



## **Diplomatic Disrepair**

Rebuilding Australia's International  
Policy Infrastructure

Alex Oliver and Andrew Shearer



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## Overview

*“... in an increasingly multipolar world ...in an increasingly globalised order, [or] what might be called the age of globalisation of everything, this Australian foreign service will become more important to the prosecution of our national interests, not less.”<sup>1</sup>*

Kevin Rudd,  
Minister for Foreign Affairs, 2010

Three years ago, the Lowy Institute brought together a panel of eminent Australians to review the instruments with which Australia seeks to engage the wider world and shape our international environment in ways favourable to our economic, political and security interests. Australia's overseas diplomatic network was a particular focus.

Their report reached sobering conclusions.<sup>2</sup>

Australia's diplomatic network was overstretched and hollowed out as a result of years of underfunding by successive governments and rising demands, particularly for consular services. It had not kept pace with our interests or with a changing world. Australia was diplomatically underrepresented abroad, particularly in emerging centres of power. Our overseas representation compared very poorly with almost all other developed nations', including those located in more settled neighbourhoods and enjoying the diplomatic benefits of belonging to a regional bloc such as the European Union.

A shortage of diplomatic posts and of diplomats, combined with critical skills shortages – particularly foreign language training – was constraining the ability of the Department of Foreign Affairs and Trade (DFAT) to build and sustain the networks of contacts needed to understand, interpret and influence Australia's rapidly changing external environment. Policy capacity was diminished by competing demands for scarce departmental resources and the enhanced role of other agencies in international policy. In a world where non-state actors such as foreign publics, media, NGOs, extremist networks and multinational corporations are becoming increasingly important, the government's public diplomacy was lacklustre and use of new digital platforms almost non-existent. In short, our diplomatic infrastructure was in a parlous state of disrepair.

Yet diplomacy is one of the most important tools a government can use to influence our external environment in ways that promote Australia's prosperity and security. Defence and development assistance also play important roles in their own right, as do the intelligence agencies which help to inform government's international policy choices. Properly harnessed, aid and a robust military posture can also play an important part in support of a comprehensive national diplomatic strategy. But these are very expensive instruments: Australia spends \$26 billion annually on defence and over \$4 billion on aid.<sup>3</sup> The great beauty of timely and effective diplomacy is that it can pre-empt negative developments and achieve results at much less cost.

To determine what progress, if any, government has made in rebuilding our diplomatic infrastructure since the time of our *Diplomatic Deficit* report, we conducted a further detailed review of Australia's diplomatic infrastructure during 2011. This report outlines our findings. It is based on data provided by DFAT and publicly available information, whether in budget documents, annual reports, parliamentary Hansard or other official statements. It also

*“... I strongly believe a robust civilian foreign affairs capability, coupled with a strong defense capability, is essential to preserving US national security interests around the world.”<sup>4</sup>*

Former US Secretary of Defense  
Robert Gates, 2010

includes information obtained from other governments, to enable comparisons with broadly similar diplomatic services.

Our review shows that there have been a number of positive developments since 2009, many of them consistent with the recommendations in *Diplomatic Deficit*:

- The 2009 Budget allocated \$300 million over four years to boost DFAT's funding base and build Australia's diplomatic presence in India, Pakistan, Africa and Latin America (although a portion of this was removed in later budget adjustments). The 2010 Budget added \$61 million over four years to enhance engagement with India. Despite more difficult budget conditions, DFAT avoided major cuts in the 2011 Budget.
- Australia has established four new diplomatic posts: Addis Ababa, Ethiopia; Lima, Peru (re-opened); and Mumbai and Chennai, India (both previously Austrade offices).
- DFAT has established 55 new diplomatic positions abroad, increasing the total from 520 to 575.<sup>5</sup> As a result, the proportion of 'small' diplomatic posts (three or fewer DFAT diplomatic staff) declined slightly from 40 to 37 per cent.
- The 2011–12 Budget included a one-off \$4 million boost to consular services.
- Spending on language training has increased 69 per cent in the past two years. Across the department, the number of diplomats with a working-level proficiency in an Asian language rose from 227 in 2008 to 266 in 2011.
- DFAT has made the first tentative steps towards the adoption of transformational e-diplomacy tools, including introducing a generic Twitter account and ad hoc use of video clips on its headquarters website.

These are only very small steps, however, considering the scale of the problem caused by over two decades of neglect. And the demands on Australia's overstretched diplomatic network have continued to grow apace.

The global economy remains fragile and highly vulnerable to future shocks, with real ramifications for Australians' standard of living.

Shifting power balances in Asia are creating uncertainty about the future of the existing regional order and the open economic system on which Australia's security, prosperity and political autonomy have rested for decades.

Unexpected developments in Indonesia, our sprawling northern neighbour, can have real ramifications for Australians – as demonstrated by the interruption to the \$300 million live cattle trade. Political instability in Papua New Guinea, the continuing stand-off with the military dictatorship in Fiji and a growing Chinese economic and aid presence have underlined the continuing volatility of our immediate neighbourhood.



The political reform movement sweeping much of North Africa and the Middle East is transforming a region of increasing economic and strategic importance to Australia.

Terrorism remains a threat, and other transnational threats such as natural disasters, energy, food and water insecurity, and piracy continue to challenge Australia and other countries to work together in new ways to find effective solutions.

The campaign for a seat on the UN Security Council in 2013–14 is further stretching DFAT's thinly spread diplomatic resources, as would servicing a place on the Council if the bid is successful. More lastingly, the elevation of the G20 and the East Asia Summit as institutions engaging important Australian global and regional interests is creating additional demands on the department's diminished policy development and advocacy capacities.

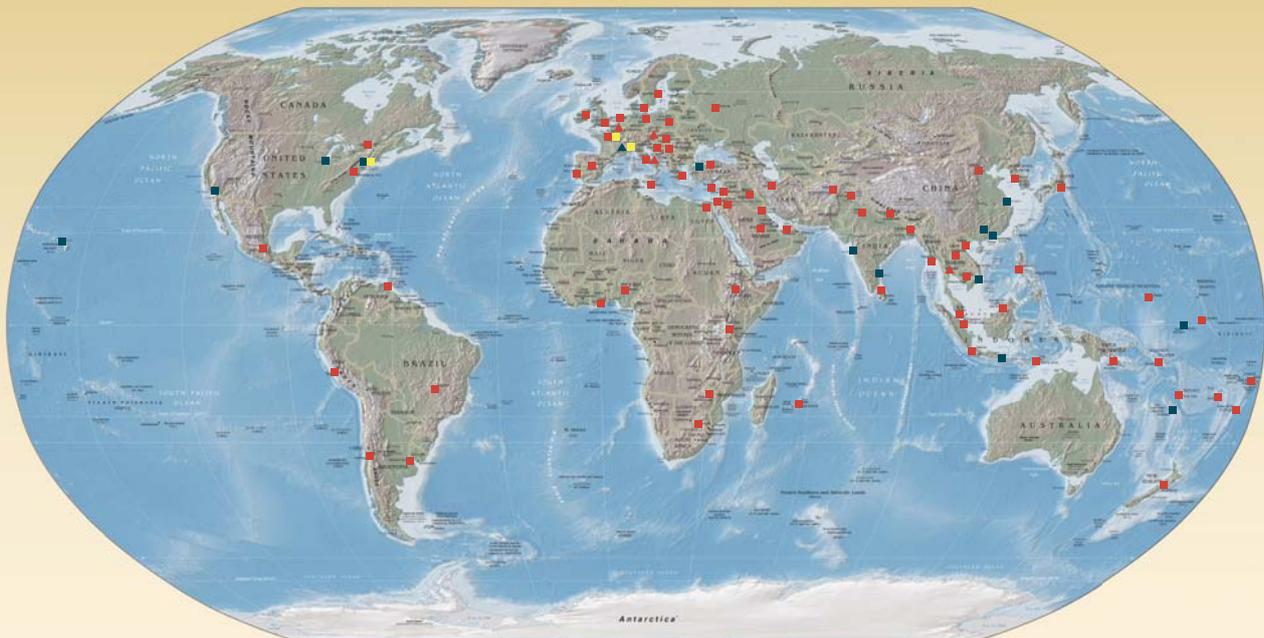


The number of Australians travelling and engaging with the world continues to grow, exacerbating demand for and expectations of consular services. Australians make over seven million overseas trips every year, and the number of passport applications has soared by almost 16 per cent in the last two years. Since 2008, DFAT's tireless and largely unacknowledged consular staff have responded to terrorist attacks in Mumbai and elsewhere, civil unrest and airport closures in Bangkok, revolution in Tunisia and Egypt and protests across the Middle East, as well as devastating natural disasters in New Zealand and Japan.

To make matters worse, Australia and many of its other traditional partners, including the United States, Britain and Japan, are facing

## Australian diplomatic missions

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



these challenges in much more constrained fiscal circumstances. The United States, Britain, the Netherlands and New Zealand, for example, have all been forced to cut their diplomatic services since our last review.

Against this troubling backdrop, we found that – despite the modest remedial steps taken since 2009 – Australia’s overseas diplomatic service continues to face serious shortfalls. Both political parties are to blame. Unless these deficiencies are remedied, our economic, political and security interests could be seriously jeopardised.

For a highly globalised country facing a more challenging external environment, **Australia’s diplomatic footprint remains too limited.** Australia has the smallest diplomatic network of all G20 nations, and **only nine of the 34 OECD countries (all far smaller than Australia) have fewer diplomatic missions.** Most of them enjoy more stable geopolitical surrounds and/or can rely on the added diplomatic weight derived from membership of a regional bloc such as the European Union. Australia is over-represented with missions in Europe compared with higher priority regions.

**Our diplomatic service is still too small.** Even after recent additions, **DFAT has 37 per cent fewer A-based<sup>6</sup> staff abroad today than it did in 1988–89.<sup>7</sup>** Locally engaged staff numbers have also fallen by more than 20 per cent. To make matters worse, **Australia’s diplomatic ‘tooth-to-tail’ ratio is poor: the proportion of DFAT staff serving overseas is the lowest of the 13 diplomatic services we reviewed.** This underlines the fact that a sustained increase in funding is only part of the solution to DFAT’s problems: **further steps need to be taken to reduce the administrative burden, remove unnecessary layers of management and streamline work practices.**

Despite rising demands, **DFAT has not kept pace with the growth of other government agencies.** The size of the Commonwealth public sector has expanded by 61 per cent since 1997–98. Over this period Australia’s development assistance agency, AusAID, nearly doubled in size and the Department of Defence grew by nearly 40 per cent. The intelligence community also grew significantly. The Department of the Prime Minister and Cabinet took on new responsibilities, but its staffing expanded by a massive 650 per cent. **By contrast, DFAT staffing has essentially flat-lined.** Budget comparisons tell a similar story.

