally, while commercial interests would suggest that Australia would be happy with a region dominated by China, it must recognise that the PRC is still a one-party dictatorship with a dismal human rights record and it may not be too sanguine about the consequences of such a power dominating its region.

At no time since the Great War has there been such a range of influential powers whose interactions are of direct significance for Australia's interests. As mentioned above, how Australia manages the competing demands of its interests in China and its alliance with the US is perhaps the most pressing of these issues, but it is not the only one. For example, China's rise has prompted concern from Japan as it perceives its regional role to be under threat. This, alongside the longer-run mistrust between the two over Japan's wartime role, and the US-Japan alliance's focusing on Taiwan as an explicit area of concern, makes clear that coping with shifting power dynamics will be a pressing diplomatic challenge.

East Asian regional order is being reconfigured and while it is not likely to produce great power war, it is just as unlikely to be as stable as it has been in the past twenty-five years. Australia's existing commitments, both economic and political, will need to be able to respond to these changes. It is most likely that the US will continue to be a key power in the

region, and the balance of interests and values that Australia shares with the US would indicate that remaining close to it would make the most sense. It is not clear, however, that the current structure of the relationship is conducive to Australia's optimising its interests or being able to respond most effectively to the unpredictable events that such moments of flux inevitably throw up.

Beyond the traditional triangle of US-China-Japan relations is the growing regional importance of Russia and India. Both are increasingly interested in East Asia for economic and political reasons, and both further complicate the diplomatic calculus. Russia is the biggest supplier of weapons to the part of the world which spends more on military equipment than anywhere else, it is home to a substantial energy supply, and has a new-found and somewhat disturbing desire to use energy diplomacy to advance its interests. India is part of the institutional infrastructure of East Asia (through the East Asia Summit and the ASEAN Regional Forum), it is increasingly conceiving its interests in regional terms, and is actively deepening its relations with China and other key powers. For Australia the issue is the way in which Russia's and India's forays into East Asia have knock-on consequences for its interests. More generally, Australia has good bilateral relationships with all of the major powers, although its relations with Russia are not as positive as those it has with the others, but its particularly close relations with Japan and the US may complicate relationships with China and Russia.

### *Globalisation*

Globalisation has been good for Australia. The opportunities it has provided have been key to Australian economic success and, as both sides of politics recognise, it is vital to its continued prosperity. Integration with global financial, trade and production networks is fundamental for continued efficiency and productivity gains that underpin this prosperity. Globalisation's rewards are considerable, but equally its risks are many. Moreover, globalisation makes the traditional distinction between the domestic and the international untenable. Policy which attempts to deal with it challenges the conventional institutional and bureaucratic division of labour, and requires particularly well coordinated implementation mechanisms.

Australia faces three distinct challenges from globalisation: first, Australia must do what it can, in collaboration with others, to ensure that globalisation continues; second, it must take steps to be able to capitalise on the opportunities it provides; and third, it needs to mitigate globalisation's negative consequences.

It is complacent to assume that globalisation is inevitable. Although the openness which lies at its heart is unlikely to be utterly reversed, there are two particular problems which at the very least could hinder its workings. First, globalisation requires a governance and authority structure which the dominant state system cannot provide. This does not mean that the state is in decline; rather that if states and societies wish to make the most out of globalisation they will need to work out effective means of establishing and enforcing the rules of the game. The most obvious means to do this is through international institutions, yet there is a widespread sense that the institutional infrastructure of the international order is ossified and in many cases outdated. Some stumble from crisis to crisis, others have stagnated, while others suffer from doubts about their legitimacy. Globalisation has not strengthened the power of international institutions: it has revealed their many limitations. Australia needs to act alongside other key players to reform some institutions, such as the UN, and to construct new and more appropriate mechanisms where none exist or where the existing structures are especially damaged or unsuited. Australia's leadership role in the G20 is an excellent example of this but there is more work to be done. For example, the UN needs to have its legitimacy enhanced and its efficacy improved while the WTO needs to determine whether or not it is a development organisation. Second, globalisation needs better PR. There can be no doubt that globalisation creates winners and losers, both within and between states, but its overall impact, from an Australian point of view, is unquestionably positive. Yet many doubt this and question the legitimacy and benefits of globalisation, and these doubts, under the right circumstances, can undermine if not curtail its positive effects.

