THE BROOKINGS INSTITUTION

LOOKING AHEAD:
NEXT STEPS FOR THE DEEPENING
AUSTRALIA-U.S. ALLIANCE IN THE ASIA-PACIFIC

Washington, D.C.

Wednesday, January 21, 2015

PARTICIPANTS:

Introductory Remarks

BRUCE JONES
Deputy Director, Foreign Policy
The Brookings Institution

BATES GILL
Chief Executive Officer, U.S. Studies Centre
University of Sydney

PANEL ONE: THE UNITED STATES AND AUSTRALIA IN EMERGING ASIA: A CONVERSATION WITH SENIOR U.S. AND AUSTRALIAN OFFICIALS:

Moderator:

THOMAS WRIGHT
Fellow and Director, International Order and Strategy
The Brookings Institution

Panelists:

EVAN MEDEIROS
Senior Director for Asia Affairs
U.S. National Security Council

ANDREW SHEARER
National Security Advisor
Office of the Prime Minister of Australia

PANEL TWO: STRATEGIC TRENDS AND THE U.S.-AUSTRALIA RELATIONSHIP IN THE ASIA-PACIFIC:

Moderator:

KENNETH LIEBERTHAL
Senior Fellow, John L. Thornton China Center
The Brookings Institution

Panelists:

JEFF BLEICH
Former U.S. Ambassador to Australia

LINDA JAKOBSON
Visiting Professor
United States Studies Centre

ANDREW STOLER
Former Deputy Director
World Trade Organization

TOM HARLEY
Chairman
Dow Australia

Keynote Address by the Honorable Julie Bishop MP:

BRUCE JONES, Introduction
Deputy Director, Foreign Policy
The Brookings Institution

JULIE BISHOP
Minister for Foreign Affairs

Keynote Address by the Honorable Christine Wormuth:

BRENDAN NELSON, Introduction
Director
Australian War Memorial

CHRISTINE WORMUTH
Under Secretary for Policy
U.S. Department of Defense

Remarks by Wesley Bush:

MARTIN INDYK, Introduction
Vice President and Director, Foreign Policy
The Brookings Institution

WESLEY BUSH
Chairman, Chief Executive Officer, and President
Northrup Grumman

PANEL THREE: CHALLENGES AND OPPORTUNITIES FOR U.S.-AUSTRALIA DEFENSE TIES IN THE ASIA-PACIFIC:

Moderator:

GORDON FLAKE
Chief Executive Officer
Pert USAsia Centre

Panelists:

LIEUTENANT GENERAL WALLACE "CHIP" GREGSON, Retired,
Assistant Secretary of Defense, Asia and Pacific Security Affairs
U.S. Department of Defense

HONORABLE ROBERT HILL
Former Australian Minister of Defense
Senior Advisor, Alliance 21

LIEUTENANT GENERAL PETER LEAHY, Retired
Former Chief of Army
Australian Defense Force

BEN FITZGERALD
Senior Fellow and Director, Technology and
National Security Program
Center for a New American Society

Closing Remarks:

JAMES BROWN
Director
Alliance 21

* * * * *

P R O C E E D I N G S

MR. JONES: Thank you for joining us. My name is Bruce Jones; I'm the deputy director for the foreign policy program here at Brookings. It's a pleasure to welcome you all here this morning, new friends and old. I'm very grateful to the weather gods for not snowing us out. We had a slightly nervous night last night. I'm a relatively new resident to Washington and I'm always amazed when I see this city close down with a half inch of snow and I wonder how it is we won the Cold War when we can't even fight off an inch of snow, but fortunately we did not have to confront that particular trauma today.

Let me start this morning by welcoming Bates Gill who is the CEO of the U.S. Studies Center and really been the driving force behind this event together with James Brown, the Director of Alliance 21. The U.S. Studies Center at the University of Sydney is arguably the leading institution outside of the United States that tries to think about the United States and of course also about the U.S.-Australia relationship. And we're delighted to be hosting this event this year in which we'll scrutinize a number of aspects of the relationship and in so doing celebrate it. It's an alliance that as you all know dates back to the Second World War, but I have to say I think that the dynamics in Asia right now really reinforce certainly in this city how vital the relationship is and how important that alliance is. And there's probably never been as important a time to really put the spotlight on the relationship and to dig into what's working and what's not in some of the security and economic and other dynamics.

So it's a pleasure also to be working with Alliance 21 which started in 2001 as a project to pull together U.S. and Australian scholars and policy experts; Michael O'Hanlon and Joshua Meltzer from this institution have participated in that process. Last year's conference was held in January of 2014 at CSIS and that was an important success and we're very happy to be hosting this year's conference.

And before I turn over to Bates to do a more broader welcome let me

thank two colleagues of mine who've really done the lion's share of work in pulling it together, Tom Wright who is the Director of our project on International Order and Strategy, and Rob Keen who is a colleague in the same project and who have really done all the work in pulling this together and I'm very much grateful to them as is Martin Indyk who unfortunately can't be here today. He is off at Davos as one is, but he was very enthusiastic about us hosting this event. As you know Martin Indyk is Australian. I was born in Sydney. It appears that you have to have some Australian connection to have a leadership role in the foreign policy program at Brookings. So that's another testimony to the alliance. Before I turn over let me mention that if you want to tweet about the event we're at #AusUS and let me also ask you please to silence your cell phones.

And with that let me turn to Bates. Where is Bates? There he is. Bates, please.

MR. GILL: Thanks. Thanks very much, Bruce, and let me extend my warm welcome to everyone here this morning, and my great gratitude to be here again at the Brookings Institution, one of my former professional homes and who works closely with you, Bruce, and with Tom and your whole team. Greatly appreciate it. I extend thanks as well to Strobe and to Martin Indyk for being so open even though they weren't able to be here to us being a part of this event with you in Washington. Also I want to extend my gratitude to the supporters of the U.S. Studies Center and in particular supporters of the Alliance 21 program which is really one of our flagship think tank programs at the U.S. Studies Center at the University of Sydney, our corporate supporters, and in particular the Australian government, Ambassador Beazley who we hope to see a little bit later today, Foreign Minister Bishop, have been great supporters for us and we're so appreciative of all of that.

We're here at a time of a two or three week set of events that the Australian government is supporting known as G'DAY USA. You may pick up some of the other events that they're doing across the country this month, and we're glad to be

one of their policy programs here at Brookings. We're here today once again to try and get a little bit of attention and some time spent in understanding the importance of the U.S.-Australia relationship. Yes, it's a security pact, yes, it was defined by the Cold War period and under the Anzus Treaty, but it's much more than that, and I think that's what we're going to learn about today.

This is a broad and deep relationship. I think it is the most important alliance relationship the United States has in the Asia-Pacific region and I think it has almost no other equal among American relationships in the world. It is a special relationship. And what we're going to learn about today is just how deep and how broad that is and the sort of fundamental shared interests that our two countries have together in partnership. Looking ahead we have a lot of challenges. We know that we want to try to get the TPP done, we are facing global challenges in the form of terrorism and political violence around the world, we have geopolitical dynamics in the Asia-Pacific region which are both great opportunities, but of course also challenges to alliances like the United States-Australia relationship. We're going to hear from some great experts today on all of these topics.

So I'm very much looking forward to the conversation. I want to thank the Brookings Institution once again for the opportunity to work together, and looking forward to a great day.

Let me turn the floor over then to our colleague from the Brookings Institution, Tom Wright. Thank you. (Applause)

MR. WRIGHT: My name is Tom Wright; I'm the Director of the program for International Order and Strategy here at Brookings and I would like to thank Bates and Bruce of course for those kind introductions and just say it's a great pleasure to be here today and to be partnering with the University of Sydney and with Bates and with all our friends from Australia on this important event.

We're delighted for our first panel to have a conversation with two of the

senior most influential I think officials on either side of the alliance, Evan Medeiros and Andrews Shearer. And so I am going to ask them a few questions and then we'll throw it open to the audience a little bit later.

Evan is a Senior Director for Asia on the National Security Council. He served in the Obama administration for over six years I think now and on the National Security Council.

MR. MEDEIROS: A dubious distinction. (Laughter)

MR. WRIGHT: And has been integral really to the rebalance and to U.S.-Asia policy during that time. Prior to going into government he was a Senior Political Scientist in China Studies at RAND and also a Senior Researcher at the Center for Non Proliferation Studies in Monterey, California, and he's a leading scholar on China-U.S. relations in Asia. So we're delighted to have him back here again. And Andrew is the Senior Advisor on National Security Affairs to the Prime Minister of Australia, Tony Abbott. He previously served in the same position I think for Prime Minister John Howard and previous to that had senior positions at the Australian Embassy here in Washington, D.C. and at the Ministry of Foreign Affairs. I've known Andrew for over 15 years I think now. He's a good friend, so it's a particular pleasure to welcome him here to Washington. And I'm always very impressed when Australians come over in the middle of their summer, winter here, so to give up some of that vacation time. So thank you for that.

What I'd like to start with is by noting really a few developments I think over the last year that are particularly interesting and then ask you how U.S.-Australia, the alliance sort of fits into that. Because if you look back -- you know, the President had a State of the Union last night and we'll come back to that a little bit later on, but a couple of things are sort of striking in terms of how the world has evolved. One thing is that, you know, the United States has bounced back beyond most expectations and the economy is doing much stronger than it was a year ago. Really there's now a divergence between

the U.S. and most major industrialized countries and other economies. I mean the IMF theater, they revised its numbers for most of the countries downward, but for the U.S. it revised it upward. To the extent that people used to be worried whether or not the U.S. would be able to implement the rebalance, or will be there in Asia because you need to fix your problems at home was sort of the mantra and until you do that there's a shadow over U.S. leadership. That shadow would appear to be less so today than it was a year ago. So that's a very positive development. But on the international situation, particularly globally, there's been a significant deterioration. We've seen with the rise of ISIL during the year in the Middle East really the continuing implosion of the Middle East and the regional order there, and Russian aggression in Eastern Europe, and of course the tragic events that led to the downing of MH17. And interestingly Australia was very much involved in obviously tragically in the response to MH17, but also in responding to the rise of ISIL and being part of that as security relationships with the relationships as a core sort of ally and responding to that.

And amidst all of that we have the continuing sort of long-term challenges in Asia. It's sort of funny that Asia seems a little more stable and a little less crisis ridden than Europe. I mean who would have thought that 12 months ago which is sort of extraordinary, but those long-term challenges haven't gone away. So my question is given all of that, given a rebounding U.S., given global crises and problems, and given the sort of continuing long-term challenges of Asia are we in a new strategic moment? How would you describe sort of the strategic environment and where does the alliance sort of fit into that? What is its role going forward? So, Evan, if we might start with you and then we'll turn over to Andrew.

MR. MEDEIROS: Thanks, Tom. Let me begin by thinking Bates and Bruce and you, Tom, for sponsoring this conference. In government work it's the relationships that work best and do the most that sometimes get the least attention, especially from non government scholars, and so it's really helpful to have a conference

like this buttressed with the great report that Bates did on Alliance 21 that I think provides useful ideas, insights, into how we should think about the U.S.-Australia relationship going forward. And so the fact that you agreed to sponsor this conference and you've gotten such high quality participation from Australia, especially the fact that we could get Andrew away for a week is absolutely fantastic, so I applaud Brookings and the U.S. Studies Center for sponsoring this.

The potential for this relationship is really extraordinary. It's been one of the greatest pleasures of being Senior Director, is working on the U.S.-Australia relationship. And so let me make two points in response to your question about where U.S.-Australia relationship fits. The first is a strategy point because it's always good to start with the big broad strategy point. And the Obama administration has been very clear about its commitment, its strong commitment to the Asia-Pacific. The President mentioned it in his speech last night, and as the President said in his speech in Brisbane there are sort of two logics to what we're trying to do in the Asia-Pacific. The first is the U.S. being more engaged in the region to shape the regional security order, economic order, and political order in ways that advance American interests. But increasingly it's also about a second component which is working with our partners, our friends, and our allies in the Asia-Pacific to do more globally. And that is it's not just about America doing more in Asia, it's about working with Asia to do more globally. And in that context there is no better partner than Australia. I can't think of a single regional or global challenge in which there's not high quality consistent cooperation from Australia. I mean think about the big global challenges of our time, non proliferation, ISIL and countering violent extremism, Ebola, cyber security, renovating the international trade regime, China's rise, India's rise, climate change. On all of them there's a very active conversation between the U.S. and Australia. So I would say in answer to your first question, you know, Australia is at the center of our strategy in the Asia-Pacific which as I mentioned has both a regional component and a global component.

Which leads me to my second point which is when we talk about executing this strategy toward the Asia-Pacific we've always identified modernizing our alliances as a central component of it. And we're very clear about what that means. It's not just a tag line, the real idea is there. First and foremost it's about making sure that the security cooperation, the security relationship between us continues to meet the threats and the challenges facing us, and I'll talk about that in a moment. But more broadly, and I think it's something that is distinctly Obama, and something that we've pursued very deliberately over the last seven years, is ensuring that our alliances are more than just military institution, focused on deterring and responding to security threats. That's there, it will always be there. I said that that's a big part of our alliance strategy, but it's more than that. It's about building political military institutions. In other words the alliance is about building an institution that has an economic component, a diplomatic component, and then of course a security component to focus on both regional and global challenges. And that derives from the fact that we are interested in building a rules based regional and international order in which we use rules, norms, institutions, institutions including alliances, not just multilateral institutions, as a way to shape the regional security order. And that's something that is sort of fundamental to how the Obama administration thinks about the U.S. role in the world, how we think about the U.S. role in Asia, and that's a view that is perfectly shared between Washington and Canberra. And that's profound and significant, and that's what gives a sort of -- that's the foundation of this alliance, and that's what gives us momentum, it gives us direction, and it's ideas like that that I think lead us to conclude that the alliance -- both the U.S.-Australia alliance but other alliances more broadly, are not Cold War relics, they're not something that were created in the Cold War and have just -- and haven't adapted as the international environment has adapted. In fact it's the very opposite. I would say that the work that Andrew and I have done, and we've done with previous administrations had been focused on making sure that the alliance does evolve, both the security dimensions

and this agenda of building it into a political military institution. So I think it's important when we address the regional conversation abbot alliances that we keep this in mind, that they're not outdated institutions. And in fact it's -- the U.S.-Australia alliance is one of the most sort of modern practical institutions that the United States has for dealing with regional and global challenges. It's very much a working alliance, and it's something that Andrew and I -- we had a private lunch yesterday just to sort of touch base on a whole variety of different issues and we both remarked how sort of practical and hands on this alliance is. And what I mean is just -- yesterday after lunch I gathered up a few facts. Since 2009 President Obama has met or talked with his Australian counterpart nearly 40 times. As we all know the President has visited Australia twice. With Prime Minister Abbott alone they've met three times, they've talked on the phone six other times, and these are long, extensive phone calls that often extend far beyond the Asia-Pacific. Of course we have our annual AUSMIN ministerials, lots of other interactions between our various secretaries on the margins of meetings all over the world. Basically we consult with Australia on every important issue. And Andrew and I are regularly in contact. You know, one of the virtues of being alliance partners is we have all sorts of fancy secure links, phone, video, that allow very easy contact. I have a phone on my desk that I can pick up and get Andrew on the phone assuming I calculate the time difference correctly, which sometimes can be a little embarrassing if you get it wrong. But my point is simply that this is an alliance that works on a day-to-day basis. It's good day for me when I talk to Andrew or Kim about working an issue. And I think that we've got real successes to show for it over the last few years. There's some big high profile ones that everybody knows about, the magtaft to Darwin, the forced posture agreement which sets the foundation for even greater cooperation and U.S. presence in Australia, close defense procurement, P8s, F35s, but there's a lot of stuff that I think is below the radar. Our close cooperation and work in Iraq and Afghanistan, very close consultation in the UN Security Council. I mean Australia's presidency of the Council in September of 2013, November

of 2014, was critical to several initiatives. And in response to MH17 Foreign Minister Bishop showed real leadership and was the key person driving the UN Security Council response. We have relocated a space surveillance radar to Australia, we've included cyber attacks as part of the scope of our alliance commitments, but there are economic components as well. 2015 is the 10th anniversary of the U.S.-Australia FTA. The United States is Australia's biggest economic partner and we take that very seriously. And over the last 10 years of the FTA exports to Australia have grown nearly 90 percent. The United States is the second largest source of imports for Australia, and then of course we've been close partners on TPP. And as all of you heard last night the President has now asked the Congress for TPA. We're in the end game and we're going to get this done. But of course we work very closely together in the Asia-Pacific. One of the initiatives that Andrew and I worked most closely on and required very careful coordination was building out our trilateral security cooperation, that is U.S.-Australia-Japan in a way that made sure that our military and our diplomatic establishments are working together in new and innovative ways to build an architecture for the region that addresses the challenges facing the Asia-Pacific.

And then of course one of the biggest challenges we face is the rise of China. And that's something that we talk about and we consult about. And both of us want a stable, productive, prosperous relationship with China. We see China's rise as an opportunity. You know, we have our concerns; there are uncertainties about China's future, but I think that we're working with China where we can to ensure that its rise is a source of stability and prosperity. And when we have opportunities we pursue innovative ways to work with China. Two of the most recent ones are trilateral initiatives on the military and security side. In October of last year a little know but very important trilateral military exercise happened between the U.S., Australia, and China in Australia related to survival training. And we as Americans tried to get the Australians to invite Crocodile Dundee as a sort of special guest to the exercise but they didn't go for it.

But on the economic side we've got some interesting trilateral economic cooperation as well. There is a Queensland -- there's a very interesting trilateral initiative between an Australian, American, and Chinese company in which they are basically -- how would you -- it's an LNG export operation in Queensland. They basically extract the LNG and provide it onto the global market. But that's just one of many examples of how when big questions about China's rise and India's rise come up we're constantly in communication, we're looking for opportunities to coordinate, and we're looking for creative ways to sort of reach our shared goals.

So with that let me turn it over to Andrew. Great to see you again.

MR. SHEARER: Thanks, Evan; great to see you. And I'd just like to start by thanking the U.S. Studies Center for having me here and also thanking Brookings. And what I'd like to do is really add to Evan's excellent survey of the alliance, the contemporary alliance between our two countries with some personal observations about how this looks and how it works from an Australian perspective.

As both Tom and Evan said we're facing a very challenging international environment and for Australia in recent weeks certainly quite a challenging domestic security environment also. If I just reviewed last year, which I had a bit of occasion to do on the beach recently and I think about that year it was extraordinary for its intensity and the sort of overlapping waves of crisis -- I think maybe that's too dramatic a way to put it, but we dealt with the fallout from the Snowden revelations which affected our relations in the region profoundly, particularly with Indonesia, we launched within six hours a search for the missing Malaysian airliner, MH370. The U.S. was very quick to send an aircraft which is yet another practical demonstration of this powerful alliance, but we put together a regional coalition to search for that aircraft and that search unfortunately goes on today. We had, as Evan said, the rise of ISIL, and profound concerns about this phenomenon of foreign terrorist fighters. And the Prime Minister was very pleased to join the President at the Summit in New York on that in September. We had continuing global economic

fragility, we had continuing maritime tensions in East Asia, we had cyber attacks, and we had the shooting down of -- I mean who would have thought it -- another Malaysia Airlines aircraft over Eastern Ukraine. So really quite an extraordinary array of different issues and I've just picked out some highlights, or perhaps some lowlights.

In our response to all of these events the point I'd like to make is the alliance has been absolutely front and center. So just thinking about MH17 and the effort to recover victims of that atrocity, we deployed with our Dutch colleagues about 150 unarmed Australian police officers to -- within 20 kilometers of the Russian border in the middle of a conflict zone. There were quite a few commentators in Australia who thought that this was a very foolish thing to do indeed. We and the Dutch government felt very strongly that we owed it to the families of the people on that aircraft to do that, but the thing that gave us ultimately the assurance, the confidence to proceed with that mission was the fact that we did so with this massive bubble of American (inaudible) support around our people. And as someone who is involved in making these decisions which are obviously life and death decisions, the confidence that comes from having that incredible technological support, but also that really strong moral, diplomatic, and political support makes a profound difference to those decisions and empowers us to do things that we couldn't otherwise do.

The intelligence dimension of the alliance has always been important right back to the establishment of the joint facilities in Australia, but it's even more important today when I think about the other challenges that we face. Maritime awareness in East Asia, the intelligence relationship is absolutely pivotal. I think about the foreign fighter threat and counter terrorism and the challenges we face there where our intelligence relationship with the U.S. and the broader five eyes intelligence relationship is becoming even more important day by day.

And then I think of the military dimension of the alliance and I think in the last 15 years or so we've seen the most intense military cooperation between Australia

and the United States than we've seen I guess maybe since the Viet Nam War possibly, possibly earlier. And today Australian forces are serving alongside U.S. forces in Afghanistan which sometimes tends to be I think overlooked. We're trying to stabilize that country and make sure it doesn't again pose a threat as a terrorist haven, but more prominently perhaps in Iraq where we have the second largest contribution behind the United States. We've got a potent air task group operating in Iraq and we've got Special Forces on the ground as well. So the military dimension of the alliance is as Evan said, is hardly -- is far from a Cold War relic. It's a dynamic and current asset to both our countries.

And then there's the vast range of global and regional issues where we work together. And I think Evan put it really well, Australia is an open, liberal trading economy. We have a massive stake in an open rules based international order and trading order, and the alliance again is a powerful force multiplier for us in supporting those interests. And again Evan put it really well I think, this is a working alliance. We talk every day about those issues. That's not to say we agree on every issue every day, but we certainly understand each other's perspectives, we support each other where we can, and if there are differences, which I have to say are few, we can find ways to work through those. And I really appreciate the contact that I have with Evan and his team at the NSC every day. The alliance is a critical contributor to maintaining our regional order during a time of shifting power relativities. The force posture initiative I think is profoundly important. It's a way that we can work together to shape our regional environment in ways that are positive, in ways that reinforce openness in trade, freedom of navigation, stable dealings with our regional partners. And there's a debate often in Australia about whether our alliance with the United States holds us back as a country in our dealings with our regional partners, and I just want to profoundly reject that notion. I think it works entirely the other way around. Our strong regional engagement is an asset in our dealings with the United States and Evan and I will often talk about shared perspectives

about our dealings with Indonesia and Southeast Asia and the South Pacific for example. But by the same token a strong alliance with the United States is a powerful reinforcer of our engagement in our region. And my experience over a number of years is that our regional partners value the fact that we have close ties with Washington and we have good access to the administration, that we understand the direction of U.S. policy. And I think that this is a virtuous circle rather than some difficult conflict that we have to manage.

I'll leave it there except for one observation which struck me watching the State of the Union last night. For a number of years a lot of discussion about the alliance has been framed by struggling U.S. economic growth and rampant Chinese economic growth. And I think it's interesting and just yet another sign of how quickly things are changing at the moment that we're having this meeting today against the backdrop of concern. And this affects Australia profoundly about a slowing Chinese economy and a sense of resumed optimism about the U.S. economy which again is doing what it does and frankly what I expect it will continue to do, and that is show enormous resilience and flexibility and dynamism.

So I'll leave it there.

MR. WRIGHT: Thank you. Thank you to both of you for those terrific opening remarks. I'd like to start maybe with the news of the day and with the State of the Union and with trade. So last night I felt that the President was much more forceful in his advocacy of trade than he was in last year's State of the Union. Last year there was a lot of expectation. You know, he mentioned it somewhat in passing, but last night he spent a minute or two on it. He made a case for passing a TPA. It was in the domestic part of the speech which I thought was interesting. He framed it as protecting American workers against China which is also an interesting frame and he said that the United States and its allies must write the rules or China will. Also I thought curiously it was one part of the speech where democrats stayed seated after he made those remarks and

republicans gave him an ovation. (Laughter) And later on I found a quote last night, it was in Politico this morning, where Oregon Congressman Peter DeFazio said trade what is number one, number two, number three, and number four in terms of things we find objectionable to the speech amongst a lot of other things that we liked. So clearly there's an issue still and with House democrats, but there is now a republican majority in the House and the Senate. So my question is is this going to get done in the near future, is 2015 going to be the year when TPP is finally closed out. Evan?

MR. MEDEIROS: The simple answer is yes. The more complicated answer is I think the President made very clear last night that TPA and TPP is now a top presidential priority and now is the time to get it done. We're confident we can and we will get it done. The U.S. I think is in the end game of it negotiations with TPP partners about what needs to be completed, both the market access component and the rules making component. And the fact that we're now going to -- the President has requested TPA from the Congress is the political signal that the goal is to get it completed in 2015. And what's important is that as we all know TPP is a very, very significant component of our broader rebalancing strategy. TPP for us is obviously a critical economic agreement, but it's also part of our broader strategy. And we understand both the strategic and economic advantages that flow from TPP. And that's understood and articulated at the very top and I think that provides even more sort of reason why we're going to -- the administration will push to get it done this year.

MR. WRIGHT: Great, thanks. Andrew, what's the perspective on this debate, the Trade Promotion Authority debate, but also the broader TPP and negotiations from Australia?