*Diplomatic Deficit* pointed out that almost all government departments now have dedicated international divisions and have increased their international representation dramatically over the last two decades. It is tempting, therefore, to assume they are shouldering a considerable portion of the diplomatic and policy-making role that was traditionally DFAT’s sole domain, and that DFAT’s workload has eased accordingly. The reality is quite different. The other government agencies are generally co-located with DFAT’s overseas mission, and rely heavily on the diplomatic skills, local knowledge and contacts of heads of mission and DFAT staff.<sup>8</sup> In theory, the specialised knowledge of other agencies should contribute to the overall strength of the mission; the risk is, though, that they work in

silos, with the burden of coordination and administration falling on DFAT as the lead agency at the mission.

**Demand for consular services continues to far outstrip resources.** The number of cases of consular assistance provided by DFAT has risen by more than 50 per cent over the last five years to over 200,000 cases annually. By contrast, funding for consular operations has remained almost static, as has staffing.

Language training efforts have improved, but **only around 10 per cent of DFAT's staff<sup>9</sup> have a working-level proficiency in an Asian language** at a time when we need more than ever before to understand the massive changes transforming our region.

Though many of our diplomats' dealings are still with host governments, more and more non-state foreign policy actors on the world stage are capable of affecting Australia's interests. Yet little progress has been made to improve public diplomacy, the key instrument we need to engage and persuade these new audiences. **Australia spends significantly less on public diplomacy both on an absolute and a per capita basis than comparable Western nations, including the UK, France, Germany, the Netherlands, Japan and the United States. The government continues to lack a clearly articulated and coherent public diplomacy strategy, with only around one per cent of DFAT's A-based staff dedicated to public diplomacy.**



Many nations see international broadcasting as a potent and cost-effective form of public diplomacy: China has reportedly invested a massive \$6.6 billion on television and radio broadcasting over the last few years, including the China International Broadcasting Network (CIBN), which is available in 61 languages. **Yet Australia will spend less in real terms this financial year on the government's international broadcasting service, the Australia Network, than at any time in the last decade.** Reported problems with the tender process for the Australia Network contract seem to lie outside DFAT but are damaging and emblematic of a muddled government approach. It makes little sense for a portfolio other than Foreign Affairs and Trade to make such a pivotal public diplomacy decision.

Departmental guidelines for staff on engaging the media remain unduly restrictive – albeit largely as a result of ministerial sensitivities. Rather than backing the judgments of its highly educated and professional staff, the department's approach seems to be risk avoidance rather than risk management.

DFAT has made a few baby steps in e-diplomacy, the targeted use of new digital tools for both diplomatic and consular purposes, but lags well behind international best practice. Despite the rapid pace of technological change and the massive uptake of the new media globally, **DFAT has yet to form an office dedicated to a department-wide e-diplomacy strategy, and nervously shies away from the challenges (and opportunities) posed by new media tools and techniques such as blogging and Twitter.** By contrast, the US State Department has had three successive Secretaries who have championed e-diplomacy.

Remedying these problems will require recognition by Australia's major political parties that there is a problem, and a sustained bipartisan commitment to fixing it over the next decade and beyond. **DFAT requires a major, ongoing boost to its funding base.** If new funds cannot be found from within the Budget then the government should look at other creative options.

DFAT could be exempted from the Efficiency Dividend for the next four years, in recognition of the urgency of its predicament. Pushing back the target date for meeting the commitment to spend 0.5 per cent of gross national income on overseas development assistance would generate savings over the forward estimates period that could be diverted to DFAT. Alternatively, shaving just six per cent over the next four years off the projected scaling up of aid spending would free up an additional \$200 million – not enough to rebuild the overseas network but still a good start. Likewise, money that Defence has not been able to spend on delayed capability acquisitions could be channelled to DFAT rather than reallocated within Defence or returned to the budget. Ultimately, effective pre-emptive diplomacy is cheaper than military action or reconstruction, and in any case these agencies can only deploy their own resources to full effect with the support of a robust, properly distributed diplomatic infrastructure.

In a more multipolar world, there is no escaping the reality that Australia needs to be effectively represented in a broader range of countries. **Our traditional diplomatic footprint is simply outdated and inadequate.** The average number of posts for OECD nations' diplomatic networks is 133. With 95 posts, even with its recent additions Australia remains seriously underrepresented. Our recommendation in 2009's *Diplomatic Deficit* that Australia should open 20 new missions over the next decade remains equally cogent in 2011.

We need to build stronger and more broadly-based relationships with the so-called BRIC nations<sup>10</sup> and the non-BRIC emerging powers – countries such as Turkey, South Korea, Mexico, Indonesia and the United Arab Emirates. Additional resources need to be allocated to opening new diplomatic missions in emerging centres of influence and economic opportunity, particularly inland China, Eastern Indonesia, the Gulf, Latin America and Central Asia, and to bolstering existing small missions.

The government also needs to reform the way DFAT does business to achieve four key objectives:

- Reducing staff numbers in Canberra and getting more of our existing diplomats overseas.
- Preventing further erosion of DFAT's policy and diplomatic capacity by reviewing the way consular services are delivered and funded.<sup>11</sup>
- Introducing a comprehensive, integrated public diplomacy strategy with proper resources.
- As a significant element of that strategy, developing and implementing a best-practice e-diplomacy program led by a new DFAT Office of e-diplomacy.

## Australia's diplomatic footprint remains deficient

Australia is one of the most highly globalised countries on the planet and therefore one of the most dependent on an effective and active international policy.<sup>12</sup> To promote our interests effectively we need to be able to influence a growing number and variety of actors in the international system. Cheap global travel, the internet and pervasive communications all help, particularly if government is innovative in the way it harnesses them. But ultimately diplomacy is still about human relationships. Building durable relationships that deliver – whether with other governments, NGOs, opposition political movements or business, media and community representatives – requires sustained personal contact and means having the right people in the right places. A properly distributed overseas diplomatic network is a prerequisite for pursuing Australia's expanding interests overseas.

*Diplomatic Deficit* noted that Australia's diplomatic footprint – the location of, and resources allocated to, Australia's various overseas diplomatic missions – has tended to lag behind shifts in global power.

There are now 193 UN member states. No country, not even the United States, can afford to have diplomatic representation in all of them, and a country Australia's size has to choose and prioritise carefully, based on its interests.

All sorts of factors come into the equation. Geography, historical connections, security interests and membership (or in Australia's case non-membership) of a particular regional bloc will all be major influences. So too will more measurable factors such as the volume of two-way trade and investment, and of people-to-people associations (the number of Australians working, studying or holidaying there, as well as migration and travel in the other direction). The calculus also includes more diffuse judgments about the potential host country's weight in the international system, and therefore its ability to influence Australia's interests indirectly.

The trick for Australia is to be strategic and hard-headed about where we allocate our diplomatic resources. We need to anticipate national power centres whose influence is growing – China, India, Brazil, Russia, South Africa and Indonesia, for example. But we also need to be alert to the rapid growth of regional power centres within those nations – such as the burgeoning provincial cities in inland China and in India.

Likewise, we need to be prepared to close posts where appropriate. Absent a major long-term funding increase, there are likely

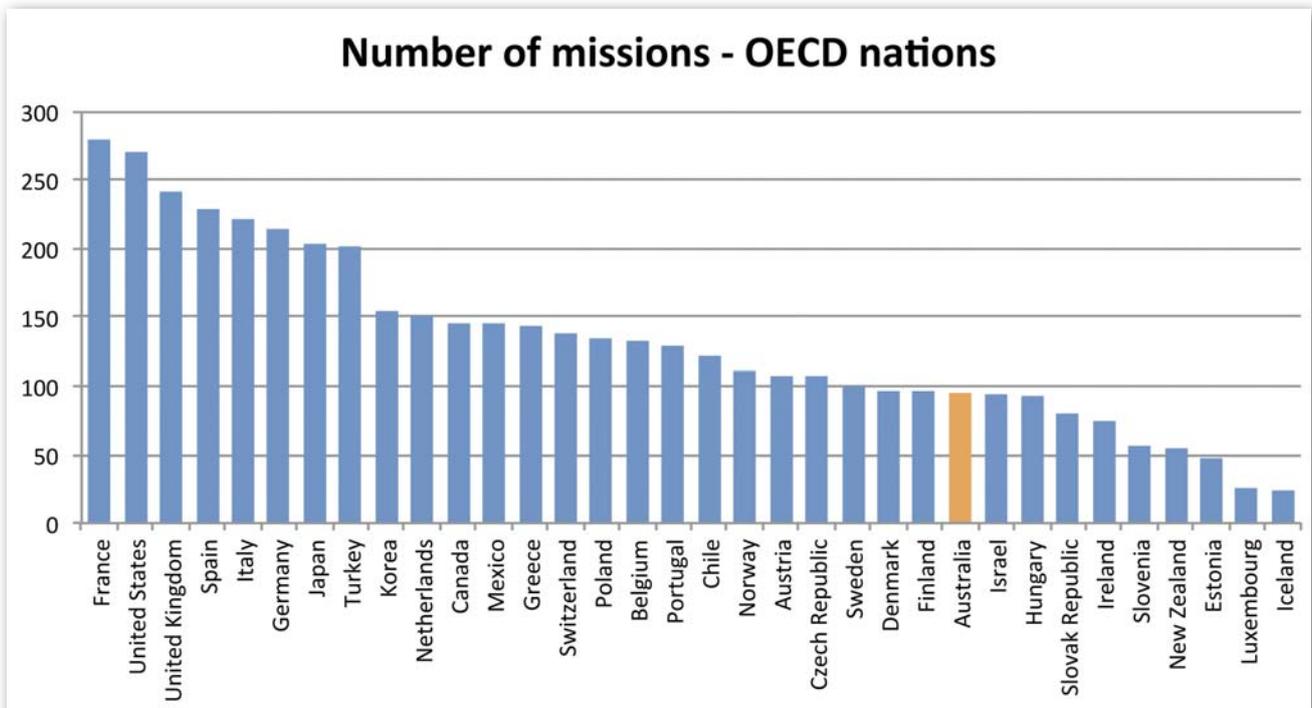
*“The most important function of the diplomat is to understand their patch with Australian eyes – with Australian interests top of mind... To achieve outcomes in Australia's interests, we will need to find friends among this diverse range of countries [as power shifts to Asia, India, South America and Africa]. It is more important than ever to know how these nations think.”<sup>13</sup>*

candidates in Europe – Lisbon and Malta, for example. Too often, however, we make short-sighted decisions and damage relationships and our interests by closing and reopening the same missions in pursuit of short-term diplomatic goals or cost-cutting.