The circumstances which have allowed Australia to do well out of globalisation – particularly the labour market reforms and macro-economic liberalisation of the 1980s and 1990s – will not continue to optimise Australia's global economic circumstances and the good fortune of high commodity prices will not last. Domestic economic reform, integrated into a broad-ranging international policy framework, is necessary for continued prosperity. The areas which appear to be most in need of attention are infrastructure and the skills of the workforce. Future economic well-being will be dependent on Australia's capacity to respond to external circumstances, particularly the emergence of new technologies and changing marketplace opportunities, and central to this is the ability of the workforce to respond to these changes. Tinkering around the edges of labour market reform, reducing existing tariffs (whether unilaterally or through bilateral agreements) will only be of marginal benefit. A particular challenge lies in the twin problems of substantial foreign debt and chronic trade deficits. Significant investment in infrastructure, education and reforms of the business environment appear to be the key areas in which Australia can take decisive domestic steps to continue to do well out of the global economy.

As noted, globalisation creates winners and losers, and it tends to amplify the experiences at both ends of the spectrum. Australia must ensure that the losers are not left behind. There is a clear moral and political imperative to ensure that the environmental and social costs of globalisation are mitigated. Beyond the basic obligation that the well off owe to the less fortunate, there are two reasons to prompt governmental action. First, the economic cost of not responding to environmental problems, and of leaving a chunk of society behind, can be considerable. If one seeks to maximize the benefits that integration with global markets can bring, then there is an imperative to ensure all members of society are able to participate in the economy. Second, the grievances that many harbour against globalisation can swiftly turn into a backlash against it. Managing the dynamic and powerful influence of global markets on communities and coping with its inevitable social costs will need to be a central feature of Australian international policy in the coming years.

#### *Tectonic changes in the global order*

Beyond the changing configurations of power and the impact of globalisation, other important dimensions of the global order are changing in ways that are significant for Australia. One issue of which Australia is conscious, at least domestically, is demographic change. Like many OECD states, the economic challenge of an ageing workforce is an important area of concern. At the international level the issue is of significance not only for the contemporaneous economic challenges that most developed states will be facing as their populations age, but also because of the spillover effects that differential demographic changes will have. It is well known that Japan has the world's most rapidly ageing population, and will need to undertake a significant migration programme to retain a population anything near its current level. Less well known is that China's population is ageing. The most dynamic economy in the world will face the prospect of getting old before it gets rich, something with which no society has yet had to deal. On the other hand, India's population is continuing to grow and is projected to be among the youngest in the world over the coming fifty years. Thus the differential rates of demographic change both among and between the industrialised and emerging economies are going to produce a new set of economic and political challenges. It is uncertain where these changes will take us, but policy coordination is vital if the shifts in demography are to be managed in ways that do not have destabilising economic or political consequences. It is also possible that at some point in the future, the relative balance between labour and capital scarcity that has persisted since at least the industrial revolution could be reversed. Over the next century the intriguing prospect exists of a significant global shortage of labour.

Second, changes to the global economy are increasing dependence on international trade for energy, minerals and basic manufactures. This has made concerns about energy and resource security a hot political issue. This dependence is likely to grow and to compound political and strategic concerns. The risks of damaging competition over these resources is very real – and in some instances has already begun – as many states are beginning to take a zero-sum approach to resource scarcity. For Australia, there are two issues. The first is to recognise the rise of a mercantilist approach to energy and resources, to cooperate with others to combat this and to establish institutional means to promote more market-oriented approaches. Markets are the best distributors of resources but they require the right conditions to emerge and operate effectively and these are presently under some threat. The second is to take steps to ensure that Australia’s geopolitical position is not compromised by the knock-on effects of the competition which already exists. Attempts to secure resources through monopolistic lock-in deals can provide new and unnecessary forms of tension in many parts of the world. The jockeying that has already begun, for example, China’s efforts to lock in energy and resource supplies around the world, brings a new and explicitly political colouring to existing economic relations. Australia needs to ensure that its strategic policy is capable of dealing with the complex challenge thrown up by the nascent fusion of economics and geopolitics that is evident today.