MR. SHEARER: Well, I just think this is hugely important. It's a totemic part of the triad I guess that is the rebalance, the military aspect of the rebalances is crucial obviously and Australia through the force posture initiative is a key part of that. The diplomatic strand of the rebalance is obviously very important and the President has

made a number of recent high profile and successful visits to the region which have reinforced U.S. commitment and engagement in the region, but I think countries in the Asia-Pacific are really looking very closely to see whether the United States can master the political will if you like to lead again on trade issues in the region. So I think this is hugely important. Australia strongly supports the TPP.

MR. WRIGHT: Okay. Maybe move from trade into the question of institutions and regional institutions. One of the few areas I think over the last 12 months where that has been a difference maybe of view in the debate in Australia and here has been on the Asian infrastructure investment bank, but that's more broadly symptomatic of China's greater activism in building sort of regional institutions and other institutions. So how should we think about this? We have a security component to this obviously, but there's also the fact that the world is increasingly inter dependent and Australia's position has often been noted as being very much between not wanting to choose between the U.S. and China. So is the U.S. slightly overreacting on some of the Chinese activity? It's more sort of better all around or what are the sort of main concerns? And, Andrew, if we might start with you.

MR. SHEARER: Well, I think -- I mean the starting point and Evan again put this well, is that we welcome China's rise. China's rise has been a good thing for the region; it's been an incredibly good thing for the Australian economy, and for the standard of living of Australians. So that's a powerful and important development which we've welcomed very strongly. By the same token we're very keen to see that China makes a strong contribution to the regional structures and frameworks, but does so in a way which is consistent with the traditions that we believe in around openness and transparency. China I think is trying to make a stronger contribution and overwhelmingly I think we see this in positive terms. There's been a little bit of controversy about the Asian infrastructure bank proposal. I mean our position on this is pretty clear cut. There's a massive demand for infrastructure in Asia and a shortage of funds to build the

infrastructure that Asia is going to need. So on the face of it China's initiative is very, very welcome indeed. And our position is that we will participate in the bank if its government is satisfactorily open and transparent and there's a continuing discussion to have around that. So I don't think -- I mean Evan can pick me up if I've got this wrong, but I don't think there's a massive gulf here between our positions and I think it's a welcome thing if there are new institutions which compliment the institutions that are there already, but we'd like to see for example the infrastructure bank be a genuinely multilateral body with open and transparent governance.

MR. WRIGHT: Evan.

MR. MEDEIROS: So let me pick up the institutional aspect of your question because from the perspective of the Obama administration institutions play a critical role in the regional economic, security, and political architecture of the Asia-Pacific and it's something that we've invested in very substantially in terms of regular participation in the key forums like the ASEAN Regional Forum, the ADMM-Plus, and then the President's strategic decision to join the East Asia Summit, to attend regularly, and then to build that into the principal political forum in the region. I've been to the EAS twice in 2013 and 2014. It's extraordinary when you have 18 leaders from throughout the Asia-Pacific around the table talking about the big challenges facing them. I mean it's an action forcing event, I think it helped set the agenda for the subsequent year. And so these institutions in the Asia-Pacific, you know, they're evolving. They're nearly as sort of -- they are not as many of them and they are not as well developed as Europe during the Cold War, but they serve critical functions. They facilitate and lubricate cooperation, they help set sort of rules as a baseline for how nations should conduct behavior, they serve as mechanisms for sharing information, and as a result transparency which results in greater predictability and behavior. And they also bind everybody because part of membership is being subject to the view of others, the peer pressure of others, and occasionally the restrictions associated with membership. That's a good thing. That

creates a much more predictable environment and that's something that we think is important. 2015 is a significant year for that because it's the 10th anniversary of the founding of the East Asia Summit; it's also the year in which ASEAN has agreed to form their economic community which we think is a good thing and it's something that the U.S. wants to be an even more active member with ASEAN in.

So when it comes to new proposals like the Asia infrastructure investment bank I agree with Andrew. We think this is a very creative initiative. It clearly reflects a need. We think that China identified a very significant gap, which is the lack of both private and public funding available for infrastructure. The question is how do you do that, how do you best access public and private finance to build and renovate infrastructure throughout Southeast Asia. And so when we look at the AAIB we don't oppose it. The President and Prime Minister Abbott said this publicly after their meeting actually in Beijing if you look at the transcript of their press conference. Andrew and I have talked about this multiple times. This impression that has existed especially in the Australian media that somehow America was twisting Australia's arm is simply incorrect, but rather we both have questions. And as we all know the AAIB is not even formed yet. The articles of agreement don't exist yet. So from the American perspective how do you join an institution that doesn't even exist and some of the basic fundamental attributes of it like Andrew mentioned, governance, but also questions related to rules on procurement, environmental safeguards, all the sort of key attributes that are building blocks of a Bretton Woods like financial institution. So we're in conversations with the Chinese. The Australians very usefully sort of produced the non paper that subsequently became public with lots of questions, very useful important questions. And we're in discussions with the Chinese about these very questions. So this notion that the U.S. and Australia and other allies are somehow intrinsically and reflexively opposed to this because it's a Chinese initiative is simply incorrect. We think it's an interesting idea and we're in constant conversation with the Chinese about how to make it a truly multilateral

institution that reflects the rules of similar institutions.

MR. WRIGHT: Thank you. That's a nice segue into some of the security issues I think because we talk a lot about how strong and deep the alliance is, but I'd just like to throw out a few numbers from some polling in Australia and, Andrew, from your old institution, the Lowy Institute, but also some other polls. And it's very clear that support for the alliance is very strong. In 2013 82 percent said the alliance is very important for Australia's security. There was a firm majority for basing U.S. forces in Australia at the Darwin sort of rotation, and that went up 61 percent in 2013, up from 55 percent in 2011. But on the other hand when you sort of dig into the numbers on various contingencies support is a little bit lower. Preparedness to support the U.S. in the Middle East, only 48 percent agreed. And in Asia, in the contingency of a conflict between China and Japan and the East China Sea there was even less support, 38 percent agreed. And another poll showed that in a China-Japan contingency 71 percent of Australians wanted to remain neutral -- thought the Australians should remain neutral between the U.S. and China in that situation.

So there is this, you know -- because of China's sort of very important economic influence sometimes it's easier it seems on the global issues that there's more sort of a deeper public support, but on some of the regional contingencies it's a little trickier. And of course it's a debate in Australia on I think -- sometimes it's overblown -- but on the alliance. I mean you have some leading figures from previous governments criticizing the alliance and some scholars.

So my question really is, Andrew, how should we think about this sort of debate in Australia? I mean if we look over a five to ten year period with all of the different crises and problems that are likely to arise -- you don't know what they are but we're pretty sure there will be some -- is this something we should be concerned about or is this just -- is it something that will sort of be easily sort of manageable given sort of the context of the particular problems as they arise?

MR. SHEARER: Well, look, I think the starting point, Tom, is that there is incredibly strong public support for the alliance in Australia. And I think at a kind of instinctive level Australians understand the value of the alliance. You know, whether or not they sort of conceptualize it they -- you know, I think there's just a very powerful, deep seated sense of comfort with the alliance publicly and I personally take a lot of comfort from that.

There is an elite debate in Australia about the alliance. I don't think that's particularly surprising. I mean if you look at American alliances around the world they haven't been free of controversy so I think it's understandable and legitimate that there should be debate about the alliance. And I think in fact that's probably a healthy thing because it's so profoundly important that in any open society these things should be the subject of debate.

On the polling, I'm a little bit suspicious of questions asked about certain contingencies, hypotheticals, without any context whatsoever. You know, would you support the United States in a conflict over X. Well, you know, what conflict, how did it arise, over what period, you know, what's the build-up, who does international opinion generally hold to be accountable. I think without those sort of layers of context some of that polling is a little dubious I have to say.

You know, in terms of this kind of debate about the choice I find it a little silly really. I might have said this to Evan yesterday, but we hosted the G20 last year and on one day we had a huge photograph on the front of our newspapers of President Obama, Prime Minister Abbott, and Prime Minister Abe shaking hands in front of the three national flags, and then the following day there's a huge photograph of President Xi Jin Ping and Prime Minister Abbott signing our free trade agreement with China. So evidently it is possible to have a very strong alliance relationship with the United States, a growing strategic and economic partnership with Japan, and a very productive mutually beneficial broad based relationship with China also. So this debate it won't finish just

because I've pronounced on it now unfortunately. There will be more twists and turns and doubtless there will be future controversies about the alliance, but as I say when something is so fundamental to your public policy it's unsurprising it would be a subject of discussion.

MR. WRIGHT: Thanks. Evan, if I could ask you a slightly -- a version of that question. I mean you've spoken here today, but also previously about the importance of alliances and not just particular alliances, but also conceptually. Like why this sort of makes sense in the modern world; they aren't just Cold War relics. But when you got back to the Cold War, to the general literature on alliances the fear that one partner may get dragged into a conflict that's more important to the other is sort of a recurring theme in the debate and it's constantly sort of brought up. Usually it's framed in hypotheticals and usually it doesn't happen, but it is one of those main arguments that people use against the alliances. So as one of sort of the architects of sort of the contemporary uni alliance system in Asia what would you say to an Australian sort of critic the alliance who said we can't get dragged into this sort of East China Sea dispute or we need to be worried about balancing our relations with China with those of the U.S.? Like what's sort of the argument that you would deploy?

MR. MEDEIROS: Thanks. It's an interesting question. First I'm happy to say we've never had that conversation. There's never been such a high level of anxiety in Australia that they're worried that the U.S. is going to make some irresponsible decision that could drag them into war. So I'm happy to admit that here to date we haven't had that conversation. Number two, I would say that constant communication is essential. It's important in alliance management to have very clear expectations on both sides about what they other wants to do within the alliance, and the other's sort of regional strategies. And that's especially important in sort of the information age with lots of commentary out there because if you were just looking at the U.S.-Australia alliance through the debates that Andrew talked about, you'd probably be pretty concerned. But

for those of us sort of in the belly of the beast so to speak it's not even remotely like that. And as Andrew said this notion that there's a choice is -- I think it's even sillier than he thinks because we've never ever -- we would never want to put any of our alliance partners in a situation where they have to make a choice. And that applies throughout the region, especially between the United States and China. That is not an effective strategy. I firmly believe with the final point that Andrew made which is we think our alliances are completely and totally consistent with countries in the region having stable and productive economic security, diplomatic relationships with China, and the images that Andrew pointed to comparing our trilateral with their FTA, I just think is an interesting useful recent example of how it's possible to strike that balance. The United States has done the same. If you look at our relations with Japan, the ROK and Australia under the Obama administration I think that you've seen just as much progress in those as we've had in the U.S.-China relationship. So I think you can do both at the same time. But communication, expectations, they're essential.

MR. WRIGHT: Thank you. We'll throw it open to the audience in a minute. Just one or two other questions. And on Southeast Asia and the South China Sea, there's some -- you know, obviously we saw last year but also previously what the Philippines have called sort of the China sort of creeping invasion of creating facts on the ground in -- facts in the sea I guess, in the South China Sea in terms of more assertive policy. This arises in the alliance in terms of Australia as maybe it is in a different place obviously than the U.S. The U.S. has I think pushed back quite strong against that, particularly in the early part of 2014. Is that something that is sort of U.S. sort of response, is that something that Australia would sort of be very much a part of or how does this debate and how is this challenge and how is that dimension of the China challenge perceived from an Australian perspective?

MR. SHEARER: So Australia is a trade dependent economy, very heavily trade dependent economy and 60 percent of our exports go through the South

China Sea. So we don't have a territorial claim I hasten to add, but we have a profound interest in freedom of navigation through that vital waterway. And we also have a huge interest in stability in the region because -- obvious point but over half a century of startling economic growth in the region has depended on stability. And every country in the region, U.S., China, everyone else has a massive interest in that situation continuing so that we can continue to benefit our communities and generate growth and jobs. So we have profound interest there. We don't take a side in the territorial disputes, but we watch it extremely carefully. We're in very constant contact with the U.S. and other countries. And above all what we want to see is a continuation of freedom of navigation in those waters. And I don't actually think there is a difference, certainly not a profound difference in our approaches to this. You know, we make clear our commitment to freedom of navigation and disputes being resolved peacefully in accordance with international law. So I think our positions are pretty well aligned and we will continue to work together very closely to ensure that there aren't miscalculations or something, in the worst eventuality conflict in that region.

MR. MEDEIROS: So let me just add on to Andrew's point because I agree with everything that he said. And I think one interesting way in which -- or an interesting example that explains how the alliance is very practical in dealing with security challenges is, you know, I share Andrew's concerns about developments in the South China Sea. Obviously instability or conflict is not in either of our interests, the question is how do you deal with it. And it's a serious challenge and it's one that we are in constant contact about. There are a variety of different elements of our strategy to respond, but one of them is working with countries in the region, both claimants and non claimants, to make sure that they have sufficient civilian maritime capabilities, specifically Coast Guard capabilities to understand what's happening in their maritime littoral and to protect them. And that's a useful and important strategy, but it's a real challenge, it's a long-term challenge because you're talking about building partner capacity, and it's something that

takes time. But Australia had a very significant success in the Pacific Islands with your Pacific Patrol Boat program of doing this very thing on -- admittedly in a smaller case than we're looking at in the South China Sea, but that's an example how in our conversations they came to us and said hey, we had this really interesting experience, this is what worked well, this is what didn't, and then we began talking about how to apply that to countries like the Philippines, Viet Nam, Malaysia, and how we can work both in parallel and also in overlapping ways to improve the maritime domain awareness of countries. So that's just sort of a practical example of how a very high quality alliance can allow us to address that kind of challenge.

MR. WRIGHT: Thank you. Final question before we throw it open to the audience on Southeast Asia. So Australia I think if you ask people what their main sort of national security issues are a lot of them are very local, very regional, whether it's related to Indonesia, Papua New Guinea, or the refugee issue. Andrew, as you sort of look at your country's regional strategy and some of those sort of immediate problems that you face, what's the role of the alliance if any in dealing with those issues?

MR. SHEARER: I think this is an area where Australia's general view, and I think it's a fairly long-standing view, has been that in terms of our immediate region this is an area where the United States actually expects us to lead and to provide perhaps the majority of the public goods to focus our development assistance efforts, to focus our security cooperation efforts. And I think that's an entirely legitimate expectation by the way. So this an area where actually I think the way the alliance works is -- this is an example of burden sharing, particularly when it comes to the South Pacific and we obviously coordinate closely and we cooperate closely, but we have a particular focus obviously on those countries and their stability and their prosperity. So I think that's the way we'd tend to look at it through the alliance.

MR. WRIGHT: Evan, care to comment on Australia's --

MR. MEDEIROS: No, I think Andrew said it very nicely.

MR. WRIGHT: Okay, great. We'll throw it open to the audience. So we'll take -- so we'll let Chris Nelson first and then we'll go here and over here. We'll take three at a time.

MR. NELSON: Thanks so much, Tom; great discussion. Evan, six years and your hair hasn't turned white, how is that possible? (Laughter) Thank you so much for all the economic discussion. That means I don't have to ask about it but I will quote it tonight. Bates in his introduction talked about Australia as the major alliance in the region, and your remarks, Evan, you talked about working with Japan, the trilateral with U.S., Australia, Japan. It would be great if you could expand a bit on what your hopes and expectations are for working with the Abe administration over the next year or so on these issues, particularly given the 70th anniversary and all the things that are happening. And it's a segue into my second part -- I apologize. Abe was just in Canberra fairly recently and gave a very well received speech as far as we could see that was very interesting in particular because he specified some historical incidents that are famous or infamous and still very painful for Australians and we know that Abe wants to come to the U.S. this year and undoubtedly will give a speech. From your experience of how his speech in

Canberra was received do you have any thoughts or suggestions as to what Abe should say when he gets here and should he get into history. Obviously a possible hornet's nest, but it seemed to work with you guys. So I think that helps segue back to the question to Evan about the expectations of working trilaterally with Japan on strategic issues, especially vis a vis China, especially on the ***Senkakus*** and things like that. So thank you very much.

MR. WRIGHT: Thank you. Gentleman behind you there. And if you could introduce yourself and then ask a question.

MR. ZAHN: John Zahn with CTI TV of Taiwan. I have a question for Evan. What is your comment of the current status of relations between the United States

and Taiwan, particularly in the context of Chu Li-Luen taking over from Ma Ying-jeou as the KMT Chair, and Chairwoman Tsai Ing-wen of the DPP forming a task force to study and work out a new mainland policy that would probably address some of the U.S. concerns?

For Andrew, could you also comment on the Australian-Taiwan relations? Thank you.

MR. WRIGHT: Okay. And we'll do one more, and just the gentleman over here. If you could pass the mic along the row.

MR. HAROLD: Hi, Scott Harold from the RAND Corporation. Tom, thank you very much. Evan, you touched on challenges that the U.S. seeks to respond to in cooperation with Australia. I may have misheard you, I thought you mentioned the rise of China and the rise of India. As we've known India is a cooperative partner, it's a core piece of the rebalanced Asia. So I wondered if you could expand on how you see working with the Australians to shape the positive emergence of India and just to clarify the way in which the Obama administration is viewing India.

For Mr. Shearer, I wonder if you could talk a little bit about how the deeper relationship between Canberra and Tokyo and the deepening relationship between Canberra and New Delhi is unfolding, and how you all see managing that so that the Chinese which may perceive an effort to reinvigorate a security diamond or an arc of democracies, freedom, might not respond to it in that context but might see it as a positive force. Thank you.

MR. WRIGHT: Thank you. Three great questions. Usually when you ask for three questions it's because in any set of three one or two are sort of vague and don't bring anything up and so if you package them together you definitely get one, but we have Japan, Taiwan, and India which could be (laughter) a session all -- they all could be a session all of their own. So maybe if we just start and you want to talk about whichever you choose and if you miss anything then I'll come back.

So, Evan, do you want to begin?

MR. MEDEIROS: Sure. (Laughter)

MR. SHEARER: You could do Australia and Taiwan.

MR. MEDEIROS: Exactly. I'll do Australia and Taiwan.

QUESTIONER: Take the easy one.

MR. MEDEIROS: So, Chris, thanks for all you do, thanks for your great newsletter every day. On Japan, look, the U.S.-Japan relationship is in great shape. Abe has been a great partner with the President. They've met numerous times, talk on the phone a lot. President called him as you know right after he won the latest election. It was one of the best phone calls they've had. But we've got a really robust agenda with Japan in 2015. Number one we've got to get TPP done. The last big market access negotiation is with Japan. It's hard because anything important between two large economies is hard to do, but we're in the end game and now is the time to get it done. Number two we have to complete the process of revising our defense guidelines. Given the historic decision on collective self defense last year by the Abe administration that's provided more space for us to think about the roles and missions of the U.S.-Japan alliance and the ways in which we can work together on meeting both regional challenges and even global challenges. So we need to finish that process and we're working really hard on doing that.

In terms of Japan's relationship with the region, you know, we thought that Prime Minister Abe's January 5 speech in which he addressed history issues was very important and significant, and his statements in it think are provided -- I think a very useful signal of how he and Japan are going to address history issues in this important year. So we warmly welcome the statements that he made and we hope that that's realized throughout the year because what we would like is a Japan that is influential, credible, active, and a strong partner with the United States in the Asia-Pacific and globally. And only by effectively addressing history issues, by promoting healing, will I

think we achieve that kind of Japan and they will find a very, very close partner in the United States.

Let's see -- John, on your question about U.S.-Taiwan relations, what I would say is I mean you know we have an unofficial relationship with Taiwan. It's something that I've worked on very closely since day one at the NSC. And within that framework of an unofficial relationship we want to have a very robust and productive relationship with the government. And that's something that we work on every day. You know, we've just gone through a difficult period. Hopefully we can move past it. Nobody likes being taken for granted, but the fundamentals of the U.S.-Taiwan relationship I think are solid.

On the last question -- and Scott your question about India, because the President is going to India later this week I'm not going to talk in great detail about it, but one important aspect of our relationship with India and what the President is going to do is talking more with Prime Minister Modi about his shift from the look East to an act East policy and we're looking very seriously in ways in which the U.S. and India can work more together in the Asia-Pacific on a full range of issues within Asia-Pacific institutions, on challenges like maritime security, what are India's perspectives, where does India think it can make a contribution. And then of course we're pursuing India's role in interesting aspects of architecture. As you know we have a U.S.-India-Japan trilateral dialogue. Let's see what more we can do there and we're looking at other options as well.

So over to you.

MR. SHEARER: Thanks, Evan. I mean just starting out on Japan and history, I think it's profoundly instructive that the Australia-Japan relationship, which has been absolutely critical for the region when you think about it, I mean Australia's minerals and energy exports to Japan over more than half a century really fueled the Japanese economic miracle that sort of kick started the whole East Asia growth miracle. This is a fundamentally important relationship for both countries. That economic relationship dates

back to 1957. So right under the shadow of the Second World War, a particularly far sighted Australian government reached out to Japan and put in place a (inaudible) agreement. And everything that's flowed from that is based on that very raw decision by both countries to deal with history in a forward looking practical way. And I think that's instructive.

Australia welcomes Japan playing a more active role in security regionally and globally. We think Japan has been an exemplary international citizen for more than half a century and we're putting increasing weight on our strategic relationship with Japan. We think this is critical, we think it's in the interests of the region more widely as well as both our countries and we'll continue to work at that.

Just on India, I mean I don't really accept the premise that a stronger Australia-India relationship including a strategic relationship should cause problems for anyone. After all we're Indian Ocean littoral neighbors and I think that the -- it's broadly accepted on both sides of that relationship that it's an underdeveloped relationship. And Prime Minister Modi made a very important bilateral visit to Australia in emergence of the G20 and that I think is going to kick start a new phase in Australia's strategic dealings with India and I think that's very welcome. And again I think it's something that our other partners around the region will strongly welcome.

And on Taiwan I can really only echo Evan's comment. For Australia-Taiwan is and will remain a very important economic partner and we look forward to continuing that important relationship.

MR. WRIGHT: Okay, great. So the gentleman in the middle and -- yeah.

MR. ROTH: Stanley Roth, Boeing. Given your national security portfolios I'd like to ask you a kind of specific national security question. What do you see as the greatest threat to your national security in the short-term? What keeps you up tonight? And then taking -- I don't know if you'd call it middle-term or long-term, five to

ten years, what do you imagine would be your greatest national security concern, threat? And I'm talking about in a traditional sense, not the strength of your economies or ability to deal with climate change or things like that, but traditional security threats. And the how do you see the alliance, which has been the focus up to this point of this conference, helping you in dealing with those threats?

MR. WRIGHT: Thank you. Mireya Solis there against the wall.

MS. SOLIS: Thank you very much. Mireya Solis from Brookings. I want to go back to trade policy if I may. I thought it was really interesting that President Obama chose to frame the issue as one of competition between the United States and China to devise rules for the 21st century economy. And I agree with the stagnation of the multilateral trading system. We are in a situation of decentralized competition and any abdication of U.S. leadership would in fact result in others writing the rules of the game. However, I do see a downside and this is where my question comes into play in the sense that one of the biggest misunderstandings I believe surrounding the TPP as part of a rebalance strategy has been that this is an attempt to highlight rivalry, to exclude China, if you will to contain China. I have long argued that it's the opposite really what's at stake with the TPP. It's an inducement strategy to try to bring China on board with these 21st century rules.

So my question is for Evan. How you calibrate the message to your Chinese counterpart and other interested parties in the TPP when you highlight competition with China? How do you make them realize it's about contracted competition raised to the top and not an attempt at stressing rivalry and exclusion? And if you'd care to comment also on China's initiative in the Apex Summit regarding moving to the front burner the free trade area of the Asia-Pacific.

Thank you.

MR. WRIGHT: Thank you. And then the first person to catch my eye was very close to the door. So that gentleman there; yeah.

MR. MORGAN: Good morning. I'm Scott Morgan; I'm President of Red Eagle Enterprises. Concerning Asia-Pacific right now one country we seem to be overlooking is South Korea. So how do we make sure we're engaged in South Korea so that we don't give people the opportunity to take advantage so that they repeat -- the mistake of 1950 is not repeated again where they are attacked by outsiders?

And second, regarding maritime security and other and working on terrorism, with recent events in the Western part of the Indian Ocean, the area of Yemen and Somalia, so how will we see future Australian cooperation with the U.S. in that part of the region, of the world? Thank you.

MR. WRIGHT: Thank you. Okay. Andrew, why don't we start with you on this occasion?

MR. SHEARER: Threats that keep me up at night, Stan, I think you'll probably all appreciate it if I say that the main one for me today is domestic terrorism and in particular this new manifestation of terrorism, the kind of lone wolf, single actor, small, autonomously radicalized actor. We've got a pretty high exposure to the whole sort of foreign terrorist fighter problem. I think there's upward of 70 Australians involved in the fighting across Iraq and Syria. A number have returned home. And those are the ones we know about. And we just know from our previous experience with Afghanistan and returning foreign fighters many of whom subsequently became involved in domestic terrorism, that this is a profoundly dangerous situation and one which is getting a massive amount of attention from us. We've revamped all our counter terrorism legislation over the last several months. We've given a sizable boost in the funding to our intelligence and security agencies. And despite those things which are all important things to have done I think we're still very concerned about this and like governments right around the world, particularly in Europe recently, but Canada as well recently, really grappling with this terrible problem and trying to understand it and do absolutely everything we can. So I think that's the immediate thing that keeps me up.