In 2009, at the time of the *Diplomatic Deficit* report, Australia’s network of 91 missions stretched across 75 nations, out of a (then) possible 192 UN member states. Of the (then) 30 OECD nations, only Ireland, Luxembourg, the Slovak Republic and New Zealand (much smaller countries with fewer global interests) operated fewer diplomatic posts.<sup>14</sup> Our panel argued that Australia was underrepresented in Africa, Latin America, Central Asia and regional China and India.

The position has improved since then, but only marginally. Australia has opened four new posts: a new embassy in Addis Ababa (Ethiopia) opened in January 2011, and our embassy in Lima, Peru was reopened in September 2010. Former Austrade consulates-general in Mumbai and Chennai were expanded and brought under DFAT management in July 2010.

These post openings are consistent with Australia’s expanding economic and other interests in these regions. So long as they endure – certainly beyond the life of Australia’s candidacy for a seat on the UN Security Council – they are to be welcomed. They have not, however, meaningfully lifted Australia’s diplomatic profile in comparison with other OECD member states, whose number has grown by four since 2010 (Chile, Israel, Slovenia and Estonia). Of these, one (Chile) has a more extensive overseas network than



Latest available information, provided either directly by the relevant governments or from information in the public domain such as embassy websites, annual reports and press releases. Count includes embassies, high commissions, consulates-general, consulates and multilateral missions with separate ambassadors/heads of mission. It excludes trade and cultural offices and consular sections of embassies. For Australia, Austrade manages 13 additional consular offices. If these were included, Australia would share equal 20<sup>th</sup> position with Austria.

Australia, which now languishes in 25<sup>th</sup> position of 34 in our new diplomatic 'league table'.

Australia is still punching well below its weight when it comes to diplomatic representation. Consider this: only 12 other countries in the world have larger economies than Australia;<sup>15</sup> only 12 spend more on defence;<sup>16</sup> and only 10 spend more on overseas development assistance.<sup>17</sup> Despite these measures and a population of 22 million facing a relatively volatile external environment, Australia still lags behind Finland, (population 5.3 million), Sweden (9.3 million), Norway (4.8 million), Belgium (10.8 million) and the Czech Republic (10.5 million) in our international diplomatic representation.<sup>18</sup> These are all much smaller countries located in a far more stable part of the world.

The Australian government rightly makes much of its success in securing a seat at the elevated G20 forum. But we do even worse in terms of diplomatic representation by comparison with our fellow G20 members: Australia has the smallest diplomatic footprint of **all** G20 nations.<sup>19</sup>

In short, Australia remains severely underweight diplomatically. Only a properly funded and sustained strategy to expand our diplomatic reach into emerging centres of world power – many of them outside our traditional focus on littoral East Asia – can lift Australia to where it should be.

## Australia's overseas network remains seriously overstretched

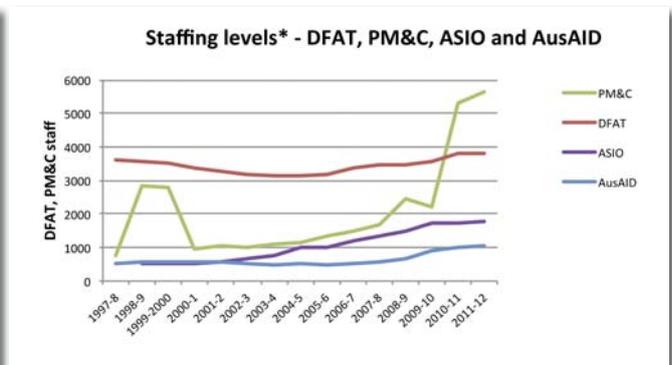
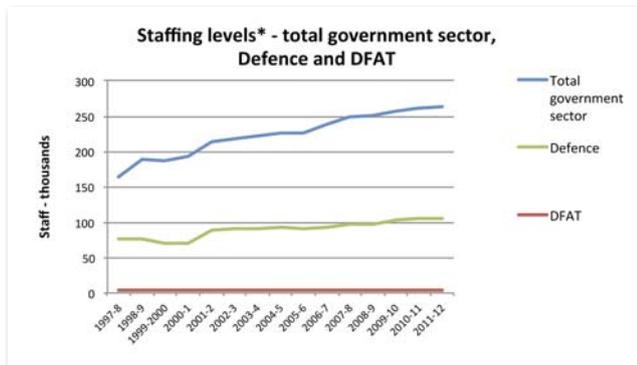
The other key piece of the Australian diplomatic jigsaw is the total number of front-line diplomatic staff and how they are distributed across the overseas network.

To assess this, we compared 15 years of data on DFAT staffing with that of various other government departments. The results were unequivocal. Over the period since 1997–98, the Australian Public Service has grown by 61 per cent. By contrast, DFAT staffing has effectively flat-lined (see charts below).

DFAT's comparative stagnation is underscored by the robust growth experienced over the last decade and a half by, for example, the Department of Defence (38 per cent growth), AusAID (almost doubling in size) and Australia's intelligence agencies (see charts). The Department of the Prime Minister and Cabinet has grown by an extraordinary 650 per cent, although in part this reflects the centralisation of various national security and other responsibilities previously exercised by other agencies.<sup>21</sup>

*"... our posts have by and large become smaller as we have spread out more widely but more thinly."*<sup>20</sup>

Dennis Richardson AO, Secretary,  
Department of Foreign Affairs  
and Trade



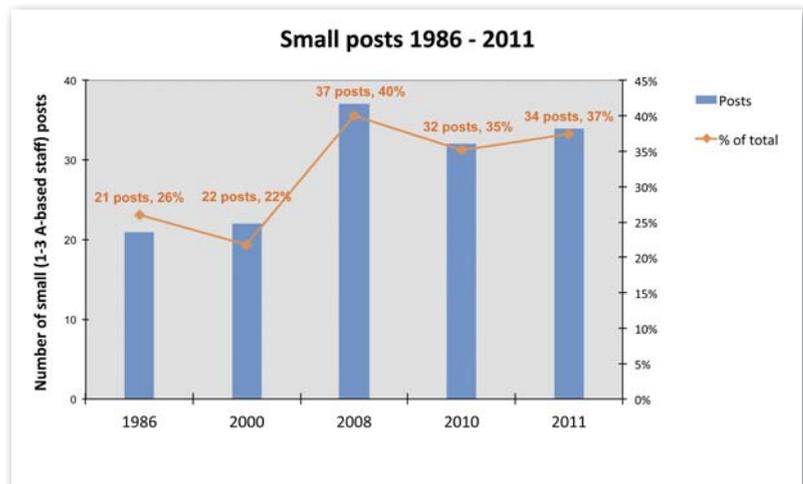
\*Estimated actuals from Budget Papers. All data taken from subsequent year's budget papers, and estimates of actuals (Budget Paper No. 1). 1998–9 and 1999–2000 data for PM&C includes ATSIC and related agencies; 2010–11 and 2011–12 increases in PM&C staffing owing to acquisition of arts and sports functions, including National Gallery, Library and Museum, Screen Australia, Australian Sports Commission et al.

In the last two years a modest start has been made on the major task of rebuilding Australia's diplomatic capacity.

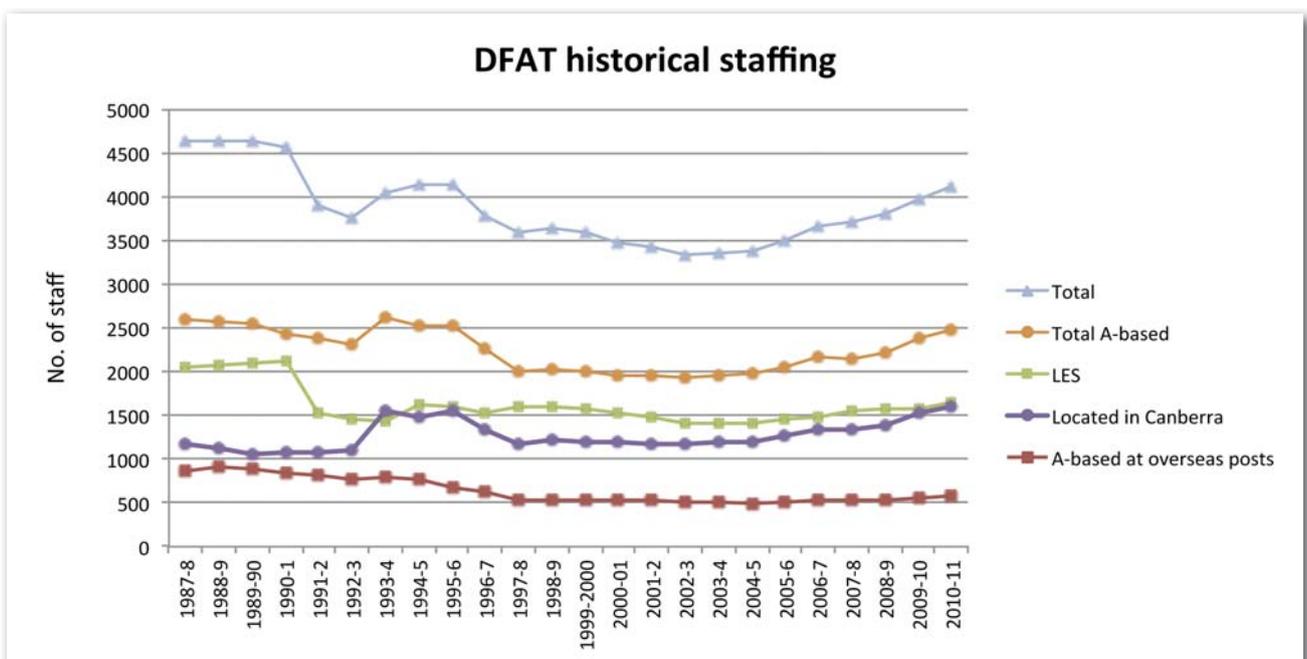
In 2009 we reported that 40 per cent of Australia's overseas posts were staffed by fewer than four A-based staff and hence designated by DFAT as 'small' posts.<sup>22</sup> These posts are often accredited to a number of countries and are severely constrained in their ability to carry out core diplomatic activities in addition to growing administrative and consular burdens. By the end of June 2011, DFAT had rebuilt its overseas representation to some extent, sending some 55 additional staff on overseas postings. As a consequence,

the total number of staff-at-post rose from 520 in 2008–9 to 575 in mid-2011 and the proportion of small posts fell slightly, from 40 per cent to 37 per cent.

That said, the additional staff are now serving four additional posts and have actually marginally boosted the number of small posts, and there remain at least 18 posts with only two A-based officers.<sup>23</sup>



The magnitude of the rebuilding task looks much greater, however, in light of new research conducted for this report into the history of Australia's diplomatic staffing levels going back to the merger between the then separate Departments of Foreign Affairs and Trade in 1987.