Environmental factors present real constraints to economic growth around the world. From increases in wheat prices due to environmental problems in key crop growing countries to significant productivity constraints due to air pollution in China, global and local environmental factors have a damaging effect on human welfare and political stability. Moreover, environmental factors are going to have spillover effects beyond the economic constraints that they already pose; they are set to influence a wide range of international policy sectors including security, human rights and refugees. Australia needs to devote more resources to these non-traditional areas in which changes to the natural environment are going to demand complex policy responses.

Finally, as the history of the twentieth century shows, significant degrees of social dislocation, whether caused by economic depression or rapid urbanisation, very often produce tumultuous political upheaval. The present era is clearly no Great Depression, but the reactions against many of the economic and cultural dimensions of globalisation, from violent Islamist extremism to xenophobic politicians in Europe, have been considerable. These can lead to domestic political transformation which have damaging international consequences or to the formation of transnational terror networks such as al-Qa’eda or Jemaah Islamiya. The policy challenge for Australia is to mitigate the consequence of such outbursts when they

occur and to act, in concert with others, to reduce the sense of grievance that so many have about the current international order.

These tectonic trends share an inherently transnational quality. No one state can hope to deal with these issues effectively, let alone one the size of Australia. They show that Australia's international policy-making of necessity must be cooperative. Moreover, they show that the key issues with which policy-makers will be faced are inextricably intertwined. It is impossible to deal with energy security without dealing with the environmental factors; questions of geopolitics cannot be addressed without the economic dimension playing a fundamental role in any response.

### **Policy implications**

It is worth making three general observations about the international policy environment. Perhaps the most pronounced sentiment that one comes across among policy-makers, analysts, scholars and journalists is a perception that the current global order is extremely uncertain and that this uncertainty is decidedly destabilising. It is not clear that such perceptions are warranted – comparisons of the objective 'uncertainty' of any given period are impossible to make – but the perception of a world which is dangerously in flux is palpable. Second, there appears to be a disconcerting gap between many of Australia's policy aims and the tools that it uses to try to make good on these ambitions. For example, the fit between the requirements of Australia's international security environment and the present structure of the ADF does not appear to be particularly good. Third, many of the challenges that Australia faces require long term solutions but a combination of electoral cycle and more general policy short-termism significantly hinders the development and application of good policy.

The first recommendation relates to the changing global and regional order. Australia needs to recognise that while the distribution of power and the location of interests are key determinants of policy, the means by which policy is pursued and the values it reflects are equally important. In recent years the rules and values of the international order have begun to become somewhat frayed and it is in Australia's interest to work with the US and other key powers in the region to reaffirm a clear commitment to a basic set of principles for the conduct of international affairs. These should involve (1) the international rule of law, applied evenly to all; (2) a commitment to equitable and fair treatment of all peoples, both in political and economic terms; and (3) a recognition of both the rights and responsibilities of the great powers. Procedural principles that embody the underlying values of the international system

can help to make policy more effective, and go a long way to restoring a sense of legitimacy to much of the behaviour of America and its allies. These principles are not especially revolutionary, but they do need to be adhered to with a consistency that has been lacking somewhat in recent years. In more general terms, the overarching aim for regional international policy must be to build trust and a sense of common cause among the key powers. Without trust the degree of cooperation that is going to be necessary to deal with economic, environmental and security challenges in the coming years will be impossible.