Medium-term, I mean one of the lessons I draw from last year where we found ourselves -- if two years ago you had said do you think Australia will have troops in Iraq again and do you think that Australia will conduct a large police intervention in Eastern Ukraine, you know, someone would thought you were mad, so medium-term who knows. I think the lesson here is you kind of have to be ready for just about everything. I think our longer-term work in the alliance to shape is incredibly important in terms of the region, but I think we're also seeing right across the Middle East and parts of Africa some of the terrible costs of failing and failed states and that the security threats that seem over there and sort of maybe you can ignore them and maybe our public would like to ignore them, but I think we've just been reminded again recently that these threats are not distant.

MR. WRIGHT: Thanks. Evan?

MR. MEDEIROS: So I have a slightly different answer than Andrew because my portfolio is more narrow. So I'm just worried about the Asia-Pacific; he has all of Australian national security to be concerned about. So I would say over the short-term my immediate concern would be an accident or a miscalculation among or between major regional militaries. So that could be the United States and China, that could be Japan or China, that sort of spirals out of control. That could sort of fundamentally change the security environment in the region. It would not be in the U.S. interests for either one or any variation of a major military accident or miscalculation to happen because I think that that would take the Asia-Pacific security order in a very negative direction. And so our policies are very much oriented toward avoiding something like that. In the U.S.-China relationship we're working on confidence building measures. We concluded a very significant one, surface to surface, between the U.S. and China during the President's trip and now we're working on a second one, air to air. These are critical. It's important that the U.S. and China develop rules of the road about how our militaries are going to interact because it is simply inevitable that our militaries are going to come

into greater contact with one another. And we hope that once we get that U.S.-China framework in place that China sort of applies similar rules to its interactions with other regional militaries.

So related to that one of the other initiatives that we've pursued since 2012 when there was sort of an uptick in tensions between China and Japan is pushing both sides to develop crisis management mechanisms, channels of communication. And I was glad to see that just last week China and Japan resumed those discussions. Just this week I believe they're resuming high level discussions on maritime issues. These are important initiatives. Communication channels across bureaucracies, especially between militaries need to be wide open in order to avoid accidents or miscalculation.

Over the long-term, Stanley, what I worry about is any country in the region sort of making the wrong strategic decisions about how to advance their economic or security interests. Them deciding that this sort of internationalist, multilateral system doesn't really serve their interests and they try to frustrate it, short circuit it, build a parallel system, or decide that intimidation or coercion is sort of a better way to get things done because if you're big or if you're powerful or if you're both you can sort of push your weight around. And I mean sincerely that there are a variety of countries in the region that it's important work in concert with us to build the kind of international order that Andrew and I talked about today. And that's why the fact that we are so closely aligned in that vision for the Asia-Pacific is important because it means that both our countries are talking with all the big players throughout the region to ensure that this vision of regional order is one that continues to be the dominant one.

MR. WRIGHT: And on TPP?

MR. MEDEIROS: TPP, it's a great question. There's no simple answer. Calibrating messages is art not science. It's something that I've learned a lot about moving from the think tank world to the government world. And the question -- it's an excellent question and what it highlights is one of the inherent tensions that we face in

China -- really in Asia policy, which is when the United States speaks we speak to multiple audiences at the same time. At a minimum there are at least three audiences. There's the domestic American audience, and of course you can break that up into different stakeholders, there's the China audience which has a very particular set of concerns and lenses of perception that they view the United States through, and then there's the sort of broader Asia region and our Asian allies. And it's a difficult thing whenever the President speaks or any senior officials speak to have a message that resonates with everybody simultaneously. And sometimes it just doesn't work. And sometimes what you have to do is you have to focus more on sequential messages as opposed to simultaneous messages. It's one of the skills you develop over time in the policy making world. So on the question of TPP and TPA, we've had extensive conversations with the Chinese about TPP, what is it all about, what do we mean by high standards. As you know publicly we've welcomed China to join TPP. In fact we've publicly welcomed many countries to join TPP if they're willing to meet the high standards. I think the Chinese view on TPP has shifted over time. It originally in 2011 when the initiative was highlighted was seen as anti China. I think many Chinese have come around to recognizing that TPP could be a very useful external force in encouraging additional structural changes in the Chinese economy similar to the role that WTO played. So we're talking with the Chinese about those attributes of TPP and I think that there is a clear understanding in Beijing. It's evolved over time about what TPP is and what TPP isn't.

MR. WRIGHT: Thank you. I think we have time for just one or two very short sort of questions. So the gentleman there at the back. Send a microphone. And then the lady one or two rows up just (inaudible).

QUESTIONER: Thank you. Don Wi with China Video News Agency of Hong Kong. My question for Evan is you mentioned that U.S.-China-Australia held a military survival training. I'm wondering if this kind of training could be expanded to a

broader and bigger military exercise between U.S., China, and Australia.

For Mr. Shearer is if Australia is more willing to play a bigger role in promoting the trilateral military relations in this regard. Thank you.

MR. WRIGHT: Thank you. And then the final question, just the lady right beside -- yeah.

MS. CHAU: Hi. Nadia Chau with Liberty Times. I have a question for Mr. Shearer. Since you mentioned Taiwan and Australia has an economic relationship which Australia treasures, I wonder do you expect a free trade agreement between Australia and Taiwan is possible? Another question is how Australia dealing with the Muslim community? One thing I'm interested to know. I think that's a challenge for many countries right now.

For Evan, just quick question which you haven't answered John's earlier question, for the cross straight relations with the possible new leader from both the opposition party and the ruling party do you see there is any challenge for the U.S. side or any expectation that the stability and the peace can still be maintained? Thank you.

MR. WRIGHT: Thank you. Guys, if you want to address those but also any sort of closing comments you'd like to make, anything that came up earlier in the conversation that you'd like to go back to and then we'll finish up.

Andrew, if we might start with you.

MR. SHEARER: Sure. Well, just on the question of trilateral military exercises, I mean we're very open to building on the start that we've already made with these survival exercises. You know, these exercises are a way of our militaries getting to know each other, understanding how we operate. Another good example by the way is the cooperation to find MH370 where we worked with the Chinese military, South Korean military, Japanese, U.S. All of these examples of working together are valuable. So we're very open to building on that exercise. And the rotating U.S. Marine presence in Northern Australia is important here because one of the opportunities that that presents is

greater multilateral opportunities to work together with a whole range of regional countries in humanitarian assistance, disaster relief, maritime surveillance, lots of different fields. So we're definitely open to building on that.

In terms of free trade agreements I think Australia is just kind of recovering from the effort of concluding free trade agreements with our three largest export markets. The next cap off the rank as it were in terms of free trade agreements I would say is TPP, which as we've discussed is a big priority, and then probably our negotiations with India which have a got a sort of renewed burst of energy following Prime Minister Modi's visit.

Lastly on the question of engagement with the Islamic community in Australia, it's a really good question. This is absolutely fundamental. I mean the overwhelming majority of Muslims in Australia are a tolerant and incredibly valuable contributors to our society; and one of the key elements of our response to this problem has to be reaching out to people in that community. Frankly one of the huge challenges we have is connecting with many of the people who are most vulnerable to this phenomenon. They tend to be very young, increasingly young, teenagers disturbingly, and the kind of established structures for engaging with those communities are not terribly adroit at reaching out to those people who tend to be living in a different world frankly on social media. And there are multiple stories of these kids telling their mother that they're just off to the shopping mall and the next thing the family hears a week later is that they're in Syria. You know, absolutely appalling stories. So a hugely important issue and something that we're going to be putting a lot of effort into.

MR. WRIGHT: Evan, any closing comments, either in relation to the questions or just generally?

MR. MEDEIROS: Well, on the first issue of trilateral security cooperation, I agree with Andrew; we'll have to take a look at it, see what's appropriate, but we're off to a good start.

You know, on the Taiwan questions, cross straight relations and cross straight stability are an important component of the U.S.-Taiwan relationship. And it's important to us, to the United States, that cross straight stability, both sides invest in cross straight stability to the extent possible. And we're very impressed with the strides that have been made in recent years, that communication channels have been opened and we hope that the progress that we've seen continues in the future.

On the U.S.-Australia relationship, let me just end by thanking Brookings, the U.S. Studies Center. This has been a great conversation. I think it tabled a whole variety of issues. Hopefully Andrew and I were able to impart to you the sort of the big broad agenda in the U.S.-Australia relationship, the fact that it's being handled exceptionally well, the quality of our cooperation. I mean just what we're doing in Iraq against ISIL is an example of that. But we see that across the board. And this is very much a working relationship in the sense of it's part of my day-to-day work at the NSC is making sure that we are latched up with Australia, seeking their opinion, seeking their perspectives, and making sure that we're both moving in the right direction in the Asia-Pacific and elsewhere.

So thank you very much.

MR. WRIGHT: Thank you. And I'd like to thank both you and Andrew. I think it's a great testament to the relationship and the alliance that you both took so much time out of your very busy days to be with us for an hour and a quarter here this morning. So thank you, and thank you for your comments earlier which were very insightful and I think set the stage for the continuing conversations during the day.

What we're going to do now is we're going to break for 15 minutes and then we'll reconvene back here with the panel looking at the strategic and economic environment in the Asia-Pacific and for the alliance and then we'll have a short break for lunch which will be served just outside, and then we welcome the Australian Foreign Minister Julie Bishop at 12:30.

So with that we're briefly adjourned. Thank you. (Applause)

(Recess)

MR. LIEBERTHAL: Thank you very much. I'm Kenneth Lieberthal. I'm a senior fellow in the Foreign Policy Program, not born or raised in Australia but have loved visiting there when I've had the opportunity to do so, and have been the director of the China Center at the Brookings Institution.

This panel is going to be picking up many of the themes that were covered in that extraordinarily wide-ranging and I thought very informative discussion that we just had in the last panel.

Let me introduce our panelists. First, Ambassador Jeff Bleich. He was ambassador -- U.S. ambassador to Australia for 2009-2013, and former special counsel to President Obama, and still is an advisor to the White House on national security matters. He is also a partner at Munger Tolles and Olson, focused especially on Silicon Valley trade and investment in Asia.

To Ambassador Bleich's left, Andrew Stoler is an independent consultant on international trade and investment issues based in Adelaide, where he founded the University of Adelaide's Institute of International Trade. Earlier, he spent a number of years in the U.S. Trade Representative's Office, and in 2000 -- I'm sorry, 1999 to 2002, I believe, was deputy director general of the World Trade Organization.

Linda Jakobson has been an independent researcher for about a year but still retains several affiliations. She's a visiting professor at the U.S. Study Center at the University of Sydney, a nonresident fellow at the Lowy Institute in Sydney, and founding director of a new not-for-profit entity, China Matters. I got to know her years ago as she spent about 22 years living and working in China, mostly researching China's foreign and security policy.

And finally, Tom Harley is nonexecutive chairman of Dow Chemical

Australia, joint managing director of the Country Risk Advisory Dragoman. He is the chairman of the liberal party's think tank, the Menzies Research Center. And prior to establishing Dragoman in 2010, he was president of Corporate Development at BHPB.

I want to note before we get into the substantive issues that each of the speakers will be making comments in their personal capacity. They're not representing their current institutions as they engage in this discussion.

Let me first raise one broad question to each of our panelists and I'll go down in order and invite you to spend perhaps five minutes or so to lay out your thinking on that, and then we'll have an opportunity to discuss among ourselves and finally turn to the audience for questions.

First, Jeff. In the last panel, there was some discussion of the sharp shift from 2009-2010, when the U.S. was both in the depths of the financial crisis and largely blamed globally for being a major source of that crisis, and China rolled out a stimulus program in 2010 that was, you know, kept growth rates going very dramatically. Now China's economy is slowing down quite a bit as it tries a difficult transition, and the U.S. economy really stands out among the industrial economies of the world at this point. Much more dynamic. We seem to have bounced back quite effectively. How has this, especially on the U.S. side, this economic rebound impacted Australian views about the dynamics of the alliance, reliability of the alliance, however you want to run with that broad subject?

MR. BLEICH: Well, it's rarely a bad thing. It's rarely a bad thing for your alliance partner to become wealthier. And so I think the economic answer, the United States has certainly been helpful in terms of advancing alliance goals in a number of different ways. First, it just means that you have more capability to invest and devote to the alliance and in the region. Secondly, it makes long-term planning easier because you can see a rising trajectory. And I think more and more we've appreciated that our security arrangements depend upon strong economic engagement as well. It's not just

about the military capability or the security capability; it's about trading in the region, investing in the region, building those deep relationships in the region economically that gives you some of your security ballast. So it's obviously a positive thing.

Probably the best way to approach your question is to do what you did, go back to 2009 and see where the shift has been in terms of thinking among Australians. Because in 2009 -- and I see Ambassador McCallum there, and I know he remembers this period well, and others in the room. But at that point, the support for the U.S. alliance among Australians was still generally strong, notwithstanding the global financial crisis, notwithstanding the unpopularity of the war in Iraq and a number of other things. But it was softer than it is today by a significant measure. The Lowy polling said about 64 percent of Australians thought that the U.S. alliance was essential to Australia's security. And if you unpack where the weakness was, it was largely among people under the age of 30 because their frame of reference was more limited and their sense of American economic leadership as the global financial crisis and our economy was on the verge of a cliff at that point, and their view of our security leadership was the Iraq War, which was very unpopular at the time, particularly among people under the age of 30.

And so the question was is this a good alliance for us, particularly if the U.S. is going to have to withdraw and be in an economic decline and have to focus inward and not be able to invest in Asia at the same time that China is rising. And so you had -- while the policymaking apparatus, while the people in charge of government institutions were still very much committed to the alliance, you saw this sort of softening in public support among younger people, and also, you started to hear more of an elite debate that said maybe we need to hedge, maybe we need to focus more on China, maybe we need to anticipate a sustained period of American decline. And that was the narrative in 2009.

If you look at where we are between 2009 and today, the Dow was at 6,500 in 2009; it's 17,500, flirting with 18,000 today. Unemployment was 10.2 percent;

it's down to 5.6 percent. The U.S. was in a recession looking at the potential even of a depression. We've had sustained growth every quarter since the first quarter of 2010. So, you know, four full years of continuous growth. And today, we're the most competitive economy in the world and the fastest growing economy in the OECD. So in ever dimension, you know, it's been a dramatic turnaround, and in terms of confidence among Australians in the U.S. economy, it's had all the expected effects.

I remember when I was there, the former Foreign Minister Bob Carr used to say, you know, the U.S. is only one budget deal away from dispelling all notions of an economic decline. And I think we proved that we didn't even need to get a budget deal. And so there's real confidence in the resilience of the U.S. economy, even with political dysfunction to rebound. And that's had all sorts of great knock on effects. And I'll just mention three for now.

One is we had talked about this Asia rebalance, and now you see real things being put into place that are consistent with that. So, for example, last June we signed an agreement which sort of secures the continued expansion growth use of training areas in Northern Australia, in Darwin, for joint operations rotational force of Marines. We've put more money into the airfield cooperation in that same region at Tyndall. In the most recent Osmonds, we've made commitments on satellites. We've made commitments in cyber. We've made commitments in terms of naval cooperation. All of these things reflect greater confidence, greater commitment, greater belief in terms of the security elements.

In terms of the economic focus, which is strengthening our security relationship through greater trade and greater integration of the economies there, the commitment on TPP has gone from -- in 2009 it was, you know, Doha is dead and this looks like a pretty small potatoes trade agreement, to now recognizing the TPP is the big game in the world. That over 40 percent of the world's GDP is going to be locked up in it; that it is critical; that you've got the president of the United States highlighting it in the

State of the Union Address; and that we're going to get across that finish line. I think next year you're going to see the United States both give the president TPA, and I would predict that you're going to see TPP, the final deals worked out with Japan and parties signing onto it. I have more confidence now than I ever had, and I've always had some confidence about it. So I think those are all reflections of Australia-U.S. feeling good about each other's prospects and reinvesting, digging in to the alliance, and that's why, as I said earlier, they went from 64 percent support in the Lowy poll in 2009 to today it's 82 percent. That's a reflection of real progress.

MR. LIEBERTHAL: Thank you very much.

Andrew, TPP is crucial. We heard it in the last panel that this is a critical pillar in the rebalance to Asia and we just had Jeff explain its importance in the U.S.-Australian context. Where do we stand on that to your mind now? Where are the negotiations? How likely is conclusion of an agreement with market access, concessions in Japan, and so forth? And if you do get an agreement, do you think the Australian Parliament is likely to accept it easily? And do you think it will pass in the United States? Is this something that we should be able to count on? And if all of that occurs, what will be the regional impact?

MR. STOLER: Well, thank you very much, Ken. Those are good questions, and I think we already had a pretty good review of the TPP in the last panel. But there are a couple of points I would make. I'd say that when you come here to Washington and you talk to the negotiators at USTR or people like Evan, you get a pretty positive view and it sounds like once the market access negotiations with Japan have finally been wrapped up, that everything will fall into place. I hope that's the case, but I have to say quite honestly, as I said when we had our meeting last year at CSIS, one big problem for somebody like me commenting on a TPP, and I'm a big TPP supporter, but this has been an extraordinarily nontransparent negotiation. So I don't really know if there's something else lurking out there in the background that could create problems.

But on the understanding that things are finally close to being wrapped up, I think that's very good news because the TPP is critical. It's critical for the U.S. position in Asia. It's critical economically. And the fact that the president mentioned it in the State of the Union I think was good, although, you know, I was listening to him and it almost sounded like this was a way of protecting ourselves against China, which I think is a bad message because we've worked very hard to try to convince the Chinese over the years that this wasn't some sort of effort to contain China. And I hope that won't lead to any problems in the future.

I also understand from the discussions we've had here that the prospects look pretty good for the president eventually getting trade promotion authority, and of course, trade promotion authority will be necessary if we're ever going to get the TPP approved here in the United States. I think a really good sign this year compared to what happened last year on TPA is that it seems that the White House is now prepared to actually push for it. Last year that clearly wasn't the case, particularly with a democratically controlled House -- I mean, democratically controlled Senate it wasn't going to happen without White House push. So from what I've been told, it sounds like both TPP and TPA should be wrapped up early in 2015, and I certainly hope that's the case because if they're not, if they drag on -- we had a meeting yesterday up in the Senate -- if they drag on past the point where the Congress starts to get itself occupied with budgetary questions, then, you know, that's going to be lost in the fog. And that would really be a real shame because I'm not sure we'll get back to it anytime soon.

Now, you asked whether or not there would be any difficulty getting a TPP agreement approved in the Australian Parliament, and again, I have to use the caveat from what we know about the TPP and think we know about the TPP, I would say that it's highly unlikely that there would be a difficulty getting it approved in the Australian Parliament for a number of reasons. The first of these is that unlike the United States, Australia already has free trade agreements with all of the TPP participants with the

exception of Peru, Mexico, and Canada. And Australian trade with Peru, Mexico, and Canada is not really problematic in any way. So I don't think adding them to the mix of FTAs would create any difficulty.

Another thing about the TPP, of course, is that Australia, for example, has an FTA with Japan. If you ask an American negotiator about Australia's FTA with Japan, they'll say it's pretty crummy and it doesn't do as much on agriculture as it should, and that's why the U.S. has been beating the Japanese over the head for the past six months or so. So Australia will get a better deal in many of its FTA markets out of an eventual TPP than it has in its existing FTAs. Again, that should make it more attractive to the Australian Parliament.

And finally, of course, getting approval in a Westminster system like we've got in Australia is a different kettle of fish from trying to get it approved here in the U.S. because people tend to tow the party line a lot more there than they do here. Now, the prospects for getting it approved here, I like that sound bite that we had in the last panel where somebody from Oregon, one of the congressional members of Oregon said one, two, three, four are the things we don't like about this presidential pronouncement. They were all trade related. We know, I think, that, you know, not all republicans are going to support these new trade initiatives up on the Hill, so a certain number of democrats are going to be required to come along as well. How many, I don't know, but I think it's going to be more than a handful are going to have to go for this as well. And again, that's one of the reasons why I think having the president and the White House involved is extremely important.

The third part of your question was what will the regional impact be if TPP wants and enters into force? And here I think this is really a very critical point because TPP is not just about the regional trade agreement. It's symptomatic of an effort by Australia and the United States and everything they've been doing in trade in the past decade to build a new architecture for conducting trade relations, which has been

particularly important when you consider the fact that nothing has really happened in the WTO since 1993. I mean, that's how long it's been since we negotiated something new in the WTO.

One of the things that the TPP will do eventually will be to encourage other APEC members, including China, to be part of what Fred Bergsten first cast out as the FTAAP. Everybody in the APEC region. It should also undercut what I regard as retrogressive trade efforts, like the Regional Comprehensive Economic Partnership, the ASEAN +6, which is really being run mainly by China and India and which I can guarantee you won't produce the result that's anything near as ambitious as what everybody is aiming for in the TPP. Plus, it won't include the United States. It's key that they include the U.S. in this. So there are a lot of psychological reasons.

Some interesting facts I think also come to light here and that is that for both Australia and the United States, assuming that the TTP -- the TPP and in the U.S. case, the agreement with Europe, the TTIP, assuming that they are eventually successful, 73 percent of Australia in exports and 50 percent of imports will be with its FTA partners. For the United States it will be 67 percent of exports and 61 percent of imports. And if China is one day a participant in the TPP, and I believe it has to be in order for the TPP to eventually fulfill everything we ask from it, then 75 percent of American exports and 81 percent of imports will be with FTA partners, not with people that are traded with just under the rules of the WTO.

And what's true for trade is also true for investment. 68 percent of American investment abroad and 84 percent of foreign investment in the U.S. will be covered by these deals. And for Australia, the FTAs, assuming TPP success, 43 percent of foreign direct investment into Australia and 40 percent of Australian investment overseas will be covered. Now, the reason why that figure is a lot lower for Australia than it is for the U.S. is because the U.S. will have a deal with Europe; Australia may not. But if Australia were eventually to have its own agreement with the Europeans, that number

would jump up to about 80 or 85 percent because there's so much foreign European investment there.

One final point I'll make about this new architecture, it's, you know, actually not very much about market access, notwithstanding the stories about the discussions with the Japanese and some of the others; it's much more about the behind-the-border measures that business cares much more about these days, like regulatory incoherence, investment rules, competition policy, government procurement, environmental protection, provisions for mutual recognition agreements so that professional people who have to have their qualifications recognized can work in different countries. None of these issues are under discussions at the multilateral level, so this really is an alternative, much more progressive exercise. And for somebody who used to be the deputy director general of the WTO to say that, you know, I really believe it.

So I think I'll leave it there for now.

MR. LIEBERTHAL: Thank you very much. One question I want to come back to with you on is what about China's eventual prospects for entering the TPP? That's kind of the big carve out and you were deputy director general of the WTO when we had Chinese succession to the WTO.

MR. STOLER: That's right.

MR. LIEBERTHAL: So I'll want to pick your brain on that in a few minutes.

Linda, there was a good discussion in the first session about the potential tensions between Australia's very extensive economic ties with China, its security ties with the United States, and whether these might come into tension and force some sort of difficult decisions on Australia, there are some untoward developments in Asia in the coming few years. Kind of the Hugh White scenario for those who follow the debate in Australia. My sense from the responses in the first session was Hugh White overplays the potential tensions here and that these things are more manageable and

less conflictual than some of the discussion has suggested. What are your thoughts on that, and how would you explain that set of issues?

MS. JAKOBSON: Thank you, Ken. Before I start I'd just like to also join in thanking the Brookings Institution, the United States Study Center, and of course, you, Ken, for moderating. We're in good hands here.

Let me start out by reminding ourselves of perhaps something that everyone knows but we sometimes forget when we think about Australia being a special case. Just about every country in the region is grappling with this dependency on China for prosperity and security on the United States. What I think makes Australia special is the very deep and broad security relationship it does have with the United States. I mean, part of the five eyes. Also, the security cooperation is certainly broadening at the moment. There's such a strong support like we've now heard from many speakers in Australia for the alliance. That's not the case in a country, for example, like Korea. So in some ways Australia is a unique example. Even before the FTA with China was agreed upon in November of last year, Australia was the most trade dependent on China of all the G20 countries. So in that sense I guess Australia is a bit unique, but I do always want to remind people that everyone in the region is grappling this same problem.