2010–11 data as at 30 June 2011, provided by DFAT. All other data from historical DFAT annual reports. Overseas posts data differs from DFAT annual reporting from 2007. All overseas posts data excludes officers on language training or short-term missions. The spikes around 1994–5 and 1995–6 are attributable to significant staffing increases in Program 3: services for other agencies (388 staff added between 1994 and 1995), and in Program 4: secure government communications and security (103 staff added between 1994 and 1995).

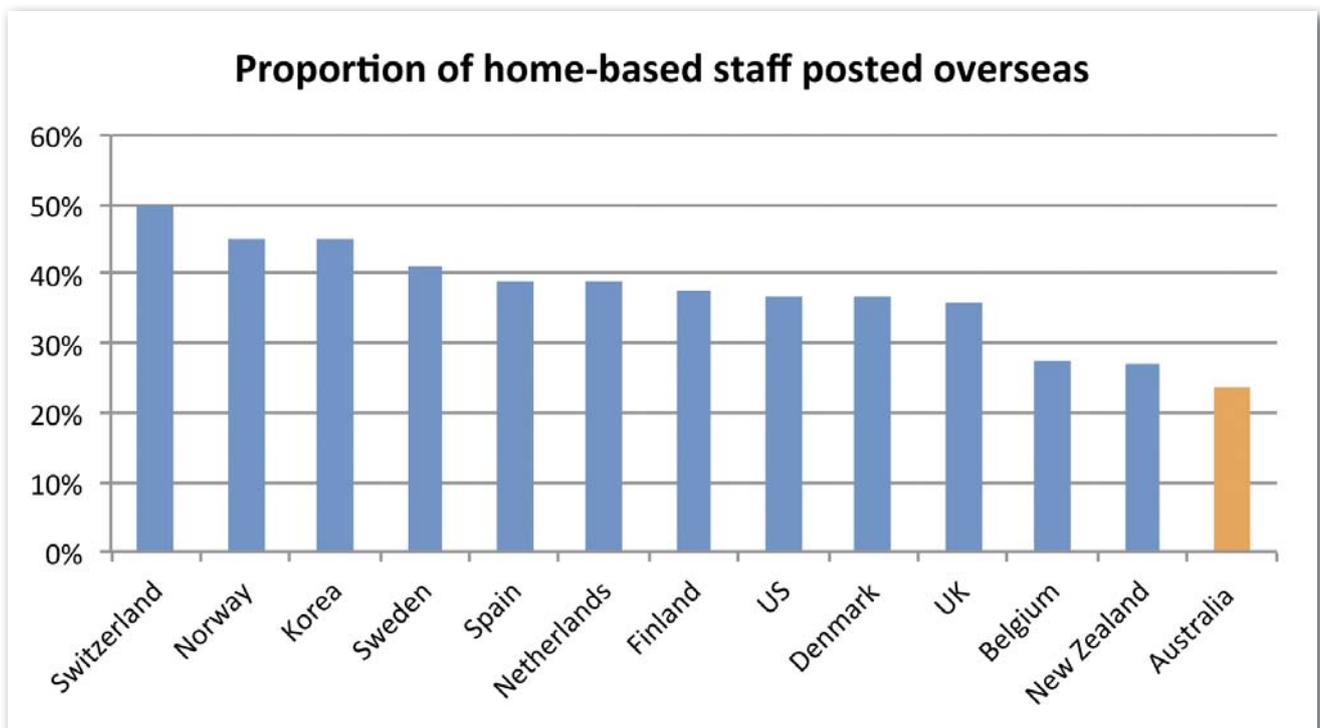
This reveals almost a quarter of a century of decline under both Labor and Coalition governments, followed by a plateauing in the number of diplomats serving abroad. The nadir came between 2003 and 2005, when DFAT's overseas A-based workforce<sup>24</sup> fell below 500, from a high of 908 in 1988–89 – a remarkable shrinkage of over 45 per cent. Today's 575 overseas-posted staff<sup>25</sup> represent a workforce over a third smaller than it was at its highest point.

The chart above shows some relatively modest gains in total staffing since 2005. For the most part, however, these new positions have been located in Australia (largely at the Canberra DFAT headquarters) rather than abroad.

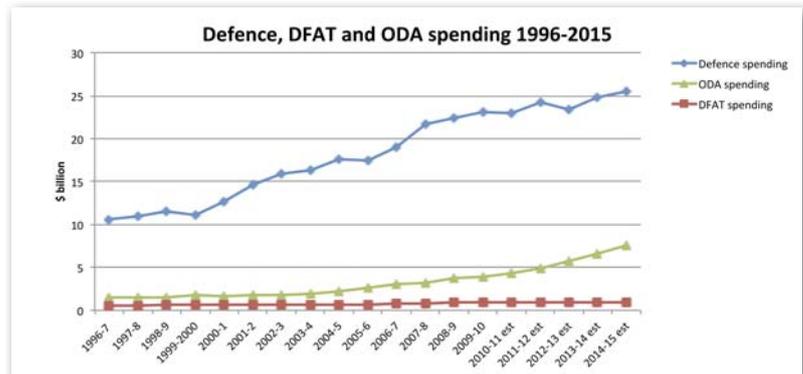
Australia's diplomatic 'teeth-to-tail' ratio – the proportion of its staff engaged in diplomatic roles abroad rather than bureaucratic roles in Canberra – also compares unfavourably with other foreign services.

As of June 2011, at most, 586 of DFAT's 2480 Australia-based staff – or just 23.6 per cent – were on overseas postings.<sup>26</sup> As the chart below shows, the proportion of Australia's foreign service officers in front-line diplomatic roles abroad is conspicuously low compared with numerous marker nations. In 2011 Australia had the lowest proportion of home-based diplomats serving overseas<sup>27</sup> of all the foreign ministries which provided us with staffing data.<sup>28</sup> This was despite the impact of the global financial crisis, which hit a number of European foreign service budgets particularly hard (see annexe).

Department in decline – 1988 to 2011 – more bureaucrats; fewer diplomats	
Fall in staff posted overseas:	33.9%
Fall in total departmental staff (to Jun 2011):	11%
Fall in locally engaged staff (to Jun 2010):	19.4%
Fall in Australia-based staff in total (to Jun 2011):	4.4%
Increase in staff located in Canberra (to Jun 2011):	34.5%

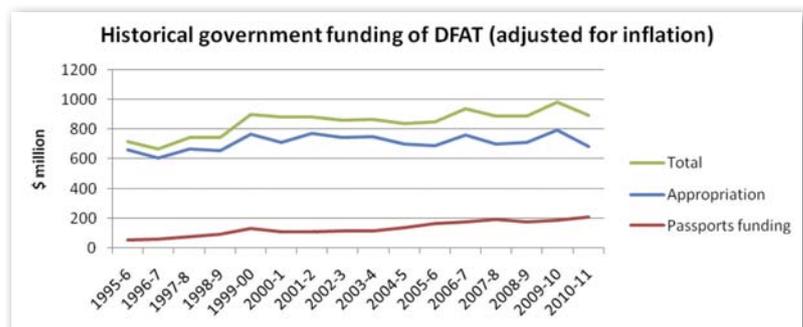


## Decades of underfunding have taken their toll



Actual expenditure. Defence and DFAT expenditure from audited financial accounts, Defence department and DFAT annual reports; forecast expenditure from Portfolio Budget Statements 2011–12, Comprehensive Income Statements; ODA and ODA targets from Aid Budget Statement 2011–12, p 128.

On the face of it, the history of government funding of diplomacy belies DFAT’s decline. While there has been no significant growth in real terms, neither has there been a real reduction in the call the department has made on the public purse over close to two decades (see chart below; a significant portion of the modest budget growth over the period has been in funding the passports function).<sup>29</sup>

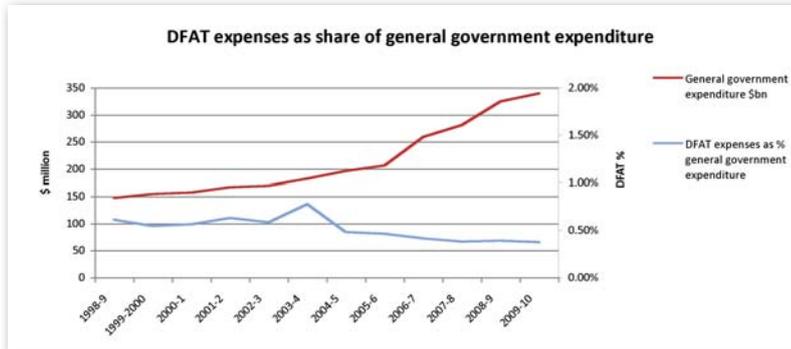


Appropriations in real terms, data provided by DFAT.

But this does not tell the full story.

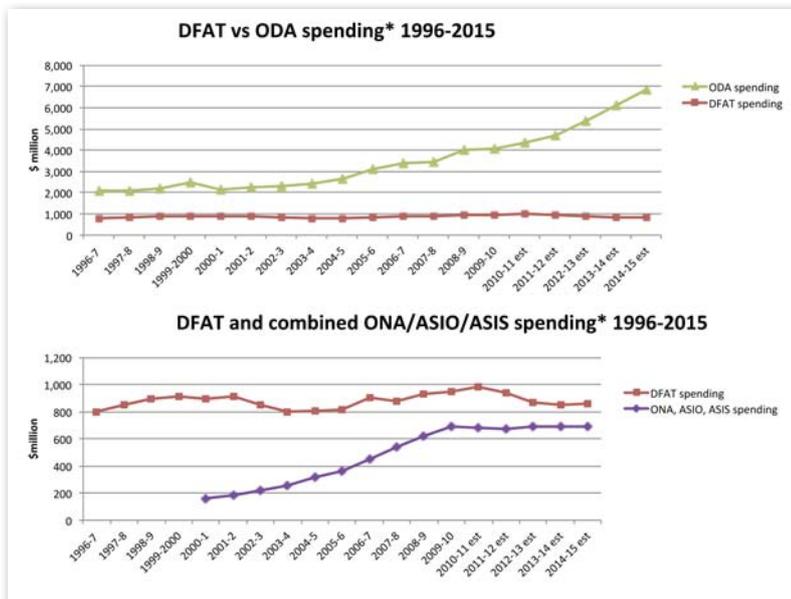
DFAT funding has declined over time, both compared with the trend share of general government sector expenditure (i.e. spending financed by taxes) and as a proportion of Australia’s growing GDP. DFAT’s real expenditure<sup>30</sup> represented 0.61 per cent of general

government expenditure in 1998–9 but almost halved<sup>31</sup> over the last 12 years to 0.37 per cent.



All expenditure data in nominal terms. General government expenditure data from Commonwealth Budget aggregates, actuals as set out in Budget Overview or equivalent section of historical budget paper. DFAT expenses exclude payments to Austrade in 1998–9. Data from 1996–1998 excluded due to distortion from ODA funding.