Second, international policy needs to be conceived of in much longer time frames than at present and its place in the electoral process needs to be more maturely handled. Politicians must strike a better balance between the demands of the electoral cycle and the responsibilities of good policy-making. Determining strategic policy based on domestic electoral considerations rarely makes sense; under contemporary circumstances, it is especially short-sighted. There will be times when the government must wear short-term political costs for longer-term benefits. A central cause of Australia's current boom were the economic reforms put in place by the Keating government and for which it paid a high electoral price. The present government shows little interest in undertaking anything that might be electorally challenging. In simple terms, international policy, whether to do with the economy, defence, alliance politics, international institutions or the environment, needs to be conceived of in a much longer time frame than currently predominates. Third, attempts to chart a course for future policy inevitably must deal with forecasting future trends. From determination of the size and structure of the defence forces to the negotiation of trade agreements, policy-makers must always try to anticipate what the future holds. Yet no one can accurately predict what lies in store. Thus the design of policy must be flexible, nimble and adaptable to today's particularly fluid environment. Decisions that lock Australia into long-term, rigid and costly commitments are not especially conducive to contemporary circumstances.

Finally, Australia needs to cooperate to strengthen the institutional architecture of the international system. Australia's interests are best served through orderly and functioning international markets, a rules-based multilateral global economy and the international rule of law. Institutions are needed to underwrite these systems and Australia should act not only to reform and rebuild the foundations of a cooperative international order, but should be mindful not to act in ways that undermine or weaken the incentives for collaboration.

The prognosis for the coming years is not as gloomy as many might feel. Although the region is strategically uncertain, China and Japan are making some efforts to patch up their relations

and are, along with India, primarily interested in furthering their own economic development. The US is unlikely to be as reckless as it has been in the past five years and, the failings in Iraq notwithstanding, the multinational efforts to combat terrorism are having a noticeable effect. Australia is well placed, geographically, politically and economically to continue to travel a prosperous and secure path. To do so, however, it cannot rely on the verities of the past. An active, engaged and nimble policy posture is going to be required to deal with the complex character of the challenges with which it will be confronted. Most importantly, for Australia to ensure that its relations with the world are conducive to prosperity and stability, its policy must be predicated on the fact that Australia's national interests are inextricably bound up in global networks. Good choices for Australia begin with a recognition of the deeply interwoven character of the natural, strategic, economic and political dimensions of the contemporary world.

## **Australia and the World Seminar Speakers**

**Dr John Edwards**, Chief Economist, HSBC Bank, Australia and New Zealand and author of *Quiet Boom*, Lowy Institute Paper No. 14.

**Mr Owen Harries**, Senior Fellow at the Centre for Independent Studies and Visiting Fellow at the Lowy Institute for International Policy.

**Major-General John Hartley AO (ret.)**, former Director of the Defence Intelligence Organisation and former Deputy Chief of the Army.

**Professor Takashi Inoguchi**, Professor of Political Science, Chuo University and Professor Emeritus of the University of Tokyo.

**Mr Paul Kelly**, Editor-at-large for *The Australian* and author of *Howard's Decade*, Lowy Institute Paper No. 15.

**Professor Warwick McKibbin**, Professor of Economics at the Australian National University and Professorial Fellow at the Lowy Institute for International Policy.

**Dr Martin Parkinson**, Executive Director, Macroeconomic Group, Federal Treasury.

**Professor Hugh White**, Professor of Strategic Studies, Australian National University, Visiting Fellow at the Lowy Institute for International Policy and author of *Beyond the Defence of Australia*, Lowy Institute Paper No. 16.

### **Rapporteur:**

**Dr Nick Bisley**, Senior Lecturer and Director of the Graduate Programme in Diplomacy and Trade, Monash University.

## ABOUT THE AUTHOR

*Dr Nick Bisley* is Senior Lecturer and Director of the Graduate Programme in Diplomacy and Trade, Monash University. He has published work on a wide range of subjects in international relations and his second book, *Rethinking Globalization*, will be published by Palgrave-Macmillan in March.

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