And yes, I would say there is a tension that Australia needs to manage. This tension is growing in part because Xi Jinping, since coming to power two years ago, has been extremely active in the region in the foreign policy and security sphere. I think it's fair to say that he's made it clear that he would like to see Asia governed by Asians and Asian matters decided by Asians. And, of course, Xi Jinping's vision of it is that China will be in the driver's seat. And as I see it, this is making people in Washington, in many capitals around the region, slightly anxious, slightly uneasy. Xi has come out with so many initiatives. We spoke in the morning session about the investment bank, but there are many other ones. There's a Maritime Silk Road Initiative. There's the Asia Security Concept that Xi Jinping has put on the table. So all of these initiatives are sort of

changing the dynamics of the region. And of course, Xi Jinping and his ministers have made it very clear how little China really does like alliances. We had a very hard core speech at the Shun Sham forum last year by a vice minister. Especially, China doesn't look well upon alliances getting stronger and more robust. So, I mean, against this backdrop I would say the delicate balancing act, which is required of the Australian government, but of so many governments in the region, is bound to continue in importance, and it's going to continue to be a factor which shapes the alliance with Australia has with the United States.

Now, having said all that, I do want to point out that this dichotomy or this tension that so many analysts point to should not be seen as this stark black and white scenario. As Foreign Minister Bishop said at this very conference last year, the United States remains Australia's largest investor. So the United States has a stake in Australia's prosperity; it's not only China. And even in the security sphere as we heard in the first panel, there are some modest steps in security cooperation. And as far as humanitarian assistance and disaster relief is concerned, and I think it is important that there have now been these trilateral exercises, I've said publicly that I advocate that Australia establishes a state-of-the-art regional humanitarian assistance in disaster relief training center in Darwin to kind of demystify Darwin, and this would give the United States, Australia, China, Indonesia, the opportunity to explore perhaps a broader security cooperation. So it's really not black and white.

As to the Hugh White question, now, I disagree as the first panel speakers did with the stark pointed question, "Does Australia need to choose?" But having said that, I do want to say that Hugh White has done Australia a great service. Although I disagree with him, he has put these questions on the table. He's forced Australians to think about them, and I think that's very important. But no, I don't think that Australia has to choose for a number of reasons, and I think they were discussed rather well in the first panel. I'd like to remind people that before becoming national security

advisor, Andrew Shiva wrote a paper saying that Australia made that choice actually, if push came to shove, over 60 years ago by entering into the alliance with the United States.

But I'd like to end by saying that rather than seeing a choice between the United States and China, I think China views the deepening, broadening cooperation between China -- excuse me, between Australia and Japan as something that they're deeply concerned about. They worry that Australia might choose Japan over China in, for example, this very sensitive issue of the Senkaku Diaoyu Islands. And so this broadening cooperation in the security sphere, in the strategic sphere between Australia and Japan is a trend I think that when we're looking at the region and looking at how the alliance is going to develop, that's really the key issue.

MR. LIEBERTHAL: Do you want to elaborate on that just a little bit? What would be your recommendation or --

MS. JAKOBSON: So many people in Australia are so focused on the so-called choice, which I don't think is a choice between China and the United States, and I think both Evan and Andrew very eloquently explained there isn't such a great tension there that everyone thinks there is. But during the last couple of years, Australia has taken a number of steps to broaden, to deepen, to become more close to Japan in the security sphere, intelligence sharing, and so on. That really, I think, causes deep anxiety in Beijing. A bilateral alliance is something that they've always had to live with. I think Beijing accepts the very strong alliance relationship between the United States and Australia. There's no question about that. But when it then becomes a trilateral, especially as the Chinese tend to see that as perhaps a mechanism with which China is going to be targeted, that really does cause some anxiety. So that's a trend that I think is worth thinking very deeply about, the triangular relationship as it moves forward.

MR. LIEBERTHAL: Thank you.

Tom, an issue that hasn't come up today is energy and energy security.

This is a rapidly changing environment in the energy world with energy abundance now, a dramatic drop in oil prices, the shale gas revolution. How does energy figure into the U.S.-Australia ties, and what are the impacts of that relationship for Asia more broadly and some of the issues that we've been discussing?

MR. HARLEY: Thank you, Ken.

Before I try and answer that I'd just like to say how pleased Dow is as an inaugural sponsor of Alliance 21 with what it's turned into, and I'd like to thank all the people who have been involved in organizing it. It's far exceeded our expectations. And I reiterate the disclaimer you made earlier; I'm not speaking on behalf of Dow with what I'm going to say.

I'd like to look at the question by using the prism of the LNG industry, and it's very pertinent to the alliance because in a way it's the largest economic manifestation of the Australian-U.S. alliance. Over the last 10 years, about 200 billion has been invested in new LNG facilities in Australia, and the largest nationality participating in that is the United States. Chevron, Exxon, Conoco, and Hess are some of the names that come to mind, and these are big investment for them. I think in Chevron's case, Australia would represent its largest single exposure. It's also significant economic consequences for a lot of service companies, and Bechtel has been one of the largest suppliers, certainly to Queensland.

By 2017, Australia will be the largest shipper of LNG in the world, supplying about 50 percent -- currently it supplies about 50 percent of Asia's LNG gas needs. So the U.S. investment, a globally significant energy security participant. It underpins the energy supply of Japan, South Korean, and Taiwan, and increasingly, China. Very small in China's case today.

The whole development was always aimed at Asia, although I want to indulge in an anecdote if I may. There was a brief period when I was at BHP. We looked at shipping gas to California, and I remember distinctly going with John Howard to visit

Arnold Schwarzenegger. None of us had seen any of his films, so we didn't know quite what to expect. And after the meeting said, "He seemed really intelligent," to which John Howard said, "Either that or he's a good actor." (Laughter) Anyway, we didn't proceed with LNG in California.

To come back to the question, I'd like to look at the conditions that underpinned all these investments because it's worth looking at them and the health of those conditions. First of all, why did it come to Australia? Well, I think one of the key reasons was Australia was seen, is seen as a secure investment destination; a safe place to put your money. That means all the rule of law, the constancy of policy. But it was also seen in another sense as secure from the customer's point of view. So for Japan to take the decision to hook itself to LNG required a reliability of supply, and that's not just about the companies and their performance, but also the country and their relationship.

The second thing is that is all relative. Australia's security and constancy compared with the competing nations and the competing LNG producers in the region include Russia, the Middle East as a supplier, and Malaysia and Indonesia.

The third reason for success was quite basically the abundance of gas. Australia has an enormous amount of gas. Large deposits with long life.

And the fourth reason was transport costs, the proximity of Australia to the markets and the lower cost compared with shipping it, for example, from the Middle East.

What have been the challenges that have come forward, particularly with the more recent developments? There's a whole host of them that wouldn't be apparent from here, and they're the domestic manifestations of a kind of form of Dutch disease that Australia has suffered. And this is seen in cost overruns because of skilled labor shortages, exploitations of those shortages by some unions, and that has made Australia a relatively uncompetitive place to build future expansions, certainly for the time being.

The falls in prices, combined with the cost overruns, will challenge the returns of many of the major investors in the near term. The earlier contracts for LNG, the Northwest Shelf, the first ledge LNG project committed to are an S-curve. They have a floor and a cap and they're pegged to a bundle of oil prices. Now, it's not clear, certainly to me, what the current terms are of the new LNG plants, but some are said to be uncapped and unfloored. The companies seeking to enter into these contracts saw high oil prices as an opportunity and gave up the floor. They may be regretting that.

Some of these projects overcommitted to gas, and that gas is not available domestically to support some of these plants. They've committed to gas for which there is not currently supply, and that has a profound domestic consequence. The price of gas for domestic uses is increasing in some cases threefold. That has a huge blow for the manufacturing industry, particularly in my state, Victoria, where gas penetration is very high.

The policy responses to that have learned a lot from the U.S. and the U.S. -- this symposium has been very helpful to us in doing that. The way the U.S. domestic gas market operates has given us a menu of policy measures, which I might come to later, but we're seeking Australian policymakers to apply.

The next disruptive thing is floating technologies. This was largely a positive one. Future gas developments because of the cost of building things onshore may increasingly be offshore liquefaction plants, and Shell is building the Prelude plant, which is the first in the world, which will be off Western Australia. But they're also floating receiving plants, and this will enfranchise a new market. If you want to take LNG as your energy supply, you have to commit to building a large receiving terminal that turns the liquid back into gas, and that can now be done by ships. So new countries will perhaps take that up. The lower gas prices, the lower oil prices will encourage more countries we believe to take up LNG, and a greater take up will lead to greater demand from Australia.

I suppose the last point I'd make is the environmental desirability of gas

has caused China to increase its gas penetration from currently 5 percent. Now, that's low. The whole of Asia is 11 percent. The whole world is 30 percent.

The very last concluding point I'd like to make is energy security is significant for both our countries. To look at the fact that we are entirely self-reliant on energy shouldn't blind us to the fact that the countries we depend on for our markets are not. Thank you.

MR. LIEBERTHAL: Thank you very much.

Let me come back, if I can -- well, actually, before I raise any additional questions, let me ask whether you have any additional comments on what you have heard each other say.

Jeff, please.

MR. BLEICH: I would just emphasize one point that Linda made that often gets lost in the conversation about U.S. arrangements with Australia. People often focus on our security relationship, our common culture, values, approach to the world, rule of law, those sorts of things, but I tend to think that the economic relationship has been receding to some extent because we're now the number three trade partner instead of number one trade partner. But the investment relationship, we really bet on each other. The true measure of commitment to one another economically has just gone from strength to strength. Right now, I think in terms of foreign direct investment, U.S. investment in Australia is five times that of China, but in terms of bilateral portfolio investment, it's 20 times. It's about a trillion dollars. Just staggering. And so when people talk about investment, when they talk about the economic relationship, they're not exaggerating when we say the U.S. is Australia's most important economic partner.

MR. LIEBERTHAL: That is true also for Australia investment in the U.S.

MR. BLEICH: Oh, yeah.

MR. LIEBERTHAL: Which is a substantial multiple of Chinese investment in the U.S. It's like 20 times the amount.

Linda?

MS. JAKOBSON: I just had a follow-on about the dependency and Australia's politically reliable partner and market. I think sometimes in Australia people tend to forget that, yes, Australia is very dependent on trade with China, but China sees Australia as extremely important, precisely because it is a politically stable country. It has the rule of law. It's a very good test case market where they can train their people in joint ventures and other commercial enterprises. So I think we forget the dependency, everything is relative, but Australia is not the only partner that needs China; China also needs Australia.

MR. HARLEY: And the Chinese have been substantial investors in the LNG projects.

MR. LIEBERTHAL: All right. Let me come back, if I can, to the TPP discussion. I was a little surprised last night that President Obama framed the argument for TPP, imparting terms of having the U.S. quality rules set the international trade enjoinment in the Asia-Pacific rather than China's rules. We've, to my knowledge, all along effectively said to the Chinese, for you to come into this negotiation at this point, before the initial agreement is done, would make it too difficult to get to the initial agreement. You're such a large economy. You operate in such different ways domestically. But once we get that initial agreement done and that is set up, we will welcome you to apply to join it and negotiate your way in, very much as eventually happened with WTO.

Do you think that this is going to be feasible? Do you see China's entering a successful TPP once it is ratified? And also, relatedly, how does the TPP relate to this longer term free trade agreement of the Asia-Pacific region that is now on the longer term agenda? Is it potentially preemptive, or is it a stepping stone to a broader regional agreement? How do you see this playing out?

MR. STOLER: Well, I think a lot will depend eventually -- I'll come back

to some of the specifics -- but I think a lot will depend eventually on what the Chinese might want to use the TPP for, because obviously, I mean, anybody who knows the history of China's accession to the WTO will know that the Chinese leaders wanted to use that accession process to reform things in China. It's much easier to say we have to do this because they're making us do it than it is to say we're doing this because I think we should do it, because then people get into a big argument. So even on a question like whatever the rules of the TPP are going to be for SOEs, it might be that the Chinese are at a stage where they want to do something to reform the way the SOEs operate. And if they are, I think it will make it a lot easier.

What worries me about this whole thing is the mechanics of the exercise, because if we're determined to finish. You know, negotiators say it has to be a high quality agreement, and it can only be a high quality agreement if we don't bring anybody else in at this stage -- and that, by the way, is not just China. It's also some other important players in the mix -- Korea, Taiwan, Hong Kong -- they're not going to be part of TPP 12. So if the answer from the American negotiators and others is yes, we eventually want the Chinese to come in when they're ready to live by these new rules, what's the procedure going to be? If it's a WTO accession procedure type of thing, I have to say I'm a little worried because, you know, it took China 15 years to negotiate its accession into WTO, and if the Chinese think it's going to take them another 15 painful years to negotiate accession to TPP, I don't think they're going to be very interested in doing it, which I think will be bad news.

On the other hand, you know, if you finish negotiation of the TPP 12 and you say it's not a pure accession negotiation, that implies that you're going to revisit some of the things that you negotiated in the TPP, which is another difficult prospect from my standpoint. So, you know, I'm worried about how it's going to be handled, and of course, you know, if China has to negotiate accession, so does Korea, as opposed to being in on the ground floor.

I mean, my own feeling is that eventually if the Chinese want to participate in the TPP, and I want the Chinese to participate in the TPP, it has to be partly because the Chinese want to use the TPP for something internally as well, which would make it a lot easier. But nobody's ever told me what the process is going to be for handling this at some stage.

MR. BLEICH: I think I may be a bit more optimistic about how TPP ultimately plays out in the region. And in part, it's based on history. I mean, when this thing started it was, you know, Malaysia, Brunei, Singapore, Chile, Peru. The U.S. and Australia were really the only two major players in terms of big economies engaged, and now you've added Canada, Mexico. No one thought they would join. And certainly, no one thought Japan would join because of the market access issues. So the notion that other economies aren't structured to easily integrate into TPP, we've already overcome those concerns in other cases. China is probably more challenging, but I don't think it's insuperable. I think if you look at how TPP is likely to play out, my sense is that at the very least what it does is it creates a very strong market with over 40 percent of the world's GDP that's trading well together. And China and every other nation in the world is going to see that as a valuable market that they would like to be able to play in as well. That means that either China starts looking for ways to progress its own development of trade relationships to more align with it and then enter TPP, or develop some sort of comparable set of trade agreements that even if they are at some point separate, they're still going to be closer to what TPP provides than anything we currently have. And the whole idea is to get countries trading and speaking the same language on some of the critical issues like, you know, whether it is market access, but also things like environmental protection, worker rights, you know, IP protection, some of these other elements that allow markets to work smoothly and not gum up.

MR. LIEBERTHAL: China recently reached a free trade agreement with Australia, also with South Korea. I've heard Chinese comment that those two

agreements are much higher quality than other FTAs that China has done, and part of the strategy at the top of the Chinese hierarchy was to demonstrate that they do not just do FTA light kinds of agreements; that they can handle serious agreements. I'm not as familiar as I would like to be with the content of the, say, China-Australia FTA. Does it meet that standard? Does it make you more confident that China could negotiate seriously entry into a TPP agreement and do so credibly?

MS. JAKOBSON: Well, all the details of the China-Australia agreement are not yet public, but a lot of them are. And I'd say that even the skeptics, even those who really would not have banked their money on this agreement being signed so quickly -- I mean, not quickly, but that it did actually happen -- are surprised at how high a quality it is. So I think it does precisely prove what you're saying, Ken; that the Chinese are capable when they want to, when there's political will, to conclude a very high quality agreement. I mean, I'm not an economist, but the Australian economists are saying that this is much higher in quality, the one between Australia and China than the one between Australia and Japan.

MR. LIEBERTHAL: And for what it's worth, I have heard in China for more than a year now that the thinking at the top of the Chinese leadership is that if they -- as they watch TPP, they want to be well informed of what's happening in the negotiations, and the thinking very much now is that they can use an accession process precisely the way they used the WTO accession process; to try to leverage domestic reforms that would be more difficult to do without this kind of external obligation. We'll see how that plays out.

MR. BLEICH: As I said, I think that's the only basis on which we're going to get the Chinese and the TPP, if the TPP is a high quality 21st century agreement, will be because the Chinese want to use it for their own purposes domestically as well as everything. They don't really need it -- China doesn't really need the TPP for market access purposes. And when you look at the relative price of goods made in China

compared to anywhere else, tariffs aren't very important in the region. So there have to be other incentives for China to come into the new rules-based thing and I think they have to be internal more than external.

MR. LIEBERTHAL: Linda, and then we'll have to move on.

MS. JAKOBSON: Yes. I just wanted to say the Chinese are incredibly interested in the TPP. I mean, there are ongoing discussions between lower level American officials from commerce every time they go to Beijing, to keep the Chinese officials abreast of the developments in TPP. So, I mean, the Chinese are certainly wanting to learn, wanting to understand, and are interested, whatever they say officially.

MR. LIEBERTHAL: I do want to open this up to questions from the audience, but I want to just ask one quick question, Jeff, of you.

The U.S. economy is moving ahead dynamically now, but we have not totally put behind some of the things that worried people in Asia about the U.S. ability to follow through on its commitments in the rebalance strategy. One of the most important of those is the sequestration issue which was sequestration was suspended but hasn't been repudiated. And the issue there is if sequestration comes back, both caps on the military budget and especially rigidities in how that budget can be spent are very substantial. The Pentagon talks about that in very, very tough terms. Do you see sequestration as being a potentially serious issue for us going forward and affecting some of our -- how we're seen in Asia?

MR. BLEICH: I don't think you can completely count out sequestration because the first time sequestration was introduced, the whole concept was this is such a dramatic draconian and bad solution that it will force us to reach a different agreement because there's no way that we would accept sequestration. And then we did for a period of time. So based on that I think you don't want to dismiss out of hand that it could happen again. On the other hand, I am fairly confident based upon conversations with people on the Hill and people within the Pentagon that they are moving forward with the

expectation that it won't happen, that wiser heads will prevail this next time around. And I think our partners around the world are betting on that as well. You know, if you look at our allies and how they're planning, they're planning for our Navy to shift from a 50/50 split between the Atlantic and the Pacific, to a 40/60 split between the Atlantic and Pacific. You know, we're having intense conversations, not only with Australia but with other allies, such as the Philippines, in the region, about how we can integrate more fully. And they wouldn't be doing that if they really expected that sequestration was a likely possibility. As I said, I don't fully discount it, but I've got greater confidence in Congress to get it right this next time around than a few years ago when we lost our way for a bit.

MR. LIEBERTHAL: So this coming year is going to be extremely important for some major developments between the executive and legislative branches in the U.S., both on the trade side and on the sequestration side.

MR. STOLER: Yeah, well, I'm waiting for the year that the budget doesn't matter. This is going to be another important year for the budget.

MR. LIEBERTHAL: Let's open this to questions from the audience. I'll ask that you briefly identify yourself. Feel free to direct your questions to one or another panelist up here or to ask it of the panel as a whole, and please keep your questions concise.

Yes, sir? If you wait for the microphone coming.

MR. TUCKEY: Thank you, Kenneth. And thank you to all the members of the panel for giving up their time today.

Aaron Tuckey, the University of Western Australia.

My question is to the whole panel, though Tom might have a special interest in answering this one. The question is given that the USA and Australia are the two largest per capita emitters of greenhouse gases and have both survived the economic crisis in relatively very good health, what scope is there for the USA and Australia to be leaders in the Asia-Pacific region, and specifically for leading by example

in regards to showing China into a clean green energy feature rather than focusing on their respective environmentally irresponsible economic advantages of exporting shale and LNG when considering energy policy on the whole in the Asia-Pacific region? Thank you.

MR. LIEBERTHAL: I think that question is for you.

MR. HARLEY: Well, I'd like to put up a stout defense of LNG as a cleaner fuel than coal. And one of the most significant steps the world could take to reduce greenhouse emissions is to substitute Chinese coal use with LNG. So I think greater investment by the United States with Australia in producing more LNG and marketing it to China is probably the single most important step we could take. And the other one would be further supply. This might not be popular with some of your friends to supply uranium to China for much larger increase in their nuclear option rather than coal.

MR. BLEICH: I'd say the U.S. has had the largest drop in carbon emissions and carbon intensity of any country in the world. In fact, we used to be the largest carbon emitter. Now we're behind China and we're dropping fast for a number of reasons. And one of them is the substitution of natural gas for coal and oil. It burns cleaner and it's lower in carbon, but then we've also expanded our development of renewables. We've recommitted to nuclear and any other solution that will reduce carbon intensity. And I think our development of more natural gas, particularly through shale gas, has actually been a net positive for the world in terms of reducing carbon emissions. So I think we have a very good position from which to be a leader in the world than to stand on a bully pulpit.

MR. LIEBERTHAL: Yes, sir. The microphone will come.

QUESTIONER: (Inaudible), University of New Hampshire.

To Mr. Stoler or to Ms. Jakobson as well, with regard to TPP, is there, for example, most of you have said correctly that TPP is much more than a broad FTA. The behind-the-border issues are very, very, very significant. So with regard to China, is

there a format in terms of phasing in the China potential accession that would make it more feasible than it is now being talked about as if it were a black and white, in or out? Some of this has been talked about but I'd like to hear how you see those issues.

MR. STOLER: You know, that's actually one of the best ways of solving this kind of a problem. And in fact, in the case of China's access to the WTO, they didn't accept fully all the obligations overnight. I mean, many of those things were phased in over periods of even longer than 10 years in some cases. So, I mean, if I were a negotiator dealing with the Chinese and I ran into an obstacle that looked like it would either prevent China's immediate adoption of the rules or allow them to phase in out of time, that would be an option I would say would be very attractive.

In fact, it's not just a country like China that you use it with. When Australia and New Zealand negotiated a free trade agreement with the ASEAN countries a few years ago, they built in important rules on investment but then they said we're not actually going to trigger those rules until we have a subsequent negotiation with the ASEANs. So I think that's a really good suggestion, a really good way to approach it because if we do have really strong rules in the TPP, like we should, then we should facilitate a more gradual Chinese phase in if we need to.

MR. LIEBERTHAL: Okay. Yes.

MS. YUNG: My name is Bi Yung.

I was just wondering if you can address the issues that adversely impact TPP or whatever (inaudible). For instance, because they are represented by politicians, by ambassadors, or by some representative, but they don't really speak for the general -- either from the United States or overseas on the indigent population. So I was just wondering if you can address the issues of general public, either U.S. or other countries in terms of their cultural values or socio values so they will not adversely impact on the elections or their misleading public-private partnership. As long as they have this control of power, they will affect the communication of people, including Internet

communications, social media, everything. So people's voices are not heard. So could you address just about adverse impact on the election or capitalism? It's not really capitalism; it's really use of public abuse or public or government power to suppress the citizens here and overseas.

MR. BLEICH: I'm very happy to take that on.

MR. LIEBERTHAL: Please.

MR. BLEICH: I think two things. One is that in terms of what TPPs intended to accomplish for American citizens, the idea is that it will allow our economy to continue to grow as we become more of a globalized economic world. And so for Americans, you know, we've always gotten wealthy on the fact that our consumers buy a lot of our own stuff. We haven't had to export nearly as much, but as we see the world becoming more global, as we see middle classes rising around the world, we know that they want our stuff and that we're better off selling it outside of the United States and to balance out our economy. For China, it's just the opposite. China has been mostly export driven. They need to build their own consumer base, and we've complement that by trading more with China. It advantages both economies for us to expand and increase our trade between them as world markets have changed.

In terms of impact on the culture of countries through these trade agreements, they don't really affect the culture of a country. What they do is they affect the culture of the business environment. And business people want to be able to trade all around the world with as much efficiency and with as little friction as possible. So they just want a clean set of rules that they can all understand, that reduce conflict and that allow them to operate. Every country is going to have its own cultural values, norms, and ways of structuring their governance, and those won't be materially affected by business arrangements. But business is going to help every country trust each other, work better together, raise their own prosperity, and reduce the risk for conflict. So it's a net win, and I think that's how we explain it to the public.

MR. STOLER: Can I just make an addition to that? That is that in none of these agreements is there going to be 100 percent compliance by everybody with all the provisions of the agreements. In modern trade agreement these days, everybody has a list of some exceptions, and these exceptions are often designed to deal with the kind of problems that you're talking about. For example, if the United States is part of a TPP that includes provisions on government procurement, because the United States cares about small business, it will have an exception for small business set-asides that are part of procurement. In the case of Australia, Australia will have to take an exception for the fact that they don't allow majority foreign ownership in Qantas. And the way you get to those exceptions is it's the responsibility of the individual governments to decide where the kind of concerns you're talking about are important enough that they have to be X'd out of the agreement and then negotiate those things. But not the United States, not Australia, not any member of the TPP is going to trample over all the sensitivities.

MR. LIEBERTHAL: Yes, back there. Stanley?

MR. ROTH: Stanley Roth, still Boeing.

I want to ask a question that I was tempted to ask the previous panel but thought they might think it a softball. Given the expertise on security, politics, economics, and trade, I'm asking this quite generally, do you see a single major problem between the U.S. and Australia at this moment in any of these fields? A year ago I would have said, sure, Australia is concerned about the vigor with which the administration is pursuing TPP. That's gone away. This panel and the previous panel has dismissed, and I agree with the Hugh White thesis, which would be a huge problem if it was there. Barring that, I'm having a hard time coming up thinking major issues in the relationship as opposed to areas of cooperation which we can advance going forward, which I think we've heard a lot.