In comparison with the growth in spending on overseas development assistance and on intelligence (as exemplified by the aid budget and those of ONA, ASIO and ASIS in the charts below),<sup>32</sup> DFAT’s historical resourcing once again looks anomalously low in the context of an increasingly complex policy environment and surging demands on the department from Australia’s escalating international engagement.



\*Inflation-adjusted, base year 2010–11; ABS CPI data to 2010–11; forecasts from 2011–12 Commonwealth Budget. DFAT expenditure from audited financial accounts, DFAT annual reports; forecast expenditure from Portfolio Budget Statements 2011–12, Comprehensive Income Statements; ODA and ODA targets from Aid Budget Statement 2011–12, p 128, ONA, ASIO and ASIS data from Portfolio Budget Statements.

The last few years – and the current fiscal outlook – give little reason to be confident that the trend of the past few decades is likely to improve in the future.

This is a year of austerity budgets across the globe as developed economies struggle to recover from the global financial crisis. Australia is no exception, despite having a much healthier budget situation than most northern hemisphere nations. The Gillard government has imposed on all Australian government agencies a higher ‘efficiency dividend’ of 1.5 per cent per annum over the next two years, 1.25 per cent for a further two years and 1 per cent after that.<sup>33</sup> This may seem even-handed. But as outlined above, the problem is that most Australian government entities have fared far better than DFAT in recent decades, irrespective of which measure is used, and therefore have much more ‘fat’ in their base to cut.<sup>34</sup> DFAT has not shared equally in the gain – particularly post 9/11 – but is expected to share equally in the pain.

This comes on top of several years characterised by ad hoc and contradictory budget cuts and one-off boosts to DFAT funding for specific initiatives.

In 2008, soon after it was elected, the Rudd government imposed savings measures of more than \$120 million over four years on the department – cutting nearly 3.5 per cent annually from its base resourcing. For a department already starved of resources, this prompted further staff reductions, with 25 Australia-based overseas positions removed and 18 in Canberra. The 2008–9 budget injected around \$90 million over four years, but most of this was for Australia’s enormously costly presence at the Shanghai Expo (then estimated at over \$60 million, but ultimately costing \$83 million).<sup>35</sup>

The 2009–10 budget looked more promising, allocating \$300 million in departmental funding over four years to bolster DFAT’s depleted base funding and build Australia’s presence across key regions recommended in *Diplomatic Deficit* – India, Pakistan, Africa and Latin America.<sup>36</sup> While this was a welcome turn, in large part it served only to reverse the impact of the previous year’s cuts and went nowhere near addressing the accumulated deficit of the past two decades.

The government’s oscillating approach to funding foreign affairs continued in 2010. Sixty-one million dollars over four years for enhancing engagement with India (following the Indian student crisis) came at a cost of more than \$100 million in efficiency measures for DFAT and Austrade, quietly demolishing much of the previous budget’s gains. Additional ‘savings’ measures were imposed following the mid-year economic forecasts, requiring the foreign affairs portfolio to find yet another \$45.5 million in efficiencies over three years. Details of precisely where these additional savings will be extracted were to be provided in the 2011–12 budget<sup>37</sup> but have not yet materialised, although the Secretary has indicated that the global network of staff at overseas posts will not be affected.

How this will be achieved is unclear, however. (Then) Senator Russell Trood pointed out in Senate Estimates in June 2011 that the savings DFAT must fund from this year's budget are not confined to the \$10 million in 'savings measures', but amount to around \$34–35 million in total, including approximately \$4 million for the increased efficiency dividend and at least \$10 million anticipated costs of an enterprise agreement scheduled for this year,<sup>38</sup> together with additional funding for the UN Security Council bid of around \$10.5 million.<sup>39</sup> In response, Mr Richardson conceded that "the situation still remains very, very tight."<sup>40</sup> DFAT's briefing document to the incoming government after the 2010 elections stated that DFAT had "exhausted opportunities for reprioritisation and efficiency gains"<sup>41</sup> – and this was **before** the increased efficiency demand was imposed in 2011.

The total funding<sup>42</sup> from government over the period 2011–12 to 2015–16 will be on average \$143 million less each year than DFAT's funding level in 2009–10. While a substantial portion of this reduction is attributable to foreign exchange movements and changed funding arrangements with the Overseas Property Office,<sup>43</sup> the department's base annual funding will fall to around \$780 million per annum after next year. This bleak financial situation is compounded by an unstable global economic climate, a more uncertain regional security environment, and resource-intensive discretionary priorities.

These include the current bid for a temporary seat on the UN Security Council. The real and opportunity costs to DFAT of the campaign far exceed the budgeted allocation of over \$23 million over the last three years. Moreover, if successful, DFAT will have to allocate resources both in Canberra and at posts to covering a vast range of unfamiliar policy issues, many of which are only tangentially related to Australia's interests.

*"For every A\$1 million savings that the department needs to identify, we would need to cut approximately 10 jobs in Canberra or three jobs overseas"*

DFAT, incoming government brief, 2010

## Crises, disasters and wanderlust – Australia's consular capacity is stretched to its limits

*“Politicians have turned helping Australians abroad into a rod for their own backs [by their excessive responsiveness to crises] ... Only political leaders can scale back the expectations of Australian travellers – or decide to fund the foreign service to properly meet these concerns. Otherwise, diplomats are unable to fulfil their other essential tasks abroad”* <sup>44</sup>

*“A passport is issued every four seconds of every working day”*

DFAT, incoming government brief 2010<sup>49</sup>

Demands on the department have risen sharply over the last two decades, and the consular function has experienced severe pressures. *Diplomatic Deficit* highlighted the rapid growth in the volume and complexity of DFAT's consular caseload. The number of Australians travelling overseas has more than quadrupled since the late 1980s – from 1.7 million annual trips to more than seven million in 2010–11.<sup>45</sup> The number of cases of consular assistance provided by DFAT has risen 50 per cent over the last five years to over 200,000 cases annually.<sup>46</sup>

There has been no let-up since 2009. The number of passport applications has soared by almost 16 per cent in just two years<sup>47</sup> to a record high of 1.77 million passports in 2009–10 – a number which is expected to almost double again in the next 10 years.<sup>48</sup> The number of annual trips rose by 18 per cent in the last two years alone.

Expectations are rising too. Annual polling by the Lowy Institute demonstrates the increasing emphasis that Australians place on what they see as the government's obligation to protect Australian citizens abroad. In 2011, 72 per cent of respondents judged this to be a ‘very important’ goal, up sharply from 63 per cent in 2007.<sup>50</sup>

According to our discussions with officials from other members of the Consular Colloque – a forum of five nations (US, UK, Canada, Australia and New Zealand) which cooperate and consult on consular issues – Australia has a strong reputation for consular work. With its very limited resources, DFAT performs extremely well under the pressure of international crises, and goes to great lengths to assist Australians in difficulty overseas – sometimes putting its own staff at risk to help them.<sup>51</sup>

Even so, DFAT is often the butt of unwarranted criticism by the travelling public and the media. The department is caught in a vicious cycle: hyperbolic media attention fixes on Australians caught up in misadventures and international crises; governments tend to buckle to the ensuing public pressure and direct the department to spare no effort to help them; this in turn creates a kind of moral hazard, raising unrealistic expectations about what the Australian government can do to help its citizens in another country and tending to increase their willingness to take risks when travelling.<sup>52</sup>

As a result of these trends:

*Our consular caseload continued to be diverse, complex and challenging... This reflected Australians' propensity to travel widely, often to geographically remote or politically unstable locations where the department is not represented, and to engage in a broad range of activities including adventure tourism.*<sup>53</sup>

Even under normal working conditions, Australia's consular corps would have been stretched to its limits. But aside from the normal vagaries affecting travellers, since 2008–9 DFAT has also had to help Australians caught up in terrorist attacks in Mumbai, civil unrest and airport closures in Bangkok in 2009, revolution in Egypt, and civil strife and uprisings across the Middle East early in 2011, and devastating earthquakes in New Zealand and Japan. In these extreme circumstances, the burden of the overseas travel explosion, our significant expatriate population<sup>54</sup> and Australians undertaking travel to risky destinations against government advice, place a heavy burden on DFAT consular staff. DFAT's Consular Emergency Centre answered 2,000 calls in one day during the Egyptian civil uprising in early January 2011,<sup>55</sup> 44,000 calls in 2009–10, 37,000 calls in 2008–9 and 36,000 calls during the 2006 Lebanon war.

Nor is this level of demand likely to abate.

Yet the resources available to meet these surging consular demands continue to lag. As outlined above, reductions in A-based staff overseas over the past two decades mean that in an emergency additional staff have to be flown in, either from another post or from Canberra – at the expense of other important tasks. Because of the priority the department – rightly – attaches to assisting Australians in distress overseas and their families at home, consular emergencies often see A-based staff at posts diverted from diplomatic tasks and departmental officers in Canberra diverted from policy development. While the government has facilitated significant investment in passport security and technology,<sup>57</sup> the department actually shed staff in the consular section between 2008 and 2010.<sup>58</sup>

The 2011–12 Commonwealth Budget included a \$4 million allocation to consular services. But as a one-off increase amounting to less than 0.5 per cent of the department's overall expenditure, and 1.4 per cent of the annual expenses for consular and passports, this was little more than a token gesture. The budgeted expenses for DFAT's combined consular and passports functions have grown only 4.2 per cent over the last two years and have remained steady at around 19–20 per cent of departmental expenditure.<sup>59</sup> Over the next four years, expenditure on consular services is budgeted to fall on average below that of the 2010–11 financial year.