MR. LIEBERTHAL: I'll actually add a footnote to that because there's one issue that I think has been the source of some concern very recently, and that is the

strong U.S. presidential commitment to climate change negotiations this year and to reaching an effective agreement at the end of the year in Paris, and the Abbott government has actually moved in the other direction in terms of dealing with carbon emissions in Australia. So let me just add that. Feel free to say that's not key; there is some other issue.

MS. JAKOBSON: I wouldn't, Stanley, call it a major issue, and I would certainly say the climate change is the number one real important issue on which the two countries don't agree. But the smaller issue is this question of Asian investment -- infrastructure investment bank. I think this -- and we heard yesterday on Capitol Hill the same type of argument would have been something that the United States shouldn't have had such a strong opinion to try and persuade its allies to wait and see, should have perhaps just let its allies do what the allies wanted to do, whatever that was -- go in immediately, take a look at the terms of agreement or whatever. I think there was a lot more disagreement than we have been let on to understand on that issue. And as it isn't a strategic issue, on that I think it would be important for Australia in this case to show that it has its own independent foreign policy.

MR. BLEICH: Yeah, I think even on climate change, in a relatively flat landscape of problems, even a small molehill, you know, can seem larger than it is. I don't think there's a dramatic difference. If you look at where the U.S. and Australia are, they both have made commitments to reduce their carbon emissions. And I think the ways in which they've been trying to accomplish those have shifted over time. The U.S. was originally going to try and do it through a market solution and you had, you know, Kerry, McCain, Lindsay, Graham, you know, Lieberman. I mean, you had tri-partisan support for it, because Lieberman may be both. So you really had support for that. I think Australia saw that, actually got out ahead, created a market. The U.S., for internal domestic political reasons, wasn't able to get that through the House after the midterm elections, started going a different direction. Australia started to think, well, we're a little

bit too far out in front, started to hold back a little bit. The U.S. saying we're a little bit behind, and California, the tristate area, other elements of governance within the United States go into market solutions. We're all sort of fudging around this general sense of how do we within our political environments create the most efficient system for reducing carbon emissions. Both countries are struggling with it, but in terms of are our goals different? Are the set of tactics that we're looking at different, are there different constituencies of the country pushing and tugging? We're actually in very similar shape. So the rhetoric tends to magnify what I think are relatively modest differences in how we're trying to approach the same problem.

MR. HARLEY: I'd agree with Jeff. I mean, I think the differences on the climate change issue are largely rhetorical. It shouldn't be forgotten that Australia signed the Kyoto Agreement; the United States hasn't. I think the differences are more likely to be on prioritizing the areas of cooperation and the intensity on different priorities around there.

MR. STOLER: There certainly aren't even any molehills even in the trade and investment relationship.

MR. LIEBERTHAL: Well, with that flat landscape I again want to thank the sponsors and organizers of this event of the whole day, Alliance 21, the U.S. Study Center at the University of Sydney and the Brookings Institution.

A couple of announcements. We have a buffet lunch for you. You have 25 minutes to eat it and get back in here and seated because at 12:30, we will have a keynote address by Minister of Foreign Affairs Julie Bishop. The buffet lunch is in the corridor, right out here, but please use the rear exit, the exit behind you there to get to it so that we can avoid a traffic jam where people are coming at the lunch tables from two different ends at the same time.

This has been a wonderful session. Please join me in thanking our speakers.

(Applause)

(Recess)

MR. JONES: I hope you had a good break. We're going to get going. We have a tight schedule. The Minister has to leave sharply on time.

Before I introduce the Minister, while our last few people are taking their seats, I want to take a moment to give my thanks, and that of Martin Indyk, to Ambassador Kim Beazley. Not just for his support of this event and his support of Brookings in general, hosted a wonderful program leadership committee dinner for us late last year, but also for his tireless efforts in support of the U.S./Australia relationship. Kim has become a fixture on the D.C. scene and the U.S. and Australia are both better off for it. So, Kim, thank you, very much.

Let me now welcome Julie Bishop, Minister of Foreign Affairs to Brookings and it's a particular honor to do so. You all know very well that the Minister has played a wide range of roles in Australian government and opposition before assuming the mantel of foreign minister in September 2013. I think it is fair to say that it's been a turbulent year during a tenure which has lasted so far a little less than a year-and-a-half.

The Minister has had to handle Australia's elected seat on the U.N. Security Council and the G20 and all of course at a moment of turmoil in the Middle East where, once again, Australia has partnered with the United States in dealing with one aspect of that crisis in particular and I think it's worth highlighting the role that the Minister played in negotiations with the Iraqi Government in terms of an agreement to allow the deployment of special forces to combat ISIS. The United States has a lot of allies but there are fair weather friends and there are foul weather friends and the difference is well noted and much appreciated in this city.

All, of course, during the same period of time grappling with an intensification of geopolitical rivalry. Most importantly with Russia's actions in the Ukraine

and the Minister drew a lot of attention for the way she handled Mr. Putin at the U.N. in the G20 and in particular in the aftermath of the downing of MH17. A role that I think showed not just considerable diplomatic flair but just frankly, plain guts. And while the issues may be more controversial in the bilateral relationship given Obama's remarks at Brisbane I wanted to highlight your leadership role on climate issues, including at the Peru Summit.

The Minister has also been very active and energetic on social media. Among her peers she is very engaged on Twitter. I hope you found your earrings.

MINISTER BISHOP: No.

MR. JONES: Those of you who are under 40 got that joke, the rest of you didn't. Bless you.

It goes without saying that Australia is one of America's most reliable allies. We have a long history of cooperation, from World War II to Vietnam, to Iraq, to Afghanistan, and as we heard this morning from Andrew Shearer and Evan Medeiros, a relationship that's been retooled to being central to the management of the contemporary international order and the challenges that we face from cyber terrorism to accommodating and dealing with the growth of China and many facets beyond.

So I am delighted to welcome Minister Bishop to Brookings to talk about these and any other issues. Please join me in welcoming her up to the stage.

(Applause)

MINISTER BISHOP: Good afternoon to friends of Australia, friends of the United States and thank you to Brookings for the opportunity.

The alliance between the United States and Australia is a central pillar of Australia's foreign policy and national security. Today I will speak on a broader theme about our relevance to this alliance of two open liberal western democracies. I'll address the importance of the nations state itself and some of the contemporary challenges. For a while there have long been predictions of the demise of the nations state. There are

new and even more dangerous threats to its continued existence and survival.

Indeed in my first speak in the Australian Parliament in 1998 I spoke about the pressures I then saw facing the State, largely brought about by globalization. The revolutionary social change sparked by the digital revolution and this was pre-Wi-Fi and iPhones. The rapid expansion in unrecorded intra-firm trade across national borders making it harder than ever for states to regulate and tax corporate activity, the shrinking significance of geography and increasingly porous borders for goods, capital and labor. It was my view then that the challenge for the nation state was to adapt, to harness the great possibilities and promises of globalization, but today pernicious forces have come to the fore and wield greater power than ever that threaten to undermine the nation state.

To globalizations opportunities we must now add transnational treats. Foreign terrorist fighters claim caliphates, a medieval construct form of thiefdom that is a platform for further territorial conquest. Groups like DAESH, also known as ISIL claim territory, engage in extortion and people smuggling, yet impose taxes and purport to provide services. This business model is being emulated by other groups, a franchise of terrorism that can be established in unstable, volatile locations.

Transnational crime, the drug cartels, corruption, and cyber crime are also challenging the role of states. I'll leave for another day the impact of pandemic disease, environmental degradation, and financial instability. The challenges we face are borderless, yet the world is still divided into and defined by, and to an extent constrained by jurisdictions. I believe the nation state, despite the challenges we faced will persist, overcome, and indeed thrive as the organizing unit through which nations realize their values and advance the rules based international community.

I'll focus on some of the main challenges we face. Common collective challenges whether born of globalization, accident, or ill intent and discuss how we can respond working together as nations and individually each taking our share of the burden. Through our United States alliance and separately with likeminded partners, Britain and

France, Indonesia, and South Korea, Canada and Belgium and others the world over, we must be prepared to lead and adapt.

The Westphalian System will turn 367 years old this year. It is striking to think that despite the transformation of the world, scientifically, technologically, socially, and industrially in that time and the changes that have taken place within the governance of nations this system has persisted. It has been modified with international law, and organizations continuing to be developed and advancing. Yet many of the basic elements of the system are unchanged.

The United States and Australia cherish certain values. Our systems enshrine citizenship and democracy. We believe fiercely in certain things. The rule of law, equality before that law, property rights, individual freedom, democracy, it is the vehicle of a nation state through which we give expression to these values and organize to defend them, where necessary.

At the international level it is a system of nation states that has, on balance, been the foundation of humanities efforts to build peaceful, safe, and prosperous societies. With all its flaws and some nation states embrace systems, values, and strategies that many of us find shockingly floored. It remains the case that it is an international system based on nation states that has allowed us to improve greatly the circumstances of much of humanity in recent centuries. Yet today there are serious challenges to the sovereignty of the nation state.

Many of these challenges are due simply to change whether technological, social, economic, or political. Corporations, for example, have long been indispensible engines of our global economy and now in many cases rival countries in terms of their economic power. Consider this, if you rank the top 100 countries and companies by GDP and revenue only 66 of those largest global economic entities are nation states. Apple, General Motors, Wells Fargo, Bowing, Procter & Gamble, Microsoft, they're all up there in the top 100 in terms of revenue. In legitimately striving to

improve returns to their shareholders global companies, big and small, structure their affairs and businesses to minimize paying tax while operating within the law. Tax collectors face tremendous difficulty capturing taxes on revenue from their domestic jurisdictions.

While such corporate behavior is understandable developing countries are estimated to lose between U.S. 35 and U.S. $160 billion in revenue each year because of corporate profit shifting. Now, if all companies paid taxes on profits in the countries in which they are derived this would largely negate the need for global aid flows or development assistance. Global official developmental assistance in 2013, for example, was about U.S. $135 billon less than the upper estimate of lost tax revenue.

Now international aid is one of my responsibilities as Australia's foreign minister. So I can't ignore these facts. But governments and business must work together to achieve more equitable outcomes for developing countries. Continuingly rapid technological and economic change, whether in the form of the social media revolution or the transition from regional and national to global value chains will require us to continue to adapt and innovate.

Now for the challenges to the sovereignty of the nation state that do come from malevolent actors. Tragically, the past year alone has been filled with violent examples. Terrorism is now more global, more dangerous, more diversified than ever before. Terrorist groups have emerged or grown in Afghanistan, Syria, Iraq, Libya, Nigeria, Somalia, Yemen. DAESH or ISIL has declared a caliphate, putting whole villages, towns, cities, and vital infrastructure in Syria and Iraq under its ruthless governance.

The Haqqani network, a group of Islamist insurgents opposing coalition forces in Afghanistan and Pakistan and allied with the Taliban continues its criminal operations regardless of borders or governments. Al-Qaida in the Arabian Peninsula has claimed responsibility for the tragic Charlie Hebdo attacks and continues to plot terrorist

attacks around the globe.

Boko Haram has also declared a caliphate and taken control of large parts of Nigeria and on a day-to-day basis is seeking to impose its brutal governance over the people living there. Offshoot terrorist cells and individuals, the lone wolf, have staged barbaric attacks including in Canada, France, Belgium, the United States, Britain, and Australia and we confront the phenomenon of foreign fighters and terrorist trained returnees.

The manifestation of this problem is global. Despite our efforts terrorism persists at continuing challenge to the sovereignty of established states. Its perpetrators have no respect for Australia, or France, the United States, or Iraq, Russia, China or any other state. They have no respect for borders, laws, or norms of behavior. They believe that brutality and violence is an appropriate and acceptable means to achieve their ends.

Henry Kissinger recently wrote in *World Order* that zones of non-governance or jihad now stretch across the Muslim world. When one also takes into account the agonies of Central Africa where a generations-long Congolese civil war has drawn in all neighboring states and conflicts in the Central African Republic and South Sudan threaten to metastasize similarly. A significant portion of the world's territory and population is on the verge of effectively falling out of the international state system all together.

Then there are those whose motives are financially rapacious rather than political, as is the case of the international crime syndicates and drug cartels. The effect is still insidious in its undermining of the institutions of state. Crime networks challenge the state by driving corruption, undermining rule of law and damaging vast numbers of lives. These twin perils, terrorism and organized criminal networks, thrive in places where sovereignty and national institutions are weak. This is why Australia and the United States, and others try to build or rebuild stability and state effectiveness in places like Afghanistan and Iraq.

We're fighting in the Middle East today for this very reason, to end the opportunities that lawlessness and weak sovereignty provide for terrorists and criminal networks to grow.

Narco-terrorism, the financing of terrorism by profits from illegal drug trafficking is expanding exponentially. Even as nations like the United States and Australia have stepped up the fight against illicit drugs, criminals have used the Internet to open new distribution channels and circumvent state controls, and these take time to close down.

In July last year the BBC reported that illegal drug listings on-line had more than doubled in a 12 month period despite efforts to close down operations like Silk Road. These networks are interconnected and they make big money. *Forbes Magazine* has estimated that DAESH/ISIL has an annual income of $2 billon. Hamas has annual revenue around half that, about a billion dollars, Hezbollah, $500 million annually. International drug cartels collectively make billions of dollars annually.

These businesses, and they're run like businesses, thrive where sovereignty is weak. The money they make flows around the world corrupting and undermining states as it's reinvested in further illegal activities. Now last year for example, it was reported that Mexico's Knights Templar cartel had diversified well beyond drug trafficking deriving major income strains from illegal logging, mining, and extortion.

Australia is part of a multi-national campaign to stop drug trafficking and narco-terrorism. In April last year *HMAS Darwin* a Royal Australian Navy guided missile frigate seized 1,032 kilograms of heroin off the coast of Somalia. This is one of the largest amounts of heroin ever seized on the high seas.

Then there is the realm of cyber. We've long been anticipating the disruptive potential of cyber crime and cyber theft. But recently, for the first time, we've seen a rogue nation state launce a major attack of unprecedented destructiveness against a major private corporation. Presumably North Korea wanted to coerce its target.

Ultimately, it failed, the film, *The Interview*, was shown and garnered unexpected box office success, but only have significant damage was inflicted on Sony Corporation. The United States response was swift and crucial in demonstrating that such cyber attacks against any public or private institution cannot be tolerated.

Such cyber attacks do not differ greatly from those of terrorism, and like terrorism they pose a significant challenge to state sovereignty and to our ability to protect the freedoms we should all enjoy. Australia, the United States, and others have experienced first-hand the immense damage that can be wrought by cyber thieves operating as hacktivists. Governments face an ongoing battle to secure their networks. The very systems on which we rely to protect the interest of our citizens.

I set out these challenges not because they're overwhelming, they are not. I list them to make the case for action. The United States has laid collective responses to global problems again, and again, especially since the end of the Cold War. It has received its share of credit, but it has also been allocated more than its share of the blame when things have not worked out. This reflects the unique and indispensible role of the United States as the world's superpower, with the largest economy and the greatest political and military might. But the United States should not have to be alone, the burden of solving every challenge that we as nation states face.

Australia does not match the United States in sheer (inaudible). What we seek to do is make a serious contribution. At the very minimum a responsible and proportional contribution to protect the rules based international system. We are there, with our alley, and with other partners. I believe that with the benefit of the alliance comes a responsibility to share the burdens, both in material terms and in providing creative and proactive policy input. Australia must face these challenges just as much as the United States.

We have just concluded a two-year term on the United Nations Security Council. Australia came to the role in January 2013 and we were determined that elected

members could, and should, make a difference in strengthening the council's role in the maintenance of international peace and security.

Of course, we endeavored to use our term to support Australia core national security interests and those of the global order. We aimed to make a practical, constructive contribution across the entirety of the council's agenda. In doing so we achieved some important outcomes.

In July of 2014 we led the council's response to the shooting down of Malaysian Airlines MH-17 over Eastern Ukraine, a criminal act that caused the loss of 298 lives from many nations including 28 Australian souls. Our resolution adopted unanimously as U.N. Security Council Resolution 2166 backed by the cease fire in Eastern Ukraine and a full impartial international investigation requiring all states to cooperate fully with the recovery and investigative efforts. The remains of all our people have been recovered, we're bringing them home, but our quest for accountability and justice continues.

We were active on counterterrorism securing council agreement in November to strengthen international cooperation on combating terrorism including tackling the threat of foreign fighters and countering violent extremism. We cosponsored a resolution condemning all acts of terrorism committed by DAESH and the (inaudible) front. As chair of three Security Council sanctions committees we strengthened the council's response to the threats posed by al Qaeda, Iran's nuclear program and the Taliban. Targeting emerging threats including Boko Haram and ISIL.

We lead council debate on sanctions reform boosting engagement from effected countries enhancing the systems transparency and mobilizing more professional support and coordination from the United Nations itself. We took a leading role in the council's response to the humanitarian crisis in Syria securing the adoption of three groundbreaking resolutions within 12 months requiring the Syrian government and other parties to the conflict to allow humanitarian access to millions in desperate need.

We coordinated the council's work on Afghanistan during the crucial period leading into the transition at the end of 2014 from the NATO lead combat mission to Afghan security control. This culminated in Security Council support for what is called Operation Resolute Support which will help train and advise Afghan security forces and in which Australia is participating. We played a leading role in determining the Security Council's response to the findings of the United Nations Commission of Inquiry into human rights in North Korea, headed by former Australian High Court Judge Michael Kirby. A groundbreaking, harrowing, report which no civilized member of the international community can ignore. With the cooperation of like-minded council members the humanitarian situation in North Korea has now, for the first time, been added to the council's recurring agenda for continued monitoring.

Contribution to global security did not begin with our term on the Security Council, nor does it end there. For example, Australia was one of seven coauthors of the arms trade treaty. The first legally binding instrument negotiated in the United Nations to establish common standards for the international transfer of conventional weapons. The treaty will help promote security, stability, and economic development including in our Indo-Pacific, our backyard, by preventing the diversion of weapons to terrorists and other criminal groups. Since the treaty opened for signature in June 2013, 130 states have signed it, 60 have ratified it. It entered into force on the 24th of December 2014.

Ladies and gentleman, the ANZUS Alliance clearly sets out our core mutual defense obligations. However, our broad and deep relationship as likeminded nation states leads us naturally to work together to meet head-on these wider threats to peace and prosperity in the context of our rules based international system. We are both in Iraq today, for example, providing assistance at the request of the Iraqi government to defeat DAESH. Australia is there alongside the United States. Indeed secondly only to the United States for the size of our contribution because we have concluded that it is not only in our national interest to prevent Australian citizens from joining terrorist

organizations that are seeking to undermine and overthrow the state system, about 180 Australians known to us at the present time. But it is also in the broader global interest for us to contribute to a collation response.

Yes, we face considerable challenges to the sovereignty of the nation state, yet we are not daunted. We will not be intimidated. We can be confident that as countries like Australia and the United States and other international partners are prepared to set up to these challenges, together we will prevail and prosper. Moreover we can be confident that the nation state will endure as the main institution through which we pursue the prosperity of our people and defend and promote our values and our way of life.

Thank you. (Applause)

MR. JONES: We'll take a couple questions.

We have time for a couple of questions before the Minster has to leave. If I could just take a moment, when the Minster has to leave if you could please stay in your seats as the Minister leaves and waiting for Christine Wormuth to arrive.

MINISTER BISHOP: I should point out that I'm not leaving for any purpose other than to meet with Vice President Biden, Secretary of State Kerry and National Security Advisor Rice and Senate Foreign Relations Committee Senator Bob Corker.

MR. JONES: It's a light afternoon. (Laughter.)

MINISTER BISHOP: I'm not wanting you to feel unloved, that's all.

MR. JONES: We'll go straight to questions, gentleman in the front.

MR. NELSON: Thank so much. Chris Nelson, Nelson Imports. Minister, thanks for a terrific speech and kind of scary, actually. I hope is part of your intent to get people's attention to make us focus on, my God what are we going to do. A bigger question, a more focused question. I get the sense in listening to you that it worries you that while there are many multi-lateral approaches and responses to all these various

challenges you've laid out that perhaps by definition there's a lack of coordination and we're all sort of scattered around. Am I right in thinking that, and do you have a sense that maybe it's time to be talking about a world NATO against terrorism or something. Or is that too big a chunk to bite off? You know, I think it was implied to what you're asking and a more specific on the U.S./Japan/Australia alliance which would fit into that of working together on issues. How do you see the cooperation there working with our friends in China to lower tensions in the maritime, not just in the South China Sea but also on other international waters. So thank you so much for a very tough speech.

MINISTER BISHOP: Thank you, very much. There are a number of issues there. I also used our time on the security council to chair meetings on counterterrorism and this issue of foreign fighters and I do point out that Australia has about 180 known citizens who are either fighting with ISIL in Iraq and Syria or are supporting them from Australia. That's known to us. I gather it's a similar number to the United States. And so given the per capita assessment we clearly have more than our fair share of foreign fighters.

So I used the opportunity in the Security Council to also call for a special envoy from the U.N. for this specific issue of countering violent extremism and countering this phenomenon of foreign terrorist fighters. Yes, I am deeply troubled by this phenomenon and I guess spending yesterday with the heads of your security and intelligence agencies only added to my concern. Again, I see the United States is taking a lead role because of its indispensible position of the world's super power but the point I'm making is that every one of us, and you know, there are 80 countries around the world who self nominate as having foreign fighters in their midsts. There are 80 countries who acknowledge that they have people leaving their countries to fight under some toxic Islamist ideology in the Middle East.

So I believe there has to be a significant collation again, as always, lead by the United States but with countries being prepared to step up and take their fair share

of the burden to stem this terrifying challenge that we, as nation states, currently face. I do believe that much has been achieved through the Security Council but much more can be done. I note that China and Russia also nominate a number of citizens as terrorist who have joined the fight in the Middle East. So we're all in this together and that has to be acknowledged.

The second part of your question in relation to the Australia/Japan/United States trilateral partnership is a very strong one. It's something that we certainly support. Our leaders have met at the G20. I've met with the foreign ministers, the Secretary of State of both the U.S. and Japan to discuss matters of common and mutual interest and it's a grouping, a trilateral grouping that I think has a great deal to offer the region in particular. Of course, the United States rebalance or pivot, however one likes to call it, is deeply appreciated in our region in whatever form it takes, whether it be militarily or whether it be through the trade efforts through the TPP and Australia and Japan are, I think, fundamental to the support the United States is receiving for its rebalance to the Asia Pacific.

As far as China is concerned we work very hard to ensure that our relationship with China is a strong and positive one. We encourage China to be part of the rules based international system whether it's in responding to military threats, whether its responding to the challenges of setting up a new set of rules to apply to trading relationships. We want China to be part of this and I think during the G20 we certainly saw a more positive approach by China to some of the -- and treaties from U.S./Australia and of course there was the rather historic meeting between the leaders of China and Japan in recent times.

I was speaking with the foreign minister of Japan just prior to that actual meeting in Myanmar and there was a great deal of anticipation but also trepidation as to what would occur. But I think it is a good sign that we can make progress in lessening the tensions that arise from the Senkaku Diaoyutai territorial claims and also applying to

the South China Sea, but Australia, Japan, the United States have a significant role to play in ensuring that China likewise sees negotiation and peaceful means as the only want to settle those territorial disputes. It will take time, but patience is always a good virtue to have in these circumstances.

MR. JONES: In the front.

QUESTIONER: Thank you, Madame Minister. I have one more terrorism question if you can stand one more. In the wake of events in Paris and what's going on in Iraq and Syria clearly Europe is going through a sea change in how they're perceiving the threat of terrorism and the tools they're developing for dealing with it. Do you see what's going on in Europe as having important lessons for the Asia-Pacific? Do you see the threat level in the Asia-Pacific and in Australia as on the increase in the wake of Paris? Do you think that we need some heightened vigilance, some changes, in how we deal with the issue in the Asia-Pacific region or do you think this is primarily something in other parts of the world?

MINISTER BISHOP: Most certainly the events in Paris have focused the minds of a number of European nations as to what reforms they need to implement in order to give their authorities the capacity to better deal with these challenges. I remember 12 months ago when I was here in the U.S. there was a raging debate in the wake of the Snowden affair as to privacy versus security and at that point I would suggest that privacy considerations were winning the debate. I'm interested to detect a far different approach 12 months down the track. Of course, you have some legislative issues coming up before the Congress in the next few months and perhaps that will determine once and for all whether my inkling is right.

Nevertheless in Australia most certainly we've made some significant reforms to our counterterrorism laws, our foreign fighter's bills. I now have the capacity to declare off limits particular geographic locations for Australian citizens. The Al-Raqqa Province, for example, which is now the headquarters of ISIL, is off limits to Australian

citizens unless you can come up with a very good reason for being there, a journalist, humanitarian work, or family. Otherwise what's an Australian doing heading over to Al-Raqqa Province, a cycling tour, seriously. So we now have some significant powers to do what we can to restrain and disrupt the activities of Australian citizens who are attracted to this murderous ideology that they misguidedly see as some kind of noble cause, which it is not.