Initiatives such as the *smartraveller* travel registration and advice system are welcome attempts by DFAT to streamline its massive consular workload, but are poorly designed for the modern traveller. *smartraveller* has gained some acceptance: registrations increased from around 7,300 weekly in 2007–8 after its April 2007 launch

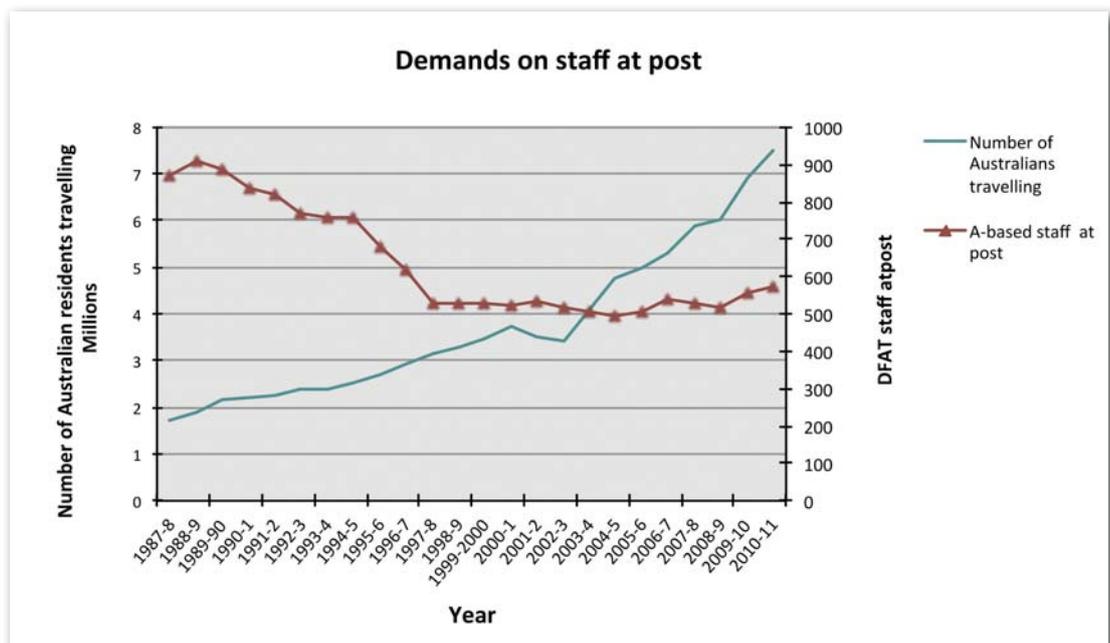
*"... over the coming years, whether we like it or not, we will have to put more resources into consular ... we could certainly do with more resources in the consular area ... in crises we [deliver those resources] by robbing Peter to pay Paul."*<sup>56</sup>

Dennis Richardson AO, Secretary,  
Department of Foreign Affairs  
and Trade

to 10,530 in 2008–9.<sup>60</sup> Likewise, subscribers to DFAT’s travel advice service increased marginally from 68,205 at 30 June 2007 to 69,991 at 30 June 2010 (a slight fall from the previous year). But these numbers cover only a tiny fraction of the seven million trips Australians take each year, and the government needs to explore innovative ways to encourage take-up of these important consular tools, such as e-diplomacy platforms accessible by smart phones.

The mismatch between consular demand and allocated resources comes at a long-term cost. As outlined in *Diplomatic Deficit*, DFAT’s diplomatic and policy development capacities are often casualties devoured by the all-consuming consular monster. Double the number of Canberra staff work on consular services compared with in 1996, and nearly triple on passports,<sup>61</sup> but Canberra’s total staff numbers have remained almost constant, and the staffing levels dedicated to policy development have contracted damagingly.

Perhaps Australia could afford this while our external environment remained relatively benign. But that looks increasingly like a thing of the past. We have to do better.



## Other demands on the department are also rising

As observed in *Diplomatic Deficit*, the increasing internationalisation of government has placed new burdens on DFAT, particularly at diplomatic posts where a plethora of Australian government agencies are represented in quasi-‘whole of government’ diplomatic hubs, but also in Canberra where DFAT often plays a key coordination role in areas where PM&C does not take the lead.<sup>63</sup> Twenty-five years ago, only 438 non-DFAT agency staff were posted overseas – fewer than half the number of overseas staff posted by the (then separate) Departments of Foreign Affairs and Trade. By 2008, other government departments and agencies had over 2 ½ times more staff overseas than DFAT.<sup>64</sup>

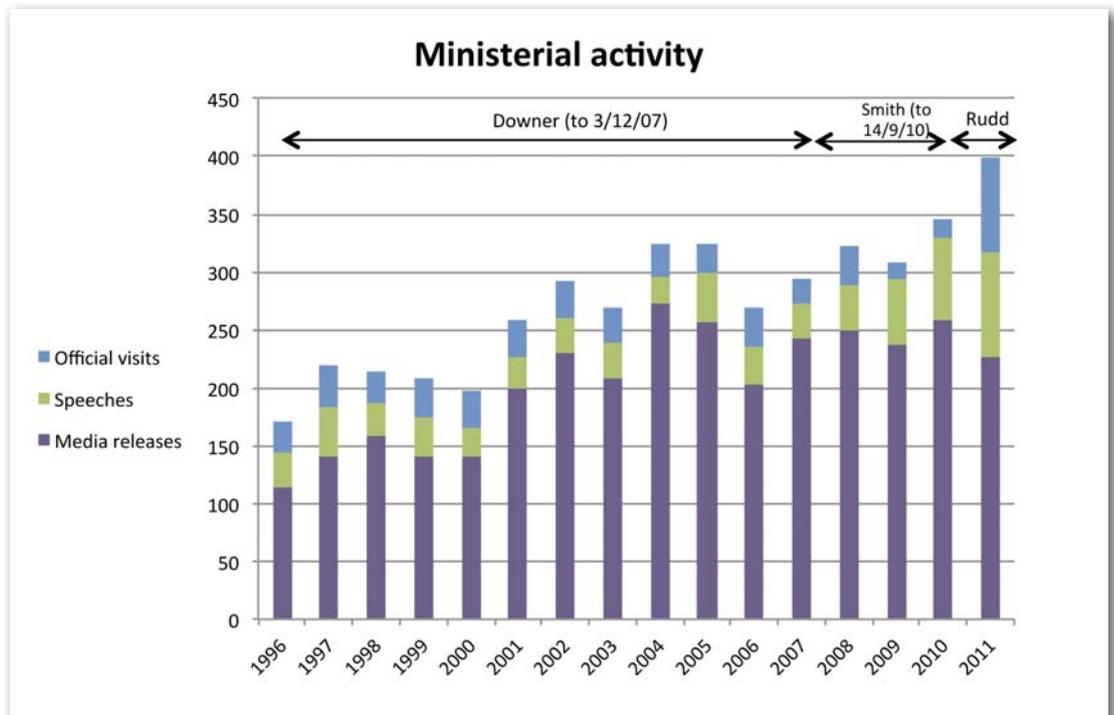
These agencies have to some extent assumed responsibility for tasks DFAT formerly performed on their behalf. But the proliferation of other agencies at posts imposes significant coordination and administrative burdens on heads of mission and their DFAT colleagues.

It is not only growing demands from distressed Australian travellers and the other agencies and government departments represented overseas which are compounding the pressures on a department nursing its ‘great hangover’<sup>65</sup> from two decades of progressive staffing cuts and resourcing strain. Over the same period the pace of government has accelerated appreciably as a result of the information revolution and 24/7 international news coverage. One result is to remove from posts some of the burden of reporting events. But over the past 15 years successive foreign ministers have placed steadily greater demands on DFAT to support interactions with the media, attendance at official functions, speeches and overseas visits.

At post, ministerial and parliamentary delegations require considerable organisation and coordination by embassy staff; in Australia, media releases, ‘talking points’ and speeches consume substantial resources. The department prepared nearly 3000 ministerial submissions in 2009–10 alone – almost 40 per cent more than in 1996–7.<sup>66</sup>

*“... [constrained DFAT resourcing] has meant our effort has been more thinly spread ... it has meant we have had to sharply prioritise – and that is fine. People have certainly worked harder ... they work under sustained pressure.”<sup>62</sup>*

Dennis Richardson AO,  
Secretary of the Department of  
Foreign Affairs and Trade, 2011



Note: Data to 31 July 2011 extrapolated.

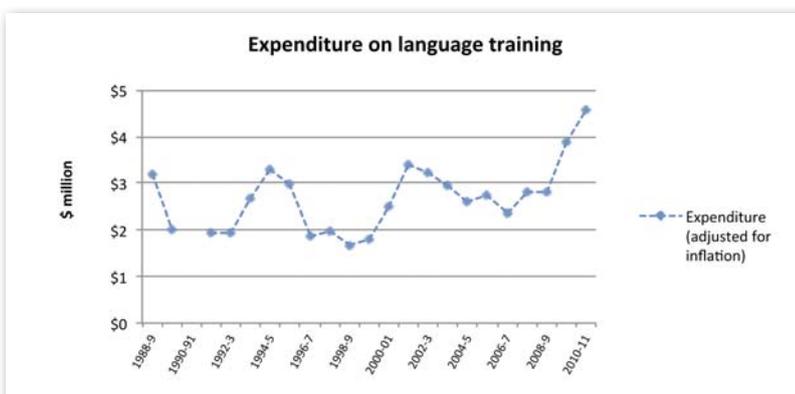
## Regaining the power of persuasion

Diplomacy is about persuading international actors to act (or sometimes to refrain from acting) consistently with national interests. Traditionally this meant influencing foreign officials and other governments. But increasingly today it also means engaging a range of other powerful non-state entities – such as NGOs, multinational companies and political movements – and foreign publics. Diplomats who can talk to these audiences in their own language are one vital tool in this effort. Effective public diplomacy is another and, in the age of social media, e-diplomacy is another.

### Foreign languages

A key finding of *Diplomatic Deficit* was that at the close of 2008 language skills within DFAT had been in decline for two decades. Only about 26 per cent of A-based DFAT staff were then proficient in another language besides English, whether as a result of departmental neglect or the funding pressures it faced, or both. Asian languages, particularly Arabic and Hindi,<sup>67</sup> emerged as critical deficiencies.

Our recent research shows that since then the department has mounted a serious effort to address this problem. The last two years have seen an impressive 69 per cent increase in language training funding in actual terms. In 2011, the estimated funding for language training exceeds that in any other year over the last two decades.



These efforts seem to be producing results: the number of DFAT staff with a working-level proficiency in an Asian language increased from 227 diplomats in 2008<sup>68</sup> to 266 in 2011,<sup>69</sup> and there are now twice the number of Arabic speakers in the department as in 1994.<sup>70</sup>

Even so, there is a long way to go before we can say that DFAT's foreign-language capacity is back to the level expected of a serious foreign service. Specialist skills such as this take time to rebuild after long periods of institutional neglect and erratic funding (see chart page 16). Spending on language training in 2008–9 was still less than in 2001–2, not only in nominal but in real terms. Fewer than one quarter of DFAT staff are now proficient in another language – and this number has fallen by 21 per cent since 2005.<sup>71</sup>

## Public diplomacy

Public diplomacy is directed at foreign publics, rather than governments, with two aims: to engender more favourable attitudes to Australia (which among other effects can help to make it a more attractive destination for tourists, students, skilled migrants and job-creating foreign investment); and to influence foreign public opinion in support of our national interests.



Globalisation is driving the emergence of new power centres, including in Asia – populous nations with highly diverse social, economic and cultural systems in which we have increasingly significant trade, tourism, educational and security interests. At the same time, globalisation is also empowering a range of new non-state actors. In countries as varied as China, India, Indonesia and Vietnam, new internal actors are gaining influence and new provincial hubs are burgeoning. These trends are challenging traditional approaches and making public diplomacy a more critical element of successful diplomacy.