There is a significant concern in Southeast Asia. It's shared by the countries including Indonesia, Malaysia, the Philippines of the number of foreign terrorist fighters in their countries. We know that there are a number of convicted terrorists who are likely to be released from jail in countries in our region in coming years. If one assumes that counter radicalization and rehabilitation programs have not had the impact that they should that poses another level of threat.

What I have seen though is an extraordinary level of cooperation, information sharing and sharing of experiences and lessons learned across the globe. Our relationship with the United States security and intelligence agencies could not be closer. The level of engagement is, I would suggest, unprecedented. Perhaps Great Britain as well but it's unprecedented and we have a lot to offer each other. But we're also reaching out to countries with whom we might not have even contemplated sharing intelligence at present and our agencies are as active as yours are in building networks of countries and nations who have been impacted by this terrorist scourge and countries in the Middle East, in Southeast Asia, North Asia, we are sharing information in unprecedented ways and I believe that that will go some way to countering this threat.

MR. JONES: You're going to have to leave in one minute, but before you do let me ask you --

MINISTER BISHOP: You get the last question, do you?

MR. JONES: I'm going to steal the last question.

Your predecessor was noted for before he took the job he said that

Australia's top foreign policy objective was to avoid a hard choice between the U.S. security relationship and the Chinese economic relationship. Do you see it as a tension? You have to manage both of these extraordinarily important relationships. How do you view that challenge?

MINISTER BISHOP: I wouldn't put it in those terms at all, but I suggest that Australia is capable of maintaining more than one relationship and it's not a question of an economic relationship with one country therefore precludes you having a security relationship with another. It's a much more sophisticated and mature debate these days and I believe that as our relationship with China broadens beyond an economic relationship, as the relationship between China and the United States broadens beyond jostling for influence in the region that we will see that kind of mature outcome that I've always expected would be the case. That there is far too much at stake for countries like the U.S., and China, and Australia, and Japan to be fighting with each other. We have greater challenges and greater threats that we all face, which was the point I was seeking to make, that we all face as nation states determined to ensure the peace and prosperity for our citizens that we must face together. I think the issue of terrorism has brought these nations together in ways that could have been unimaginable even just a few years ago.

MR. JONES: Thank you very much for doing this. Good luck in the rest of your program.

MINISTER BISHOP: Thank you. (Applause)

MR. JONES: Please join me in thanking the Minister. And please keep your seats.

Thank you, very much, have a good rest of your trip.

(Recess)

MR. NELSON: My name is Brendan Nelson. I'm currently the director of the Australia War Memorial, and I have also served as Australia's Ambassador to NATO

and European Union, leader of the Liberal Party of Australia and Defense and Education Minister in the Howard government.

I've been asked to introduce the Under Secretary which will be a privilege to do so, and I will do so in a moment, but in prefacing the introduction to give some historical context to the alliance, and one of the observations I've made is that when people, institutions, and nations lose sight of what it is in which they believe, it's then that potentially we get into quite significant trouble.

A year ago when I arrived off the plane at Fort Worth/Dallas and approached the unsmiling customs officer -- he did a great job in Homeland Security, Under Secretary -- he looked at my passport. He looked at my face, again at my passport. He looked up and he said Australian War Memorial. He said, "We need one of them here." And he then went on to say, he said, "My son came back from Afghanistan only six months ago, and he was talking so highly of the Aussies," and I said to my son, he said, "Every time America picks a fight the Australians are there with us from the start, and they're the last ones to leave." Now, to some extent some aspects of that can be contested.

Recently our Australian Prime Minister, Prime Minister Abbott said that the defining moment in Australia's history, the defining year was 1788, the arrival of the first fleet into Sidney Harbor. Perhaps the next important year for Australia was 1941, the fall of Singapore, five days later the first of 68 attacks on Darwin. We had a grouping struggle in Ishuwava, Kokoda, Miln Bay, Coral Sea, Midway, Guadalcanal. Three Japanese submarines in Sidney Harbor were looking for USS Chicago. There's not a day goes by in my country where privately or publicly we don't give thanks and gratitude for American sacrifice in the Pacific and Asia for 1942 until the end of the war; one hundred and three thousand American dead; more than half of them bodies never found.

The Second World War had three great consequences for our nation as observed by Paul Kelley over (inaudible). The first was that it inaugurated the struggle

between democracy and communism which would largely define Australia's subsequent generational place in global affairs in the way it saw itself. Secondly it laid the basis and foundation for an emerging Asia and one with which Australia could deal with equally and with equal respect. But perhaps most importantly in this context it shifted Australia's defense strategy and outlook away from the United Kingdom toward the United States. For our nation in that context and indeed perhaps certainly for our region and perhaps for global affairs, the single most important relationship with the world is that between the United States and China. The tectonic plate that's shifting is such that very shortly we will live in a world that we have not lived in since the Franco-Prussian War and the Queen Dynasty. As Paul Kennedy from the isle observed, the world of 1500 is about the end. It's extraordinarily important for our region and for our nation and indeed for our two nations that China, particularly, re-emerges into a rules-based order. The United States presence in the Western Pacific and our region, enhanced by the Obama led rebalance, is critically important to our region and indeed to global security.

Finally, the Australian War Memorial which I've had the privilege to be the Director of for the last two years is in many ways a repository of the nation's soul. To know a person, to know another country is one thing. To understand it is quite another.

The chief of the Turkish air force was standing in the commemorative area around our Pool of Reflection just over a year ago, and in that area we have the names in bronze of places where Australians have fought and died over more than 100 years, and he pointed to one of them in the Pacific Theater of the Second World War, and he ask me, he said, "Director, why were Australians there?" And I said to him, "General, that's a very important question because in answering it, in your journey of discovery you'll understand who we are and what makes us tick."

That institution is a war memorial, but it's a monument to peace and at the same time a very tangible reminder that there are some truths by which we live that are worth fighting to defeat. It's not until our visitors, our heads of state, prime ministers,

defense, foreign and other ministers and dignitaries -- and I see Ambassador Bleich nodding as I say this -- it's not until they there and they go through it, and they go through that commemorative area, the Pacific area, through the Hall of Memory that they understand why an Australian is ally of the United States.

Now, Under Secretary Wormuth is obviously -- appreciate is a person of (inaudible), but I have read your CV, Under Secretary, and if you're anything like me you cringe when people see your CV studiously. I do because I read mine (laughter), but I've got to say that my conclusion in reading your CV and other things about you, and what I've observed, what you've been doing in particularly your current role over the last six or seven months is that this Under Secretary is person who has committed her life to public service in every sense of the word; to public policy, to the security and defense of the United States. She's a very strong advocate of the United States having a strong global presence and that being critically important to U.S. interest as indeed is to our interests and to global security.

She came from the International Strategic Study Center and joined the Obama administration in 2009, initially as Assistant Deputy Secretary for Defense for Homeland Security in the Americas, then onto be a Presidential Aid and Advisor Assistant and the National Security Staff, then onto Deputy Under Secretary for Strategy Planning and Force Development. She oversaw the U.S. Quadrennial Defense Review in 2014, and now is Under Secretary for Defense Policy as the Principal Assistant to the Secretary of Defense, the Deputy Secretary of Defense in the development of U.S. Defense and Security Policy, and also overseeing the integration of the Department of Defense implementation of Defense Policy in pursuing U.S. defense objectives. It is my privilege to have you here and for us to able to listen to you, Under Secretary. Thank you. (Applause)

MS. WORMUTH: Well, thank you very much, Director Nelson, for that very kind introduction. It's a pleasure to be here this afternoon at Brookings. I worked

prior to joining the Obama administration in 2009 -- I worked at a think tank just a few blocks away from here for about five years, so I'm a big believer and big fan of the role that think tanks play here in Washington and the impact that they have well beyond Washington D.C. I think institutions like Brookings, they exercise so much important convening power being able to bring together terrific diverse groups for conversations like these. They make such a contribution in terms of scholarship and really have the ability to think deeply about challenging public-policy issues, and frankly sometimes that can be a challenge when you're inside of government, so it's really a pleasure to be here at Brookings and to have the opportunity to talk a few minutes about the importance of the U.S./Australia relationship and in particular where I see the security relationship going in the next few years.

As I thought about how to frame my remarks I was really struck by the truly global sweep of the alliance that we have with Australia today. The center of gravity I think for that alliance is in Asia, but our work together clearly goes far beyond that region of the world. I think I was able to catch the tail end of the Foreign Minister's remarks, and I think we share the view that the United States and Australia are cooperating on a range of challenges that our truly global, whether it's fighting Ebola in West Africa or whether it's working together to bring stability and security to far-away places like Afghanistan.

I just got back last night from Iraq. I was able to go to Bagdad and Erbil up in the north, but I also went to one of our new coalition training sites in Taji which is a town a little bit north of Bagdad, and we've just started training some new Iraqi army recruits. One of the reasons I wanted to go was because that training mission that we're starting there and at three other building-partner-capacity sites in Iraq is so important because it's going to allow us to work with the Iraqi army to generate enough combat power for them to put together a true counteroffensive against ISIL working together with the Kurdish Peshmerga forces and also Sunni tribal elements, and I think as everyone in

this audience knows very well, Australia is a very important member of the now over 60-nation international coalition that is fighting against ISIL and radical extremism.

Australia and U.S. military personnel are working side by side in Iraq, and our two nations are also cooperating on other non-military aspects of the counter-ISIL campaign, so I think it makes sense to talk a little bit about the U.S./Australia alliance in the context of these kinds of global challenges that we're facing which include strengthening the relationships that we have in Asia and then focus in a little bit more detail in where I see the security aspect of the relationship going.

As Director Nelson just said I think very eloquently, the United States and Australia have a very long history of standing shoulder to shoulder in every major conflict really since World War I, and our security cooperation really continues to be a linchpin of stability around the world. That cooperation together is so important. I think when you reflect on the hostage crisis in Sydney just last month and the terrible terrorist attacks in Paris two weeks ago, those are really stark reminders that violent extremism which is just one challenge that we're facing together, it's a truly global, not just regional, threat, and it's something that we'll only be successful in defeating if we join the fight together.

As I said, the U.S. is leading the international coalition to degrade and ultimately defeat ISIL, and we're really trying to put together a campaign across multiple lines of effort, not just a military campaign. We're not going to be able to defeat ISIL, or DAESH as people in the region refer to it, solely through military means. We're going to have to disrupt its sources of revenue. We need to stop the flow of foreign fighters again. I heard Foreign Minister Bishop take a question on that, and all of us I know are concerned about the threat that foreign fighters pose to our homeland.

We've got to work together to counter the terrible narrative that ISIL has and also figure out how we can work together to provide humanitarian support to address all of the chaos that ISIL is leaving in its wake in Iraq and Syria, and Australia is again a

key coalition partner in that effort. I think as most of you know, in September Australia committed to send about 200 special operations forces to Iraq to help us with advising and assisting the Iraqi security forces. There are also I believe around 400 Australian air force personnel associated with the air campaign, and in addition to providing all of that military support as part of the advise and assist and the kinetic part of the campaign, Australia has also provided very essential humanitarian airlift and has been a key part of the effort to resupply the Kurdish Peshmerga, and I can tell you I heard from every single KRG official that I met with over the last few days in Iraq just how grateful they are for that resupply of their very much needed equipment on the battlefield.

The fight against ISIL is obviously going to be a long-term effort. This is not something that's going to end in six months, but I think the international coalition that we put together is strong. It's diverse and I was encouraged during my visit to Iraq to see that ISIL I believe is truly more and more in a defensive posture. The momentum of their military efforts has been blunted significantly. They are experiencing a lot of challenges in governing the people that they're conquering, and all of the Iraqi officials I met with, whether they were Sunni or Shia or Kurd or another ethnicity, they were united in their desire to push ISIL out of the country and to regain full sovereignty over Iraq.

I think it's worth nothing that even as all of this was happening this summer in the Middle East we found ourselves facing another national security threat of major significance and that was the outbreak of a very severe regional epidemic of Ebola in West Africa, and here again the United States was joined by Australia in an effort to respond to the crisis and to try to contain the virus. When it looked most bleak back in September, the pace of the viral infection was increasing dramatically, and the region was really facing a dearth of civilian responders. President Obama directed and authorized the deployment of about up to 3,000 U.S. military personnel to West Africa, and they were working in support of our USAID and several other U.S. government agencies. The Department of Defense brought several capabilities to bear to try to help

with the response. In particular we brought capabilities focused on how we can improve command and control in West Africa. We brought logistic-support capabilities, engineering support. We brought a handful of our diagnostic labs, and we also focused specifically on training health care workers in how to prevent Ebola and how to protect patients from Ebola if they were infected.

We in the Department of Defense focused our efforts in Liberia. Australia was very helpful in providing oversight of a hospital in Sierra Leone where the United Kingdom was also taking a very significant role, so that was, I think, a very effective demonstration of our cooperative efforts against a major threat, and together we were able I think as a group to really galvanize much more international support to deal with the problem, so we really had a multiplying effect and brought a lot more resources to bear in West Africa which has gone a long way to reducing the amount of human suffering in Africa and really getting a handle around the Ebola threat in the region.

If we turn to Europe and think about the tragic downing of Malaysian Airlines flight 17 in July and the loss of 38 Australia citizens, that, I think, also is another unexpected and stark reminder of how instability that seems to be very far away can have a real impact close to home, and I think Australia's leadership in the recovery efforts there was truly a testament to its ability to respond on the global stage. That was a very complicated situation, and Australia really did a supreme job in that effort, and throughout that crisis as the whole situation unfolded in Ukraine and the Crimean Peninsula I was reminded of the strength of our security relationship because I know General Martin Dempsey, our Chairman of the Joint Chiefs of Staff, with whom I work very closely, he was on the phone very regularly in direct contact with Chief Marshal Binskin, and it was very clear that they have a very close and effective working relationship. General Dempsey was very complimentary of the Australia military forces and all that they were doing.

I think another terrific example of the cooperation that we have with

Australia in terms of global security challenges is, of course, our shared engagement in Afghanistan. As we start this new year and look forward to what we're doing, we're obviously focused on a major transition in Afghanistan after 13 years of war in that country.

In December the United States concluded its combat role there, but we are now working to facilitate the ability of the Afghan National Security Forces to take the lead and really lead the effort to get a handle on their country's security, and I think as this audience knows well, Australia had been playing a key role for years with the United States and coalition forces in Afghanistan. We are just deeply grateful for the sacrifices Australia has made to join us in working to bring stability in that region.

As we look forward to the next couple of years in Afghanistan we're focused on two primary missions. First, with our allies like Australia and other coalition partners, training, advising, and assisting the ANSF forces as part of the NATO-led resolute support mission is going to a key area for us to focus on, and second, we will also be conducting a separate counterterrorism mission against the remnants of Al Qaeda, and we're really doing that to ensure that Afghanistan cannot be used to stage attacks against the United States or other coalition forces who've been a part of what we're trying to do there.

Over the past decade our allies and partners have been really instrumental in our efforts to achieve a safe, secure, and united Afghanistan, and because of the contributions made by partners like Australia, we've been able I think to set the stage now for a responsible transition to a long-term normalized security relationship, to continue building the capacity of the Afghanistan security forces and the broader government as a defense partner, and ultimately to protect U.S. and coalition security interests in the region. There's clearly quite a bit more work to do, but I think we're at an important point in the process with Afghanistan. I think we have a very good path ahead in the next couple of years.

I think of the whole set of these examples illustrate, Australia has been a core partner with the United States in addressing any number of security challenges around the world. But of course, again, going back to I think the center of gravity in Asia, we're obviously working together on any number of shared interests in the Asia-Pacific region, and I wanted to talk a little bit about the work that we're doing there together.

I think a number of speakers earlier today talked about the rebalance to Asia-Pacific which is major foreign policy initiative for this administration, and part if the reason that we undertook the rebalance to Asia is because as a Pacific nation we believe that the United States has long-standing interests, and we also clearly have a very robust presence in Asia, and the reason for that is because our national interests are inextricably linked with the continuing development of the economic, political, and security order in the region, and I think President Obama has talked at some length about the kinds of opportunities that he sees in Asia when he last visited Australia in November.

In Asia we see the potential to deepen our partnerships with countries but also with regional organizations so that we can cooperate more closely and respond more effectively together to share challenges like natural disasters but also to counter piracy in the region, to deal with instability, and also of course fight against terrorism, which again I think we've had some rather blunt reminders is very much a real problem that we will continue to face for the next several years.

Because the rebalanced Asia-Pacific is really a whole-of-government initiative for the United States, I just want to underscore that what we're doing militarily is just one piece of it. There's obviously a very important economic piece. I think a number of speakers earlier today have talked about the TPP and everything that we're doing to try to get that across the finish line, but I wanted to talk a little bit about what we're doing on the security side to make sure that we fully implement the rebalance.

First, we're trying to enhance the capabilities of our allies and partners to provide security for themselves but also for the region. And just to give a couple of

examples about what we're doing, with countries like Viet Nam, for example, we're working to build maritime capabilities, and we're doing that because we think those types of capabilities will help a country like Viet Nam be able to enhance its own national sovereignty but also help it provide an improved ability to provide disaster relief assistance, for example, when that might be needed.

We're also very optimistic about enhancing our partnership with India. I think, as people know, President Obama will be leaving for India soon and is looking forward to celebrating India's Republic Day in just a few days.

We also are trying to strengthen regional defense capabilities, both those of the United States but also again of partners in the region. So, for example, we've worked closely with the Philippines to conclude an enhanced defense cooperative agreement, and we're also working closely with Japan right now to revise and update our defense guidelines to really reflect again a qualitative leap in terms of what we're able to do on the security side with Japan. We're also expanding our relationships with countries like Indonesia and Malaysia.

And finally, an important part of what we're doing on the security side of the rebalance is working in partnership with countries in the region to build a cooperative regional architecture based on international rules and norms. This is a really -- it's sort of maybe a bit of an unsexy piece of the rebalance, but it's a very important part of the rebalance. And just as an example of what we're doing there, we are playing an active role in bolstering the work of ASEAN, for example, through the ASEAN Defense Minister Meetings Working Groups, which is a mouthful.

All of these initiatives that we're doing on the security side I hope underscore our strong belief that peace and stability really need to be pursued in partnership with our friends and allies, and again in this realm the partnership with Australia is very much an indispensable one.

I think if you look tangibly at what we're doing with Australia a very visible

symbol or demonstration of our close partnership is the deployment of U.S. Marines to Darwin, and I know I was at the White House on the National Security Council in 2011, I believe, when President Obama went to Australia to talk about that deployment. We see what we're doing with the Marines in Australia a very important development and something that I think is really going to provide a multiplier effect for what we're doing in the region.

This year about 1,150 Marines have come through Australia on a rotational basis, and over the coming years we are working with Australia to be able to rotationally deploy as many as 2,500 Marines on a yearly basis, and there are a host of benefits we think to this kind of a rotational approach, but among other things it will keep the physical footprint in Australia pretty light.

In addition to our Marine Corps deployments we also have Air Force deployments in Australia, and between the two of those we think we'll very much be able to maintain a very high level of interoperability with Australia defense forces and be able to enhance the joint ability that we have to respond to crises and again to provide regional stability. I think through those deployments we're going to have more opportunities for multilateral training and exercises in the region, and just generally we'll be able to enhance our military-to-military engagement.

As we've developed these force-posture moves and put in place the framework for supporting these rotational agreements, that's been reflected in our U.S./Australia Force Posture Agreement, and as we develop that Force Posture Agreement we did so very much coming from a perspective of respect for Australian sovereignty. That was a key consideration as we undertook development of the agreement, and that respect for sovereignty really underpins our cooperation in Australia's northern territory. The Posture Agreement not only gives us a legal framework and a policy framework from which to operate, but it's also again a very tangible demonstration of our commitment to regional security and also Australia's

tangible support for the U.S. rebalance in the region.

In addition to supporting our efforts to expand U.S. presence in the region, Australia I think it's worth noting has been playing a truly key role in enhancing trilateral cooperation and multilateral cooperation in the Asia-Pacific region, and that's very important because it strengthens our collective ability to be able to address regional security issues.

In particular, U.S./Australia/Japan trilateral cooperation has very much deepened in the last couple of years. For example, on the margins of the G20, President Obama met with Prime Minister Abbott and Prime Minister Abe, and together they reaffirmed our shared values to include a commitment to democracy, open economy's the rule of law, and the peaceful resolution of disputes, which I think is a theme that you've heard throughout your conference so far.

The three heads of state also reaffirmed their commitment to enhancing cooperation in a number of key areas to include cooperation on trilateral exercises, on maritime security-capacity building, on cyber-capacity building, and also on peacekeeping, so we're really doing a lot amongst those three countries to build trilateral cooperation which I think is important.

So, as I step back and look at the security side of the U.S./Australia relationship, I think we have to -- as strong as that relationship is, we need to press forward and continue to modernize the relationship, so I wanted to -- I think talking to you all today is an opportunity to say what does that really man in practice? What does it mean to say we're going to modernize the relationship? In my mind one of the key things we need to do is to continue to build on the hard-earned interoperability we've developed through what we've done together in Iraq and Afghanistan. Our militaries have operated incredibly closely together in those theaters. They've learned lessons together and coming out of those two wars, they really have emerged as a highly interoperable combat force, and we want to keep that going.

Our Force Posture initiatives in Australia give us I think a key opportunity to be able to maintain that interoperability and maintain that qualitative military advantage that has been so hard earned. Major exercises like Talisman, Saber, are going to be opportunities to keep those joint skills fresh and strengthen our mutual capacity to address future contingencies. It's important to really build on the interoperability we've developed rather than letting those skills fade over time, and by keeping that going we'll be able again to address I think any kind of future crisis that we might see.

Another area of a modernized alliance that I think will be very important is to continue to press forward in the areas of science and technology. Our cooperation there cuts across a number of rapidly evolving fields like electronic warfare, hypersonics, and a variety of initiatives in the cyber domain. For example, I think as many of you know, Australia has purchased a number of high-tech platforms from the United States such as the F-35, the EA-18G Growler, and the P-8A Poseidon aircraft. That kind of technological cooperation is going to ensure that we have a mutual ability to address the kinds of anti-access and area-denial threats that we see in that region.

Finally, looking forward I think we have a real opportunity to work together to improve the foundation of regional security in Asia. Australia has always played an important leadership role in that area, but I think this is a place where that leadership role can expand. For example, one forum where we see this already happening is the ASEAN Defense Minister's Meeting Plus. ASEAN countries, as I think some of you know, have formed a number of expert working groups along with partners to try to address important regional issues. In Australia there now is leading a counterterrorism-expert working group, and in the past year also led a maritime-security-expert working group. In leading those groups, those groups have been very helpful in building the capacity of partners in the region.

Ultimately though the true test of a modernized alliance is going to be the degree that we can work together to shape regional and global security, looking to all of

the challenges that we see in the overall security environment, and to do that it's going to require us to think strategically about our continued cooperation, and as part of our efforts to try to do that in the near term we're going to be comparing notes with our Australia counterparts in terms of how we see the strategic environment. We will be coming to that conversation with the defense strategy and plans that we laid out in our 2014 Quadrennial Defense Review, but we're looking forward to talking with Australia as you all go about developing your forthcoming defense white paper.

And just as a very tangible symbol of how close that relationship is, in my previous job when we were working on the QDR we actually have, on a permanent basis now, an embedded representative from the Australia MOD who is really just like another person on our staff in the Department of Defense, and we've had that kind of cooperation for the last few years, but I think it shows how really at the working level just how integrated our two countries are on the security side.

And finally, I'm looking forward to going to Australia in March to talk about all of these issues. It will be an opportunity to check in on the implementation of the Force Posture Agreement. We still have some work to do there. We'll be able to share views on strategic and regional issues and also perhaps a bit more soberly have the opportunity to compare notes about how our two countries are working through a period of greater physical austerity and what that will mean for our militaries going forward.

So, just to conclude I think it's fair to say that all of the conversations that you all had today I think point out that the U.S./Australia alliance isn't based on one single specific common thread. Again, as Director Nelson said, you can just think back to the fact that we've cooperated together over a century in every major conflict. Our alliance isn't a Cold War relic. It's not just about Afghanistan or Iraq, and nor is it about balancing China.

It's really about the shared values of our two nations which are much

more enduring than any one particular security threat. Our two great countries are committed to a rules-based international order and the peaceful resolution of disputes. We're striving to support international norms around the world including unimpeded commerce and freedom of navigation. Both of our countries stand for democracy and human rights. We faced security challenges together for 100 years and looking forward I'm sure that we'll see a whole range of new opportunities and new threats, and as I think about all that our two countries have done together and all that we're doing now to shape today's current events, I'm struck by again how closely and how well we work together, and because of that closeness I'm very confident that looking to the future we will be able to successfully adapt the alliance to whatever maybe thrown at us. So, thank you very much, and I welcome the opportunity to take a few questions. (Applause)

MR. NELSON: Thank you very much, Under Secretary Wormuth. I know you need to leave in just a few minutes. Otherwise I will have to go in the Witness Protection Program, so we'll just take one or two at the most questions, so James Brown, a very solid Australian. This is not a set up.

MR. BROWN: Thank you. I'm Secretary James Brown. I direct the Alliance 21 Program here at the U.S. Study Center, Mobile Headquarters, I guess, at Brookings. I think the question we're all dying to ask you is how it is that you had 1,100 Marines in Darwin, and we haven't seen a single newspaper article for over a year which is quite an achievement?

But can I just take advantage of the fact that you've recently come back from the Middle East and ask you ten years on from when our cooperation in that area really started whether you think the way we approach counterterrorism this time will be different? I guess in Australia we're thinking about whether we need to -- how are we going to approach possible insurgents of terrorism in Southeast Asia particularly? Do you think if we need to collaborate on counterterrorism more intensively in Asia that we'll do it with a different model this time?

MS. WORMUTH: Well, thank you. It's a great question. I think it's fair to say we have to maybe not necessarily look for a different model in as much as we need to add more to the model that we have. I think a lot of what we've done to date in terms of dealing with counterterrorism has been through the military lens, and we've ranged from having considerable focus on direct-action military responses using our special operations forces. Over time we've involved more of a mix between direct action and indirect action where we're trying to build security forces on the ground, but in my mind what we need to do more of to augment what we're already doing there is to really think about what are the things we need to be doing to getting to the roots of counterterrorism? What is it that is drawing literally 1,000 young men for the most case, but in some cases women, to movements like ISIL, and how do we get a handle on that?

So, I think what we need to be doing is deepening not just our military cooperation, not just the intelligence sharing that I think Foreign Minister Bishop was talking about, but doing even more to try to get after how do we counter the ideological message of some of these violent extremist groups?

But also in addition to trying to do more and to do more that's effective in terms of counter-messaging, we also I think again need to be stepping up our game in terms of countering the financing of all of these different groups, getting after their sources of revenue, so I think part of it is not so much shifting to a completely different model but really augmenting the military model that has had so much focus to having more that's about countering message about going after the economic side and also using obviously all of our diplomatic tools again which I think again is trying to get more to the issue of root causes.

MR. NELSON: We'll just take one more question, so this is prejudice I must admit. Boeing has been a stunning supporter of the Australian War Memorial (laughter) as has Lockheed Martin, so Stanley Roth.

MR. ROTH: I'd like to bring you back to the Asia-Pacific region. I think

one of the remarkable developments of last year, 2014, was the Chinese push starting with President Xi for Asia for Asians, clearly an effort to reduce if not eliminate the U.S. pre-eminent role in the region and I suspect Australian role as well, and I won't in the interest of time go through all the different components of the initiatives that China has taken. Do you think there is a need for a concerted U.S./Australia response to this, and if so, along what lines?

MS. WORMUTH: Well, I think (a) they're, as Foreign Minister Bishop I think also said, there's room -- this doesn't need to be a zero-sum game, and clearly President Xi has made a number of comments. I think that's why I emphasize that, for example, the U.S./Australia alliance is not a Cold War relic.

We have a role in the Pacific; a long-standing role, and it's one that I think we need to preserve. But I think we can work together with Australia and other allies and partners in the region to again deepen and expand the development of regional architectures to try to promote international norms and to really work to continue to bring China into that international system. I think we feel very competent that the fundamentals of our relationships in the region are very, very strong, and we don't see any potential for being pushed out of Asia, but I think -- and again, we don't see the relationship with China as a zero-sum game. There are going to be elements of our relationship with China that are more competitive, but there are also many areas of cooperation with China, and I think it's fair to say we had a very positive dialogue with China, for example, about the recent cyber-attacks on Sony, so there are any -- we had very positive discussions with the Chinese about responding to the Ebola outbreak in West Africa, so there are a number of areas where we have a very positive relationship with China, and I think there's room for many countries in the Asian region.

Thank you so much. Thank you very much for the opportunity.

(Applause)

MR. NELSON: Thank you very much, Under Secretary Wormuth, so we

appreciate that very much, and the alliance has always been about capability, intelligence sharing, interoperability and economic security, and we thank the Under Secretary for setting out very clearly how the alliance will be used to face new emerging challenges, not the least of which resurgent totalitarianism in the form of Islamic extremism and using the alliance to reach the multilateral architecture within our region. So, at that point I think we're able to have a tea break. Is that right, Robert? Not that you look as if you need one (laughter), so we'll have a tea break, and then we will return to hear Wes speak to us from Northrup. Thank you.

MR. INDYK: Events such as this that focus on matters of peace and security. The acknowledgment of the important role of business is overlooked. We are different. We recognize how important business is as a player in relation to these issues, and we're thrilled to have with us today a particularly important player, and that's Northrop Grumman, and in particular the chairman, chief executive officer, and president of Northrop Grumman Corporation, Wes Bush.

You have a lady from down south. Can you please be quiet? (Laughter) Just a visitor to Washington, D.C., doesn't know the protocol.

Wes Bush has a most impressive CV. You have his bio in your papers. He's been in at least three roles at Northrop Grumman, culminating as the chairman in 2011, and held previous senior roles with Northrop Grumman in the space technology area. He seemed to have come to the company through another company, TW, where he served as president and chief executive officer of the UK-based Global Aeronautical Systems. His background is in that area. And I learned yesterday that he in fact worked for a year in Australia in or around Alice Springs.

Because you're in this field, you know what happens in this area in and around Alice Springs (laughter) that we don't talk about, but we are always pleased to have Americans in Alice Springs experiencing a little bit of the Australian culture. For those of you who have lived in Alice Springs, you know what I mean. It's a unique

environment.

Wes was educated at MIT and at UCLA.

And, of course, Northrop Grumman, you know, is one of the major defense industry companies in the world and obviously particularly here in the United States and is an important partner of Australia in providing and supporting defense capabilities is something that should please him.

Northrop Grumman provided the radar for our airborne early warning and control aircraft, which we call Wedgetail. This is state-of-the-art technology. And, in fact, this radar, which is affixed to the top of Boeing aircraft, was so advanced that it was said to be beyond the boundaries of physics. And I thought that was some hugely demanding defense official in Australia that set the parameters for that contract but was told yesterday that Northrop Grumman said it for itself and then realized it was impossible. But somehow or other they did the job, and the important part of this story is that the first of those aircraft is now operating over Iraq providing situation awareness for our fighter aircraft that are bombing in our interest and in the interest of the United States and in the interest of people who believe in peace and freedom. And I spoke to our Chief of the Air Force only a week or two ago, and he said it was doing a marvelous job.

Australia has never had that capability, so it shows how important Northrop Grumman is as a partner to us. Northrop Grumman is now investing more in Australia, and we're pleased about that and we look forward to a long and useful collaboration, "we" being Australia and the company Northrop Grumman.

So, as Wes comes to the dais, I have to read something. It says, "We are pleased to have Mr. Bush here to speak today. And in the interest of full disclosure and transparency, we acknowledge that Northrop Grumman is a donor to the Brookings Institution." I think it's a good thing that you're a donor to the Brookings Institution.

Mr. Wes Bush.

MR. BUSH: Thank you very much. Yes, I was a little concerned where

that statement was going, but I was glad to see how it came out there at the end.

Well, I really appreciate the opportunity to be here today and particularly the opportunity to follow such tremendous speakers and individuals who have clearly dedicated so much of their careers and their lives to public service -- both Foreign Minister Bishop and Undersecretary Wormuth. It was for me, sitting here listening to them, an opportunity to learn, myself, about a number of dimensions of the relationship with Australia that are so incredibly important not only today but as we think about the future.

I was asked, as Robert said, to talk a little bit about the business side of the relationship. We often use the word “alliance” -- I know we call this Alliance 21 -- and we all have our own context for these things. But I often see the word “alliance” as sort of the relationships you feel like you need to have. In my perspective, with Australia it’s more of a friendship. This is the type of relationship you want to have, and for a long time, I’ve had the opportunity to understand that relationship and to be a part of it.

As Robert mentioned, my first exposure to Australia actually the very first year that I was married. My wife and I moved to that part of the country -- lovely part of the country. I actually love it. I was a young engineer, and my wife Natalie was a young nurse working for the government of the Northern Territory actually. So, we had just a wonderful experience. But we really became advocates of this relationship between our two countries, and for us that coordinate system of friendship is the way that we think about that relationship with Australia.

Now, like most friendships, the relationship between Australia and the U.S. really does encompass a very broad spectrum of interest. And defense, of course, has been an area of incredibly close cooperation between our two countries for many, many decades, and the defense relationship continues to be important and I think will only continue to grow in importance.

But it is also a fundamental underpinning of other aspects of the

relationship: trade, investment. All of those things go to that deep connection between economic security and national security. But as has been said earlier -- I thought Lyndon did a great job of really laying it out -- the friendship between our countries rests on a more fundamental basis of shared values, shared experiences, shared commitments.

As I've had the opportunity to interact with other business leaders and of course government leaders in Australia, I've had a chance to see how this relationship has grown and how it continues to mature. And one of the things that I think is an underpinning of that is actually much of what is happening in Australia itself. Australia is clearly a dynamic, fast-growing, and leading-edge economy driven by so many of the same things that are driving the economy here in the U.S.

From energy and resource production to advanced technology, our two countries provide each other with a vast array of opportunities for partnerships. And those partnerships extend, of course, between industries, between government and industry, but also between universities and other important enterprises that have to come together to shape the future that we all are working to create.

Now, those opportunities are the result, as I said, of all the things that we have in common, including a deep appreciation of education; as Foreign Minister Bishop said, the rule and power of law, freedom, and free market; and the dominant role of intellectual capital in our high-tech world.

Clearly, as we think about the future, I think it's important to put our finger on those common interests and make sure that we actually are using that common language to ensure that we're talking about the same things and that we have a view that helps us continue to be aligned on it, and this type of forum I think is just the perfect opportunity for such a conversation, particularly because it's a forum where it's easy to bridge back and forth between the topics that serve to address both national and economic security of the free markets that we all work to make sure continue to go forward.

So, as I think about where we are and the foundation that we have, we clearly have had many years to build the foundation, but, more importantly, we need to be looking forward. That foundation is so important, and we can be glad for it, because the Pacific region is so central to the futures of both of our countries. And, it is a region that's under tremendous pressure at many different levels and on many different quarters.

I think it would be fair to ask how our economic relationship can be expected to cope with the growing security challenges that our national leaders see fit to address, especially in this time of tightening defense budgets in both countries. And I think one important answer to that question would be: The same way we've always done it -- by falling back on the one thing that has never let us down, and that is our collective commitment to a free-market economy that is driven by innovation and technological superiority.

If you turn the clock back, during the Cold War our commitment to a market-driven economy and technological superiority was how we managed to outcompete a command economy that was willing to defer the needs and desires of their people in the service of massive defense production -- essentially quite a neat combination, combining free-market economy with technology and innovation.

It was economic strength and technological superiority that allowed the world's free nations to create a solid defense deterrent while keeping defense expenditures within single-digit percentages of GNP.

Now, those of us in the defense industry like to hire single-digit percentages. (Laughter)

But, nevertheless, it was actually quite a neat trick if you compare what happened here to what happened in other countries that we were competing with. But also in the process of doing that, the scientific and technological advances that were made eventually translated into consumer value and improved standards of living for all

of our people. Quite a tremendous outcome. I think that same market perspective and commitment to technological superiority must now be applied to the challenges of our common interests in the Asian-Pacific Region and, quite frankly, around the globe.

The good news is that those challenges lend themselves nicely to the types of solutions that our partnership has successfully generated by working together for many, many years. An example of a challenge that we face together is the Pacific Ocean itself. As the Pacific Ocean becomes increasingly important -- it is the largest single geographic feature on the planet and one that has so many resources and represents, in many respects, both the avenues and the constraints to getting things done -- we have to understand what is happening. So, an important challenge is staying apprised of the developments on it, above it, and below its surface.

In years past, these demands of intelligence, surveillance, and reconnaissance might have been met by acquiring very large numbers of ships, manned aircraft, and legions of highly trained people. We can't afford to do that. Today, though, we can -- together -- satisfy much of these demands with far fewer platforms and far fewer people. Whether we are using unmanned, airborne, and underwater vehicles or satellites or advanced manned air capabilities, as Robert described a moment ago, technology is making this daunting challenge something that we can, together, reasonably address. And our commitment to technological superiority will be critical to solving any of the many cybersecurity challenges that are facing us that the previous two speakers both addressed.

In our increasingly knowledge-based economies, technological superiority will underpin the national and economic security strategy of both of our countries in the future just as it has in the past. So, if that's the case, then surely our alliance will be enhanced through deliberate cooperation in the development of these advanced technologies, development on both sides of the Pacific by industry in both countries contributing to the requirements in both the U.S. and in Australia.

So, I'll talk a little bit about how that's happening and some of the important criteria for success here. But let me start with an example. Australia's Defense, Science, and Technology Organization -- or the DSTO -- and several of the companies that comprise our collective defense industry have entered into strategic alliances and relationships that promise great advances -- advances in technological capabilities, in regional security, and in the economic health of an industry that must be allowed to remain economically healthy and vital. But let's keep in mind that as we create these things, the success or failure in achieving the promises of these types of relationships will depend on the policies of the governments that ultimately have control over them.

For example, in the U.S. one of the major barriers that we have faced over quite a few decades now have been the export and the import control roles that are often applied even to our closest friends, such as Australia. Now, I'm delighted that the U.S. government -- and particularly this administration -- has committed itself to rationalizing and updating these regulations. It's an example of the very pragmatic policy actions we have to take to enable the two countries to work together effectively, particularly when it comes to advanced technology.

Let me stress that the advantages of alliances between DSTO and the defense industry will spill over into Australia's economy and into the U.S. economy as well. In fact, they already are. In fact, they already are. Several American defense companies have already expanded their partnership and engagement with Australian suppliers, and that expansion continues. Many of those relationships were created through Australia's Defense Materiel Organisation -- or the DMO -- specifically, the DMO's Global Supply Chain Program. That program is showing tremendous progress. It focuses on developing opportunities for small and medium-sized enterprises to export their work internationally. This allows them to support global supply chains like those of some of the larger companies in the defense industry -- companies like Northrop

Grumman, Boeing, Lockheed Martin, and others. That DMO program is producing results that benefit the defense industries of both countries.

Some examples: Ferra of Brisbane is now doing machining work on the F-18 Hornet. Quickstep in Sydney is providing composites for the F-35 Joint Strike Fighter. And CEA of Canberra has provided advanced radar equipment for several major U.S. defense programs.

But more can and will be done to provide greater access for Australian firms seeking international opportunities. And from the perspective of the companies in the U.S., this provides an incredible capability in the supply chains and furthers our collective technological superiority.

Now, you might have guessed from my remarks that I am a big fan of technological superiority, which I believe lies at the heart of any cooperative effort to safeguard the Pacific region and the regions beyond. But there's another theme in play as well. In fact, this theme makes technological superiority possible. It's partnership. It's real partnership, the complicated kind of partnership that requires commitment at all levels -- commitment to the basics of research, to applied research, and to the actual development of products and the availability of those products.

Real partnerships have to address the government policy roadblocks that often hinder progress. So, we have to have the relationships built to openly and candidly address them -- government-to-government relationships; government-to-industry; industry-to-industry. But also at the center of many of these relationships, we also need to engage the great research universities in Australia and in the U.S.

Real partnerships have to be all inclusive and omnidirectional if they are to bear fruit in the arena of innovation, and because the heart and soul of technological superiority turns out to be intellectual capital, the partnership with educational institutions, I think, is among the most important of all of these.

The fundamental commitment of that type of partnership with education

must be the creation and delivery of world-class intellectual capital that is able to drive that technological superiority. And the challenge of staying ahead is getting tougher as technology expands around the globe. So, the old paradigms and patterns of coming together are really no longer sufficient.

Industry -- so I'll take this one on our side -- can no longer stand to simply be a financial partner with education. We're now seeking new methods and new models of partnership that are producing results that serve a broad range of interests from those of the students themselves to those of industry and to the objectives that are stated by the colleges and the universities.

The defense industry partners are working with colleges and universities to identify the needs of industry -- in other words, the highly technical jobs -- and to work with the universities to help shape curriculum and to help shape the research activities that will supply the graduates that we collectively need to satisfy those objectives.

As with any partnership, success in this endeavor is coming one step at a time; and so, for example, we're making, as a company, several important first steps to reach out and engage with the universities in Australia. And I'll give just some of those examples. And we're very public about them as, I would say, are our peers in industry, because we want these partnerships to be built not by just individual companies but by the groups of companies, and we think this is an area where we really need to be coming together.

We have a partnership with the University of Sydney wherein Northrop Grumman is partnering for research and development into small space satellites and unmanned and autonomous aerospace technologies. We're also working with the University of New South Wales and the Australian Defence Force Academy to pursue the development of sovereign cyber capabilities. At Dixon College, we support scholarships and grants in support of science and engineering, and we sponsor such events as the Outback UAV Challenge and the VEX Robotics Challenge.

We're trying to find ways and avenues across the spectrum of intersection to not only encourage young folks to go into the STEM fields but to actually align the educational curriculum and the development of the workforce with the needs that we have, not only in our industry but also in government, to ensure that we can sustain that technological superiority.

The efforts represent good starts but they are by no means where they need to be to really realize their potential. And, I might add, that potential extends to our common nonsecurity interests as well, such as the life sciences and other areas of fast-paced technological innovation. So, I'm a big believer in industry's role in effecting these partnerships, and what we seek are others who are as either to make them happen. More and better partnerships, I believe, are needed to ensure that we're going to be able to produce that technological superiority that our nations are going to need to ensure the aspirations of our common interests and our common humanity for prosperity, security, and stability.

I think our joint commitment to market-driven economies and that technological superiority really has never let us down so far; and as long as we can stay committed to it, as long as we cultivate it and value it as our foremost national security asset, the struggle to maintain peace, freedom, and the rule of law in the Pacific Hemisphere will be conducted on our terms, not the terms of those who would violate those principles.

But we have work to do to make sure we can really achieve that objective. Our current technological preeminence is not ours by tenure or birthright. It came to us through hard work and through commitment and partnerships at every conceivable level of government, industry, academia, and other important enterprise.

As in decades past, our preeminence must be cultivated, polished, fed, and argued for if it is to be there when we need it. We must never forget that the pace of technology is moving so fast that once lost, that technological preeminence might never

be recovered. There's an old test pilot saying that you've never been lost until you've been lost at Mach 5.

The pace of technology really is moving at that speed -- Mach 5 and beyond. And given the stakes, we cannot afford to get lost. The watch words are "vision," "effort," and "ceaseless persistence," but the key is our partnerships, as I say, between industry, government, academia, and others. The objectives are the synergies between our two nations: enhanced, economic, national, and global security and better lives for our peoples.

So, thanks again for the opportunity to join in this event today, which further evidences the partnership between our countries. I'm glad to a part of this very worthwhile undertaking, and I look forward to working with all of you to ensure its success as we move forward. Thank you.

MR. INDYK: Over there.

Thanks very much for that, Wes, that very useful -- and of course for us in our region there was a time where maintaining a technological edge wasn't so difficult. But that time was now some time ago.

MR. BUSH: Oh, yes.

MR. INDYK: It's changed very, very quickly. So, the partnership with the mass and the research and might of the U.S. and companies arising out of this culture is so important to us.

Now, questions. We've got reasonable time for questions. We've caught up time, so let's start with the one down here in the third row and then there's somebody in the second -- back row on the left.

QUESTIONER: Hello, my name is Lih. Thanks for your presentation. And your company and Defense Department are usually well known about their abuse and waste, and I just wonder if you are affiliated with some universities for technology. I just wonder if you are one totally contributed your dollar or your equipment to a university

or you bring or ask for more money to your company from university or government. What I mean is that the public (inaudible) or taxpayer's money. So, I just wonder if you would be able to promote with your money, with your company money, to promote the more question -- I mean the really more question -- I mean, people who got the power (inaudible) and your company have a puppet over the people.

MR. BUSH: Right. Who are you representing?

QUESTIONER: I'm representing the world citizens.

MR. BUSH: All right. (Laughter)

MR. INDYK: Got a question on behalf of the world citizens.

MR. BUSH: Let me give a little bit of a perspective that I think is important, particular because I think part of your question went to the relationships between companies and universities.

Oftentimes there is a perspective from the university side of things that perhaps it isn't the right thing to do to become involved with a company because companies, clearly, have a profit motive. Companies work on behalf of their shareholders, and might that somehow impede academic freedom or other aspects that are held severely in universities. And I think for some period of time that actually held some universities back in terms of their ability to work with companies.

We're seeing much more progressive thinking today across the globe, particularly here in the U.S. and, I would say, in Australia that the recognition is that we actually get to achieving our objectives more quickly, more efficiently by working together. And, yes, we have to be careful to protect academic freedoms, and I think every well-known university and every well-considered university has mechanisms in place to make sure that that happens. But we do make more progress in working together. We always do, and particularly where that progress is focused on areas that are so important around the globe, areas that are driving our ability to be secure.

You know, the university environment, I think, is probably -- if we think

about where that stands today, it is a hotbed of innovation, and it's that way because of the relationships that universities have been creating, sort of busting out of perhaps some of the long-held constraints they impose for themselves -- the relationships that they're creating more broadly with government, and the relationships that they're creating more broadly with industry.

So, as we go forward I hope to see that continue to grow. I think it serves all of us very well both from our national security perspectives as well as our economic security.

MR. INDYK: Australia, I think, (inaudible) being slow learners in that regard, universities are overwhelmingly public institutions whereas they've always been prepared to take their nations -- for a long time they were uncomfortable with the idea of culprits investing in the institutions for corporate interest. But the reality is that you need to build -- for a good university you need to build a resource base, and they really can't afford not to now and those that have learned from the experience have realized that the benefits have far outweighed any doubt, so.

MR. BUSH: Let me also add, though, that I think it is incumbent on companies that engage with universities to bring to that partnership more than a view of what is going to benefit the company. So, as an example -- now, when we partner with universities to focus on workforce development, we know that we're not going to get all of the graduates that come out of those programs. We're doing it from a broader view that that is what is necessary to enable the outcomes that are needed to support the broader side of objectives. Will we attempt to hire as many of those attractive graduates as we can? Absolutely we will. But we go into it not doing a piece of math on specific return on investment. Responsible companies approach it from a broader view that this is actually a part of the role that we play in the broader ecosystem of innovation. And I think it can be very, very productive for both universities and for industry.

MR. INDYK: Yup, I agree. Question at the back.

MS. SHALAL: Good morning, Andrea Shalal with Reuters. Wes, you've spoken in the past about these export control restrictions, particular with concern about the export of unmanned vehicles.

MR. BUSH: Yes.

MS. SHALAL: I meant, area vehicles. Can you give us an update on where you think that conversation has evolved to and whether you think that the U.S. government is starting to see your point of view on that?

MR. BUSH: Yes, you know, it has been an interesting evolution over the last five years and, Andrea, I know you've been following this very closely. If you turn the clock back, you know, to about five years ago, it was almost an impossible conversation -- the notion that we would be exporting not only some of our unmanned vehicle capability but some of our truly autonomous vehicle capability. The recognition, I think, has grown quite rapidly -- and I have to give the leadership of the Department of Defense credit for this -- the recognition has grown that if we are not the ones who are going to be exporting it and working with our allies on the future development of that, that technology is already going to happen whether we're engaged in it or not. So, there are many countries around the world that are working on this technology. And we're far better to be in a place where we are working collaboratively with our allies to realize the benefit of those technologies for the alliances than to simply stand back, put a wall around it, and say to everyone else go see what you can do on your own. So, there's been a lot of progress on this.

Now, are we all the way through that yet? No, not quite yet. I would say we have great progress at DoD. There is an awakening within the State Department that this is probably the right vector. But, as you know, there are many parts of the approval process. We've had some very, very good outcomes. Australia's interest and the great support of that interest in large unmanned systems -- the TRIDENT program, as an example, is one where there's been great support. Clearly, the announcements in both Japan and Korea over the last couple of years and their interest in those similar platforms

-- great support for that. So, I do see a lot of progress. I think we still have some work to do in front of us. But it's on the right vector. I feel a lot better about it now that I did just a few years ago.

MR. INDYK: It's still difficult for Australian defense -- specialist defense industry to sell into the United States.

MR. BUSH: Mm-hmm.

MR. INDYK: The rules have been improved, but they're still very difficult. I actually produced the best ship in the world. But you can't sell it to the Americans. (Laughter) Unless, of course, I build a shipyard in the U.S. first.

Question, back on the left.

A couple of other examples. Heard yours. Nulka is another one that has gone well.

MR. BUSH: Yes. Yes.

MR. INDYK: But that has American investment in the decoy system that's on American ships.

MR. BUSH: Yes, it's gone well.

MR. INDYK: It came out of DSTO originally.

MR. BUSH: Right. Very good example of the success.