Yet government commitment to Australia's public diplomacy remains virtually non-existent.<sup>72</sup> Nothing has changed to make the observations in *Diplomatic Deficit* less relevant today than they were two years ago:

- DFAT lacks a clearly articulated and coherent public diplomacy strategy. Target audiences and individual country strategies are vague. Programs are skewed to cultural activities which may benefit Australian artists and performers but do not meet public diplomacy goals properly defined: 43 per cent of all public diplomacy funding in DFAT's 2010–11 budget was allocated to cultural diplomacy<sup>73</sup> – and this is largely managed by the Australia International Cultural Council, a body whose effectiveness is queried even within DFAT.<sup>74</sup>
- The program is parsimonious, with less than \$5 million total operational funds available in 2010–11.<sup>75</sup> Of this amount \$2m is spread ridiculously thinly across Australia's entire network of 95 overseas embassies and consulates to spend on public diplomacy activities overseas, and just less than \$2m on cultural grants and programs. The remainder is intended to cover everything from international and media

visitors programs (which are highly effective as a way of building relationships with up-and-coming leaders of foreign governments, civil society and opinion), the DFAT website, publications, indigenous programs and administration.<sup>76</sup>

- A scant \$6m is shared between nine bi- or multi-lateral councils, foundations and institutes across the whole range of their operations,<sup>77</sup> despite the fact that these represent some of our most important regional and international relationships (including the Australia–China and Australia–India Councils, the Australia–Japan Foundation and the Australia–Indonesia Institute).<sup>78</sup> Only around one per cent of the department’s nearly two and a half thousand A-based staff occupy positions dedicated to public diplomacy.<sup>79</sup>
- Australia spends significantly less on public diplomacy on a per capita basis than comparable Western nations, including the UK, France, Germany, the Netherlands, Japan and the United States. Many of these nations have sophisticated networks of cultural councils and extensive scholarship and language programs, such as the British Council, Goethe Institutes, and Instituts Français, as well as very significant international broadcasting operations.<sup>80</sup> China’s focus on public diplomacy outstrips even that of the United States, with 70 Confucius Institutes in America alone.<sup>81</sup>
- With public information services and public diplomacy subsumed since 2009 within the amorphous ‘Outcome 1’ in departmental budgeting and accounting, there is now very limited transparency into the resourcing of public diplomacy in Australia. The 2009–10 budget was the last to break out public diplomacy as a separate budget line,<sup>82</sup> and revealed that the public diplomacy budget of \$60 million in 2009–10 fell to \$39 million in FY 2011 and \$24 million in each of the FYs 2012 and 2013.
- Australian international broadcasting is inadequately funded and now risks becoming a political football. An estimated two thirds<sup>83</sup> of Australia’s public diplomacy expenditure is directed to our own international broadcasting effort, represented by Radio Australia and the Australia Network, Australia’s international television service. But even this is a comparatively tiny investment and is declining in real terms. Many nations are recognising international broadcasting is a potent and cost-effective form of public diplomacy: China has reportedly invested a massive \$6.6bn on television and radio broadcasting over the last few years.<sup>84</sup> Australia, in contrast, will spend less in real terms this financial year on the Australia Network than at any time in the last decade.<sup>85</sup> Its diminutive \$20m budget for 2011–12 is expected to stretch across the entire region, reaching and informing diverse populations across our neighbourhood and major tourist and trade markets (including priority markets such as China, India, Indonesia and Japan). Despite the network’s diminishing budget, it is expected to increase its viewership

each year and maintain a top 25 international channel ranking in the region.<sup>86</sup> Recent controversy over the tender process for renewal of the Australia Network contract will not help.

The 2007 Senate committee investigation into Australia's public diplomacy concluded that Australia faced fierce competition in getting its voice heard and heeded internationally. It identified significant weaknesses in the coordination of Australia's public diplomacy efforts across the plethora of departments and agencies with the potential to contribute significantly to a well coordinated national public diplomacy effort (such as AusAID, via its extensive development scholarship program, and Austrade, responsible for the Brand Australia campaign).<sup>87</sup> The committee made a comprehensive set of recommendations to address such deficiencies. But DFAT's response has been scant, and it has yet to provide its report (due in late 2009) on Australia's public diplomacy programs, their coordination across government, the evaluation of their effectiveness, and how the department intends to remedy the weaknesses the committee identified in 2007.<sup>88</sup>

## DFAT's e-diplomacy: virtually invisible

*Diplomatic Deficit* noted advances in new media techniques being adopted by ministries of foreign affairs in other countries. Since then, Lowy Institute research in 2010 has examined the new digital diplomacy practised by other countries and found DFAT's approach lagging significantly behind.<sup>89</sup> Since introducing its first website in 1995, DFAT has only inched forward in its embrace of new technology. Despite a recent renovation of its headquarters website, DFAT's digital communications remain antiquated in comparison with those of benchmark e-diplomacy nations such as the United States, the United Kingdom and Canada. It only recently commenced adding audio and video capability to its website, the most basic of tools for organisations needing to communicate with the public.

Of more concern, the websites of DFAT's overseas posts – often the first point of interaction for foreign publics – are best described as rudimentary, even in comparison with other Australian government websites, yet their planned overhaul has been delayed. Currently, DFAT has no e-diplomacy office and no person with overall responsibility for e-diplomacy, impeding its ability to implement new technologies that would increase efficiencies and improve its ability to achieve objectives.

Social media and electronic communication have evolved so rapidly that foreign ministries face challenges in staying abreast of advances. The speed with which news can now spread (there are around five billion mobile phones worldwide, one billion of them web-enabled to some degree, and two billion internet users, with numbers growing rapidly),<sup>90</sup> means DFAT can no longer afford to continue with traditional messaging only. It must position itself

both to respond rapidly to misinformation or crisis situations and to engage effectively with foreign publics and promote Australia's foreign policy objectives.

In April 2011, DFAT abandoned its experimentation with the ad hoc use of Twitter and Facebook in favour of a single permanent Twitter account, which is generic (not associated with a particular spokesperson) and is non-interactive (it does not engage other users). While its adoption of Twitter is encouraging, the one-way nature of DFAT's Twitter use stifles genuine and productive engagement with audiences.<sup>91</sup> DFAT has shied away from allowing its diplomats the latitude to express government views online, apparently concerned that personal views might infect the proper communication of government policy.<sup>92</sup>

By contrast, other benchmark foreign ministries such as the US State Department and the UK Foreign and Commonwealth Office have embraced social media and blogging as a flexible and responsive communication tool. By and large they seem to have successfully managed the inherent risks. For example, of 4,000 blog posts by UK diplomats over four years to 2011, only three caused any concern.<sup>93</sup> The FCO has achieved this stable outcome by introducing an intuitive concept known as "assumed competence", where "ambassadors are given a fair degree of latitude to express what are clearly labelled as their personal views in their blogs".

Balancing any risk posed by this latitude are the potentially powerful gains in harnessing this potent communications tool. As UK Ambassador John Duncan describes it, they

*serve the purpose of the 'coffee shop' conversation with colleagues and opinion formers; something that responds to their desire to have a snapshot of one's country's policy rather than wade through the text of a long formal speech.*<sup>94</sup>

DFAT's hesitance in adopting e-diplomacy platforms is in part explained by its difficult budgetary situation. But as noted above, another crucial factor is the caution with which it approaches all media, and the new media in particular. Secretary Dennis Richardson summed up current thinking in recent Parliamentary testimony:

*... we are taking tentative steps, but we are not going to be adventurous in our approach to it [e-diplomacy], except in the consular area where it is clearly in our own interests and it is clearly in the interests of the travelling public that we engage more.*<sup>95</sup>

No doubt this reticence accords with the preference of a Foreign Minister who himself Tweets regularly to around one million followers.

There are certainly risks: in one prominent case a UK ambassador got into hot water after tweeting personal views inconsistent with government policy.<sup>96</sup> Yet the only appropriate response is risk management, not risk aversion. If we can't trust our diplomats to

exercise good judgment online, they should not be representing the nation.

Some progress has been made, however. Since 2009, DFAT has launched four YouTube channels (for the Foreign Minister, Trade Minister, parliamentary secretaries and DFAT). It has also started using video on its Headquarters website and launched a webpage 'Australians Helping Japan'<sup>97</sup> after the devastating earthquake and subsequent tsunami in Japan. Blackberries have been made available to several hundred staff as well as some iPhones. Video conferencing is available at a small number of overseas posts, and co-hosted facilities with Austrade at around another 30. Unclassified email is now available remotely. DFAT has also started using Govdex, a 'secure, private web-based space' hosted by the Department of Finance, which is available for cross-government coordination and was used by DFAT for the Shanghai Expo and to coordinate APEC policy.<sup>98</sup>

E-diplomacy is essential to allow DFAT to do its core work: social media and digital tools are no longer 'optional extras' but fundamental means of communicating with modern audiences and across government.

*"I think there'll be a tipping point where this stuff will suddenly seem natural. I'm not talking about a generational shift in diplomatic circles — I expect that a growing awareness that the audiences for public diplomacy are increasingly digital will dovetail with the realisation that an understanding of foreign policy issues on the ground can be improved by placing ourselves in the right networks. The role of social media in the Arab Spring has perhaps been over-stated, but the level of understanding that listening and being involved in those conversations brings will not be an optional extra."<sup>99</sup>*

Jimmy Leach, Head of Digital Diplomacy, UK FCO

## Conclusion

Since 2009, some modest initial steps have been taken towards rebuilding Australia's diplomatic infrastructure. Funding for DFAT, the traditional centre of foreign affairs knowledge and expertise, has remained almost static in real terms since the mid-1990s. But the department is beginning to reallocate its scant resources to rectify some of the damage of the past two decades. Four new diplomatic posts, increased investment in language training and the bolstering of the overseas diplomatic corps are welcome first steps.

But much more needs to be done.

To rebuild its overseas network for a properly functioning international presence, DFAT **requires a substantial and sustained boost to its funding base.** For too long it has weathered budget cuts, not just since the global financial crisis but through times of economic prosperity when most other government agencies were growing strongly. The period when there was fat that could be cut is long gone; DFAT is down to muscle and bone.

In today's tight fiscal circumstances, new resources may be hard to find. The department provides consular assistance to hundreds of thousands of ordinary Australians and extensive behind-the-scenes support to Australian businesses, which helps them find new markets and ultimately creates jobs at home. Yet – unlike Defence and AusAID – DFAT lacks a vocal constituency and has few friends inside Cabinet. DFAT is good at persuading other governments to do things but hopeless at persuading its own government to give it anything like the resources it needs. It needs to employ in Australia some of the skills it uses overseas to knit together coalitions in support of interests.

Given the stakes, however, it is incumbent on government to come up with creative solutions. This report has identified a few, including exempting DFAT from the efficiency dividend for the next four years and rebasing its budget by slowing the doubling of Australia's aid budget. There may be others.

**New posts are needed in emerging centres of influence and economic opportunity, particularly inland China and Eastern Indonesia – both increasingly important to Australia. The Gulf, Latin America and Central Asia are also priorities.** There may be scope for some post closures in Europe including Lisbon and Malta. But if possible Australia's 95 posts should be boosted to achieve a network far closer to the OECD average of 133 missions distributed across 193 nations. Steps should also continue to bolster Australia's very high number of small, functionally challenged posts. **Our 2009 recommendation in *Diplomatic Deficit* that Australia should open 20 new missions over the next decade stands.**



This report identifies several other key areas where reform is crucial:

- **Staff numbers should be increased, particularly in the consular and policy areas.**
- Staffing in Canberra and at posts should be rebalanced to **increase the proportion of our existing diplomats serving overseas** by reducing administrative demands and layers of management at headquarters.
- The further erosion of DFAT's policy and diplomatic capacity should be stemmed by **reviewing the way consular services are delivered and funded**; resourcing of the consular function needs to be tied to the caseload (as applies currently with the issuing of passports).<sup>100</sup>
- **DFAT's public diplomacy requires a comprehensive review and reorganisation**, to produce a coherent public diplomacy strategy with proper resources which supports the government's international policy objectives.
- e-diplomacy is rapidly transforming the way governments communicate with important new audiences. The department should develop and implement **a best-practice e-diplomacy program to support all aspects of DFAT's operations, led by a new e-diplomacy office.**

Australia is entering a new and much less certain period than it has faced in decades. We are more integrated with the rest of the world than at any time in our history, which brings with it enormous benefits. But global economic volatility and profound strategic changes in our region pose unprecedented challenges for Australian statecraft. The risks are considerable. As a nation we are going to have to get used to the idea of spending more on defence and bolstering fragile countries in our neighbourhood.

But while this is necessary it will not be sufficient. In a more complex, multi-polar world, Australia needs to be able to anticipate, interpret and influence the course of events. Diplomacy is the most cost-effective policy instrument to promote and secure our interests in a fast-changing world. Our overseas network has been neglected and run down over decades. In an era of increased risk, time may be running out for government to reverse this trend and to take meaningful, sustained action to rebuild Australia's diplomatic infrastructure.

## Annexe: How other diplomatic services are faring

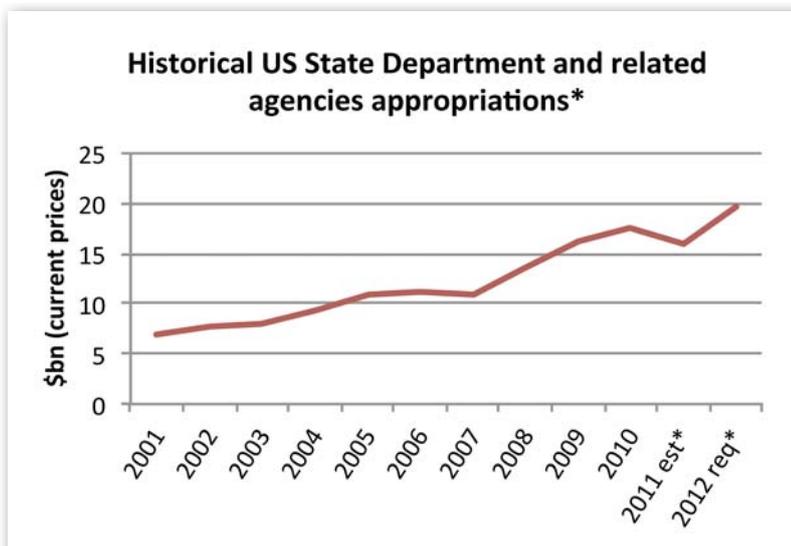
Post-financial crisis budget austerity measures are challenging ministries of foreign affairs across the globe. But the reality is that most of Australia's OECD-nation colleagues are working from a much stronger base, having enjoyed years of stronger funding and government support.

They have larger ministries, far more comprehensive overseas networks and more resources allocated to their overseas posts than Australia, even taking into account our relative size and weight.

### United States

While the US budget position for the 2012 fiscal year is still unresolved, the 2011 budget was finally enacted in April 2011, requiring the State Department to absorb cuts of around 11 per cent.<sup>101</sup> The stringency is likely to persist over the next two to three years given the scale of the US debt problem. However, like the UK, the State Department's foreign affairs function (not even taking into account its development functions) has experienced years of consistently strong growth since 9/11.<sup>102</sup> Its overseas network of 271 missions is the second largest (behind France) of all OECD nations'. It has over 66,000 employees and nearly 13,000 Foreign Service employees:

- The department's Diplomacy 3.0 initiative is intended to increase the size of the US Foreign Service by 25 per cent at the State Department and 100 per cent at USAID by 2014. If fully implemented, this will add nearly 2,700 new employees to the Foreign Service.<sup>103</sup>



\*2011 estimated actual, 2012 budget request. See endnote 105.

- The Foreign Service has already increased in size by 16 per cent over the last two years.<sup>104</sup>
- The 2011 and 2012 budget requests from the State Department represent 4.2 per cent and 1.6 per cent increases over the 2010 actuals.<sup>105</sup>
- China has requested that the United States increase its consular capacity in China by 15 per cent per annum for the foreseeable future.<sup>106</sup>

## UK

The Foreign and Commonwealth Office's budget increased by 30 per cent over the five years to 2009–10,<sup>107</sup> when it had 4,863 home-based staff.<sup>108</sup> Although the 2010 Spending Review will require an overall 25 per cent reduction in the FCO's budget, a significant portion of this represents the transfer of BBC World Service funding to the BBC. Once this is taken into account, the budget reduction will be 10 per cent over the four years to 2014–15.

The FCO has already reduced the size of senior management by 25 per cent over the last five years through natural attrition, early retirement and slowing promotions.

The overseas network of over 240 posts will be preserved, and there are plans for new posts.

One of the primary cost-saving measures will be to reduce the number of junior officers at overseas posts in a process that was already under way, phasing out some positions and replacing them with locally engaged staff – but with no forced redundancies.

## Netherlands

The Netherlands, population 16.5 million,<sup>109</sup> has a diplomatic network more than 50 per cent larger than Australia's (150 posts versus 95), and almost double the number of staff posted overseas:

- There is strong governmental support for 'economic diplomacy'.
- Planned efficiencies include closing ten posts and opening three.
- From 2015–18, savings of €74 million will be made, approximately  $\frac{3}{4}$  of which will be directed at overseas operations, for example by increasing the use of locally engaged staff.
- Staff cuts of 200 overseas and 100 in the Netherlands are planned (of a current total 2846 home-based staff – 14 per cent larger than Australia's home-based staff) – to be achieved as far as possible through attrition and retirement.

## New Zealand

NZ's Minister for Foreign Affairs announced in April 2011 that the NZ Ministry of Foreign Affairs will have a 'flat-lined Vote' at 2010–11 levels for at least 2011–12 to 2012–13.<sup>110</sup> This involves significant efficiency measures:

- Closing missions (NZ operates 54 posts currently), including in Melbourne and Brisbane.
- Adopting a major change program for a 'leaner, more adaptable organisation' – putting in place hub and spokes models, for example in Europe.
- Using fewer seconded and more locally engaged staff.
- Placing ambassadors in missions operated by other (like-minded) countries, sharing and subletting premises and accrediting posts to more nations.

## EU

The European Union's new diplomatic service, the European External Action Service, will reportedly have an annual budget of £5.8bn (around A\$9bn), 137 embassies and up to 7,000 diplomats.<sup>111</sup>

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- 2 Lowy Institute for International Policy, Blue Ribbon Panel report, *Australia's Diplomatic Deficit: reinvesting in our instruments of international policy*, March 2009.
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- 6 Australian employees posted overseas, as opposed to staff employed at missions who are citizens of or resident in the host foreign country ('locally engaged staff').
- 7 The high point in staffing levels over the 24-year period 1987-8 to 2010-11.
- 8 *Diplomatic Deficit*, pp 36-38.
- 9 Australia-based member of the Australian Public Service employed by DFAT.
- 10 Brazil, Russia, India and China.
- 11 Internal departmental and independent reviews of consular service delivery were conducted in 2009 and 2010, but the reports and any ensuing outcomes have not been made public.
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  - 19 DFAT, *Incoming government brief prepared for the Minister for Foreign Affairs*, p 15.
  - 20 Secretary of DFAT Dennis Richardson, Parliamentary Joint Committee on Foreign Affairs, Defence and Trade, Department of Foreign Affairs and Trade Annual Report 2009-10, Proof Committee Hansard, Canberra, Friday 27 May 2011, p 2.
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  - 22 *Diplomatic Deficit*, p 22.
  - 23 DFAT, *Incoming government brief prepared for the Minister for Foreign Affairs*, p 15.
  - 24 Australia-based.
  - 25 Information provided by the Department for staffing levels as at 30 June 2011.
  - 26 Based on data provided by DFAT as at 30 June 2011 (23.8% based on staff headcount). Includes officers on language training and short term missions. If these are excluded, the proportion is 23.0%.
  - 27 Comparisons excluded locally engaged staff.
  - 28 We note that passports staff in Canberra represent approximately 140 positions currently. The number of additional positions in Canberra since 1987 is 408.
  - 29 This differs from the data provided in the 2009 *Diplomatic Deficit* report for which DFAT provided adjusted resourcing data to reflect its then estimation of true base operational funding. DFAT's current calculations differ in that they do not exclude items such as parameter and foreign exchange adjustments and one-off costs such as serious consular crisis responses.
  - 30 Based on the expense measure, audited financial statements, DFAT annual reports, 1998-9 to 2009-10. GDP data from ABS series 5204, Key national aggregates. General government sector expenditure from Commonwealth budget aggregates, Budgets 1999-2000 to 2011-12, actuals as set out in Budget Overview or equivalent section of historical budget papers.
  - 31 The brief spike in 2003-4 is attributable to a substantial write-down and revaluation of assets (Annual Report 2003-4, Management of Financial Resources) in accordance with accounting protocols introduced at that time.
  - 32 Comparisons of funding may reflect underlying changes in function or policy (such as Australia's commitment to achieving the Millennium Development Goals).
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- 34 See text and charts on pages 4-8.
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- 39 Hansard, Senate Foreign Affairs, Defence and Trade Legislation Committee, Estimates, Wednesday 1 June 2011, Canberra, pp 12-30.
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- 52 *Diplomatic Deficit*, p 29.
- 53 DFAT Annual Report 2009-10, p 153.
- 54 Chloë Flutter and Michael Fullilove, *Diaspora: the world wide web of Australians*. Lowy Institute Paper 4. Lowy Institute for International Policy, 2004.
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- 78 Disclosure: the Lowy Institute is a beneficiary of grants from

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