MR. INDYK: (Inaudible), small engineering companies also contributing to the JSF project.

Question.

MR. HERSHEY: Yes, I want to change the subject just slightly. Lauren Hershey. I was a guest scholar here from the Antitrust Division back in the 1980s, and we met in the back, Wes, a few minutes -- or a couple of hours ago now. This is really for both of you if you can respond.

In the United States there's a lot of discussion about the needs of the education system, and one of those topics that came up was in the State of the Union

speech last night related to the idea of 14 years of education, including community college. I wonder if Northorp has a position on this. This is the American workforce. I wonder if at all in Australia, sir, given your responsibilities over the last couple of decades, you already solved the problem and maybe could give some guidance to the United States. I don't know the merits. I'm not taking sides. I'm not an advocate. This is a citizen-of-the-United-States kind of question.

Also I'm kind of curious as to the number of jobs that exist here in the United States under Northrop and how many of your jobs or employees are overseas, if you know the numbers. Thank you.

MR. BUSH: Let me touch on the higher education piece of it for just a moment, and I have a particular interest in this. I've been a member of the Business Higher Education Forum for many years and chaired it just a couple of years ago, and that question has been right at the center of much of the debate.

And we all clearly see a great role and a great need for having extraordinarily good research universities and many tiers within our higher education system, and I think both here in the U.S. and in Australia that's well supported. What we also see as we increasingly move into an advanced manufacturing economy -- which I think is right in front of us here in the U.S. and I think can also be at the doorstep in Australia -- we see a great need for individuals who don't necessarily have a four-year education but perhaps have the benefit of a two-year education and learning the skills that go with programming, the skills that go with a two-year form of education with mathematics to enable that next step in our economy in advanced manufacturing.

So, there's a lot of energy going into -- and I know the President made reference to some of this as well -- a lot of energy going into thinking about what the two-year schools should look like, what the community college program should look like and how that might better prepare a new workforce to step up to this emerging set of opportunities.

As a company, we're very supportive of that. We have quite a few relationships, of course, with four-year and more universities and higher education. But we're also developing the relationships with the community colleges and attempting to focus the energy there around the development of that workforce that's going to be so vital to the advanced manufacturing economy.

And, oh, by the way, those are extraordinarily good jobs. Starting salaries in those jobs can be in the $60,000-70,000 range. So, when you look around the U.S. today, actually, there are a very large number of openings in those positions, and there's not a supply of the talent to fill them. So, we're all, I think, well-motivated to think about how to get the educational process and invest (inaudible) to support those needs as we go forward.

In terms of the -- you asked a specific question about Northrop Grumman. We're this year -- look back at 2014 -- right around 87 percent domestic, right around 13 percent international.

MR. INDYK: Some of them in Australia now.

MR. BUSH: Quite a few in Australia actually.

MR. INDYK: We won't count that. That's -- Brendan? Well, Brendan (inaudible). Let's say that I think we went through a phase where we forgot the importance of trade schools and technical education. Every community college had to become a university, and so in recent years we've suffered a shortage of those schools.

MR. BUSH: Yes.

MR. INDYK: And have had to (inaudible) in the area.

MR. BUSH: No, we have this problem.

MR. INDYK: I think we're slowly learning now that we need to be more flexible.

MR. BUSH: Yes.

MR. INDYK: And technical jobs are important jobs, good jobs, and well-

paying jobs.

MR. BUSH: They are. They are.

MR. INDYK: Brendan, (inaudible)

MR. NELSON: Robert -- global citizen, too, and I thank you for the representation I've had today.

I'm also a former science minister and former education minister, and just a couple of things. You mentioned in your speech, which was extremely good, that you're open to, as I understand it, the idea of not just Northrop Grumman but other defense companies in the industry making a collective commitment to the area of education. In this context, you're talking about universities. So, am I right in thinking, for example, you could have Northrop, Boeing, Lockheed, Raytheon, BAE, Telis, and so on pooling.

MR. BUSH: Yes.

MR. NELSON: Now, if that happened, that would be extraordinarily good.

MR. BUSH: Fabulous.

MR. NELSON: The problem that we've certainly experienced -- and Robert alluded to one of them -- is that we created a culture in which young people felt that their lives were valued by their educational choices. If they didn't have a college education, they were of lesser value to their families and country and so on, and we've made some adjustments in that regard.

But the problem that we've had is teachers -- the quality of teacher training; the ability, let alone everything else, for teachers to inspire students at senior, primary, and in, certainly, secondary school, to pursue continuing education in sciences. Would you, for example, be open to, along with your peer companies, the idea of developing those sorts of (inaudible), which are founded on inspirational teaching? The community model to which we were just referring, in fact while it traditionally is applied in

the liberal arts context, could easily, I think, at least in Australia, be adapted for the purpose that your industry needs for applied manufacturing.

MR. BUSH: Yes, Brendan, I think that is just a brilliant remark and actually one that has action behind it already. If you look at what many of the defense companies are doing today -- and I would say, more broadly, the aerospace companies are doing today -- over the last decade we have shifted our focus in K-12 from largely a classroom focus to a teacher focus. And the idea is exactly as you described it, creating inspiration in the classroom through the teacher, because that's where, you know, for those of us that I can recall back through K-12, we all had someone who sparked us. And creating that type of an environment where teachers feel that they are both valued and given the resources that they need and also given the experiences that they need -- and by that I mean many of the science and mathematics teachers -- if you survey teachers over the course of their career, after they have been teaching, and particularly in K-12, for about five to seven years, they often began to lose a feel of connection to their discipline, whether it's mathematics or science. So, many of the aerospace companies have programs where we bring those teachers into our facilities over the course of the summer, and they work as mathematicians and scientists and bring that experience back into the classroom.

We also sponsor a number of programs where we select high-performing math and science teachers and expose them to different experiences. We had a program that we ran for many years called the weightless flights of discovery where we took high school science teachers and I trained them how to do something in zero gravity, and I had them work with their classrooms in developing an experiment that they would conduct in zero gravity. And we put them on one of these flights that flew (inaudible) and they would be floating around in the inside of the aircraft, conducting their experiment. We would film it, bring it back into the classroom.

So, I very much resonate with what you're saying, that the focus on

teachers really is the point of leverage and the opportunity for us. So, yes to collaboration with the companies, and we're doing it actually today, and I think we could be more effective in doing it in the work that we have underway in Australia. And, yes, to the focus on teachers. I think all of those are homeruns.

MR. INDYK: Question, middle of the room on the right-hand side.

QUESTIONER: Thank you. Joe (inaudible) from the *Whittaker*. I just want to touch on some of the points you talked about on technological superiority earlier on.

Defense has done a huge amount in recent years experimenting with new technologies and concepts of operation and how to employ them. But there are some even more radical technologies out there that both yours and a lot of other large and small companies have been developing, and I'm talking about exo-skeletons, UUVs, autonomous land vehicles, virtual reality.

MR. BUSH: Mm-hmm.

QUESTIONER: The military can be a conservative organization at times. I think there's a growing recognition within defense circles, both in think tanks and within the Pentagon, of the importance of experimentation and prototyping, and simultaneously there's a lot of looking to industry to lead the way into innovation. A lot of things I hear often are, you know: We used to do this very well, but now we're being beaten by Apple (inaudible), and we need to look to them and Silicon Valley to look for innovation. I was wondering if you could comment on that statement a moment and how large defense companies who are innovating and welcoming new ideas can help to develop the concept of operation and the ways to employ these technologies as we kind of transition to a new form of warfare.

MR. BUSH: I think it is a really important question and one that goes to the heart of actually much of the interest faction that we see within the Department of Defense today with respect to how to take the innovation that's already happening and

more quickly convert it into products and capabilities that are fielded.

Again, this is a pendulum that swings back and forth, and having been in the industry now for quite a while, I've seen it moving in both directions. We have to get back to a place where there is incentive for more risk-taking in our collective customer community. And that's difficult, particularly in times of greater austerity, because the downside of something not working is felt more greatly.

But I have to give Frank Kendall, the Undersecretary for Acquisition Technology and Logistics in the Pentagon, a lot of credit for this. Frank has personally taken on the agenda of driving innovation.

And to one of the points you made, yes, there is a role for reaching out to the technologies that are popping up in a commercial space. But there is also a role for proprietary defense technology that is, in most cases, actually a bit more advanced and we're able to manage in a way where we keep the technological superiority for ourselves. The analogy I use is that if the technology is available to everyone, it's kind of hard to be superior. So, we need to be in a place where we are actually still ahead, and that requires more innovative capacity to not only develop things in the lab but actually get them out there and test them.

Unfortunately -- in this forum I can't name them, but I could name for you in the right forum -- every single one of the services is doing this now. They're doing it in different ways, but they are taking this initiative to go and try things more quickly and where things are working turn that into product. So, I'm seeing energy in this direction.

But, ultimately, we have to give back to the acquisition agencies the authority to fail. You have to be able to fail if you're going to take advantage of innovation, and we've got to get the pendulum reset on that one.

MR. INDYK: Time for the last question.

Of course the flip side is that a lot of defense technologies have actually contributed to commercial successes as they've been released.

MR. BUSH: Oh, yes.

MR. INDYK: Think of things like lasers and so forth that I have started in a defense lab but now have huge commercial applications in many ways.

Yes?

And, by the way, if you want to collaborate in advanced manufacturing in Australia, we'll have a talk with you after.

QUESTIONER: All right, good. (Laughter)

MR. WINTERS: Another citizen here, Steve Winters. I wonder --

MR. INDYK: We like citizens and things (inaudible).

MR. WINTERS: I've heard (inaudible) Mr. Kendall that you mentioned, and he pointed out the fact that over, let's say, the last two decades the number of independent defense contractors in the U.S. has gone down radically from maybe several dozen to maybe five, you know, six or seven. What is the impact of that, because it would seem that the risk of either you get too big to fail the type of thing. How do you view that consolidation into a small number of contractors such as Lockheed Martin?

MR. BUSH: Yes, I think in any industry there's a natural life cycle to the structure of an industry, and as you mature in terms of your capabilities, consolidations make sense, because what it allows you to do fundamentally -- if you look at companies such as ours, we're able to manage our cost structure much more efficiently and thereby set aside more capacity for research and development. And that's exactly what we've done in this defense downturn and, like all of the companies in our space, we've had to reduce our headcount and we've had to reduce our footprint.

But one thing that we did through the downturn was we maintained R&D, and I think it is a reflection of a wholesome understanding of what our mission is as an enterprise. So, I think there are great advantages to that.

You know, I look at the scale of a company like Northrop Grumman. We have about 65,000 employees. Almost half of those employees are degreed scientists,

engineers, mathematicians, and technologists of one form or another. The benefit you get in having that scale of capability that comes together and innovates is incredible.

So, I'm actually excited about what we have in our industry today, not just in our company I'll admit. You know, other companies in our industry are doing exciting things like this as well. So, there's a great vibrancy in the R&D part of the defense industry today. We just can't expose all of it.

MR. INDYK: Roughly what percentage would be your R&D budget?

MR. BUSH: Again, we generally don't disclose that fully. (Laughter) Yes.

MR. INDYK: Well, I'll put the question differently. With the large American defense companies, roughly what percentage?

MR. BUSH: If you count --

MR. INDYK: I'm just (inaudible) interested.

MR. BUSH: And I think you should.

If you count what our customers are investing in us for development, it's generally 30 to 40 percent of our revenues go in that direction, which is phenomenal.

MR. INDYK: The trouble in Australia is we tended to rely on government to pay for that, and it's now a problem because government's not paying for it.

MR. BUSH: Well, there is clearly a role for government. But I think there is also a role, as I mentioned earlier -- and I should make this remark very specifically -- I am excited about the pace of technology development I see in Australia.

MR. INDYK: Yes.

MR. BUSH: You know, when I had the opportunity to get out and see what's going on in the universities, see what's going on in many of the companies that have been launched in Australia, there are some fabulous advanced technology developments underway in the country. And that's why I'm so excited about the partnership. I really see that the coming together of those capabilities is going to provide

some great results.

MR. INDYK: That seems a good note on which to end this session.

MR. BUSH: All right.

MR. INDYK: Thank you very much.

MR. BUSH: Thank you.

(Applause)

MR. FLAKE: Pert USAsia Centre is a junior sibling to the U.S. Study Center and we're honored this year to be in support of and participating in the Alliance 21 Project and we look forward to working closely with the U.S. Study Center going forward in the future directions of that project. The Pert USAsia Centre was established just a couple of years. It really set up shop just this last year and as you might imagine from our name, we're located in Pert, Australia in the far west coast of Australia with the unique kind of perch and look up into the Asia-Pacific region.

The underlying philosophy behind the creation of this Centre is that you really cannot understand Australia's vibrant and the complex relationship with Asia without understanding the U.S.-Australia Alliance that underpin so much of that. Not just the security alliance but the standards and norms behind everything, behind trade and freedom of movement, etcetera. And, likewise, it's difficult to understand the U.S.-Australia Alliance relationship without understanding the Asia-Pacific.

I think you'll note that from our many excellence panels and speakers today a good chunk of the discussion focused on where the rubber of the Alliance meets the road in the Asia-Pacific. And so it's wonderful for us to have a chance at the U.S. Asians that are to work with our college, the U.S. Study Center, to kind of look at that strategic triangle between Australia, United States and the issues in the Asia-Pacific, which are shared interests for both of us.

We have a part of the concluding panel of this excellence day's

conference four absolutely spectacular speakers to help us kind of put the alliance relationship in a context. I think the conference thus for and the Alliance 21 Project over the last several years has done a tremendous job of helping us understand that the U.S.-Australia Alliance is not limited to just security issues. And, again, our discussion through the course of today focusing on trade issues, on broader cooperation, not just in the Asia-Pacific but globally really shows how broad and how deep the U.S.-Australia relationship is.

This final panel, however, is a chance for us to kind of draw back and focus really on defense relationships between Australia and the United States, to go a little bit deeper into those defense relationships and to look specifically at how the rubber meets the road. And so if you looked at the title of the panel, it's *Challenges and Opportunities for U.S.-Australia Defense Ties in the Asia-Pacific*. And as I mentioned we've got four wonderful panelists that are going to help us think through some of the issues that are before us today. You have their bios so I won't go into the great depth that would be required. We've got a short panel and I want to make sure that we give as much time to them to share their views and for you to ask questions.

But if I can just go down and let you know who we've got here with us. We have Lieutenant General Wallace "Chip" Gregson, retired from the U.S. Marine Corps, former Assistant Secretary of Defense for Asia and the Pacific and also has tremendous long experience living and working in the region. We have Lieutenant General Peter Leahy, retired from the Australia Army, former Chief of Army, currently Director of National Security Institute at University of Canberra.

We have Mr. Ben Fitzgerald, Senior Fellow and Director, Technology and National Security Program at the Center for New American Security and the winner of the best beard competition. (Laughter)

GENERAL LEAHY: It's clearly the hardest.

MR. FITZGERALD: It's not much competition up here.

MR. FLAKE: Not much, not much.

MR. FITZGERALD: Also, surprisedly, I'm not a retired three-star general. (Laughter)

MR. FLAKE: And then finally we have Robert Hill who has really been the Director for the last years of this Alliance 21 Project, remains as a Senior Advisor to it and needs no introduction here, a Former Minister of Defense in Australia.

And, as I've heard in several previous venues, one of many X's as we go on with the process as we go forward but I think you'd agree that we've got a tremendous group. I will start off with some kind of initial questions to help set the context of the discussion and then we'll reserve as much time as possible at the end for questions and answers from you, the audience, and from other previous panelists as we go forward.

I'll start off, if I could, with General Gregson. I had an opportunity in my 23 years in Washington, D.C. to have interacted with General Gregson in many different iterations, from his time in Japan to his time working in Korean issues, when he was in the Pentagon to his current iteration, what he's doing right now in his time as Secretary of Defense. And it's very few people that have the breadth of experience that you have actually in the region and at the same time back here in Washington working on the broader strategic policies. And so I was hoping you would help us think through the strategic challenges for Australia and the U.S. in the Asia-Pacific region and, perhaps, particularly, maybe touch on the question of interoperability.

As someone, myself, who spent a long time focusing on the U.S.-Korean Alliance and the U.S.-Japan Alliance, the last year has been a very sharp learning curve for me because on a level of quality and a level of interoperability and the level of intimacy between the U.S. and Australia by orders of magnitude more than I had been familiar with. You've been responsible for and involved in helping set the process to kind of move that interoperability forward. I'd like your views on, again, the region and the U.S.-Australia relationship there.

GENERAL GREGSON: Thank you Gordon. I feel like I should apologize for my accent. It occurs to me I'm the only person up here without a record of ever having a residence in Australia. (Laughter) But, you'll have to excuse my Americanisms, Peter.

GENERAL LEAHY: I speak American. (Laughter)

GENERAL GREGSON: Let me list a few challenges and then a few opportunities and imbedded in the opportunities heavily will be the interoperability. One challenge is the war on terror has become the obsession of the 21st century right now. It's a valid challenge. It's right that we counter it. It's right that we devote some time to it because it's something that, obviously, is very dangerous, has to be managed but we can't allow it to rob too much intellectual policy and fiscal energy and resources away from the interstate competition and the development of alliance policy and strategy in that context.

Another obstacle is a lack of clarity about U.S. objectives and strategy. If you do a mapping of speeches of senior officials you see the inconsistencies in the objectives listed by officials as they talk about our objectives in Asia. We had a declaration of respect for China's core interest in 2009. We termed them a major security threat in 2012 and, of course, there's a persisting confusion about whatever this new great power relationship is or isn't. It's complex. This is the first time in a modern era that a leading economic partner of many nations, including the U.S., is also a source of serious security concerns.

To clarify U.S.-China policy is that we support the rise and the reintegration of China into the existing international system. We sponsored or we advocated for their accession to the WTO; that's not exactly perceived as a hostile act but also we have to be clear about what we're facing. There's a perception in the region that the U.S. has not learned to speak out loud about concerns. We may be being taken advantage of on visits of three separate and different Secretaries of Defense to Beijing.

China used the occasion to roll out a new stealth aircraft every time that we were there for a visit. And when our Vice President was on his way to Beijing through Tokyo, the Chinese used that occasion to declare the new East China Sea Air Defense identification zone and with attendant difficulties.

U.S. has got a declining defense is another challenge and there's a lack of follow through on the pivot or the rebalance. There are military things going on. Deputy Secretary of Defense, Robert Work, has been very eloquent and public and on the record speeches about what we're doing on the security and on the military side but things like the transpacific partnership and other initiatives must accompany the military activities or else we risk being perceived as militarizing our policy.

Opportunities. Japan is different. Japan is changing. New policy and strategy development. They're enhancing their military forces. There's new emphasis on policy initiatives with U.S. and other Asia partners, particularly Australia. And it's the first time that Japan has been able to participate as an active partner in many things on the security side. We have the opportunity to achieve an integration of our military capabilities, not just coordination but integration.

The last speaker was talking eloquently about technology. We have the technology to have been able to do this. We can do it bilaterally and trilaterally, U.S.-Japan-Australia. We can make greater use of the wonderful joint combined training capability at the Townsville Field Training area. And by practicing and trying to integrate we will figure out the material solutions, the technological solutions.

Also figure out how to train commanders in the very difficult art of maneuvering integrated air-land-sea forces. The JCT Sea in Australia is one thing. If we can find a way to build a counterpart institution in Guam and in the Commonwealth in the Northern Mariana Islands, we achieve a tremendous capability. With that capability of integrating our operations when we need to, we can enhance both engagement and deterrents. We can achieve a widely distributed politically sustainable operationally

resilient presence around the Asia literal that counters the major technological development of pervasive surveillance coupled with weapons accurate a distance. By achieving a widely distributed presence we present no assailable mass target but with the integrated agile maneuver forces, covering again a wide area, we're able to achieve the defensive conditions that we want. And my vote is that these capabilities contribute both to peacetime engagement and capacity building with our partners in Asia and also contribute mightily to deterrents. Thank you.

MR. FLAKE: Well, thank very much. General Leahy, if we can turn to you. Looking at those same kind of challenges and opportunities and much of the strategic discussion we've had for this day, what are the next steps in terms of operationalizing in the relationship in, particularly, the defense relationship?

GENERAL LEAHY: Can I start talking about the benefits?

MR. FLAKE: Sure.

GENERAL LEAHY: And get to the challenges and opportunities. And I think from an Australia point of view the benefits are enormous, not only in the economic diplomatic fielders we've heard this morning but also in the defense field. And I would say that most of the benefits for Australia as well. It gives us a sense of confidence. It gives us access to a whole range of technologies and capabilities that we wouldn't have had and, therefore, makes Australia a safer, better and more prosperous place.

And as we've heard a number of speakers say it's a special relationship so I won't go into the common hopes, values, aspirations and things but it is something that is very special. But it's also something that requires constant monitoring and conferences like this are important ways of doing that.

Steady consideration and occasionally change and less occasionally repairs. And part of that is because of these enormous changes that are occurring and we're seeing the emergence of a new way of thinking, which is connecting the Indian and Pacific Oceans. And we're seeing the rebalance to Asia and I think we're still looking for

more of that.

But the first thing I'll stress in terms of the challenges and opportunities is geography in the Center for Strategic and Budgetary Assessments and Pollard Australia's energy graphic sweet spot. In their words we've moved from down under to top center in terms of geopolitical importance and we have to cope with that. And we have cope with the fact that our regular defense force is around 58,000. We've got a small annual defense expenditure and our exchange rate is going south at the moment compared to yours and that's banger if you're trying to have a holiday in America. (Laughter) But around about 33 or 35 billion U.S. dollars and, I'm an infantryman inside so I don't do sums, but it's something of that sort of order. It's also happening at a time of the pivot and concerns about China and from an infantryman's point of view we've heard a lot about China this morning. I won't bother you with much more of that but I will mention an angry Russia and a merging India, the global scourge of radical Islamists and what seems to be an inability to find an exit from the Middle East.

And so Australia finds itself not only with a view of both the Indian and the Pacific Oceans and, Gordon, you and I were talking yesterday about the different perspectives on defense depending on where you live in Australia. On the east coast, perhaps, more towards Asia, Southeast Asia, and the United States, over in Pert, I look towards the Indian Ocean and north toward Indonesia from there. But we need to be able to cope with all of those changes and as you've heard that has Australia operating further afield that we might've normally considered.

So in Afghanistan and Iraq the police force that went off to the Ukraine. And one of the reasons we can operate further afield is because of that alliance with the United States and the benefits are manifest. Military equipment for a start. We have access to the best military equipment in the world, in the Army's case of the purchase of the M-Y Tank. In the case of the Air Force, which is joint strike fighter and our ability to operate in Iraq at a substantial little is because of access to that equipment.

The ability to acquire logistics, spare parts, maintenance supplies, ammunition. Again, a special relationship brings that about. Access to training and doctrine and through something called -- I'll call it the AVCA but Australia-Britain-Canada and America. I think over here you probably call it America-Britain-Canada and Australia. But that's an inoperable ability form of great depth and magnitude that's really very important and it even includes the U.S. Marine Corps now.

Intelligence, we heard some of that this morning. Science and technology. We've heard about that and the ability to operate in these combined operations and do these big exercises at the high level are really important to us. And, some of the measures of interoperability, as some of you might know the -- who knows the marching tune of the first Marine Division? (Laughter) It's Waltzing Matilda, which is one of their national songs and I look at that as a real measure of interoperability. (Laughter) The Marines are marching to our tune. (Laughter)

I think there's also real benefits to the U.S. side. We do deliver modestly actual military capabilities. We do provide at a political level that flag on the table, which I know is important. Capable staff officers and not only are those deployed on operations but the deputy commander of the U.S. Army in the Pacific is an Australia two-star general. We've got the Deputy J3 of Specials Operation Command and various other places and it used to amaze me when I travelled around the world visiting, Australians would pop up from all sorts of strange places and say, good day, sir. What are you doing here? Well, we're very much integrated and I hope that our officers bring real capabilities. And also a critical analysis of tactics and techniques and procedures but also some of the strategies and a bit of a different look at targeting.

So I think Australia makes a professional contribution to the Alliance but the benefit does come our way. We're trying to do more and recent government announcements in terms of capabilities and hopefully some coming in our next White Paper are important but we're trying to improve that global reach, looking at the enabling

support and strategic reach, some new landing helicopter dock ships. Don't tell the Australian Navy but they look like aircraft carriers. C17 Aircraft, A2A refueling capabilities and, as I've mentioned, the joint strike fighter but there are challenges as there would be in any Alliance.

And the first one I'll mention is a challenge to Australia and it's self-reliance. And I think it's an issue and really ever since Nixon and the Guam doctrine where he said, okay, we'll help you but you've got to look after yourselves.

A fundamental tenant of the Australia White Paper since then has been this issue of self-reliance and generally saying is that we'll look after the defense of Australia without the support, especially combat support of allied forces, re: the United States. Well, to my mind self-reliance for Australia is a fantasy. Our defense force is now so closely intertwined with the U.S. combat, intelligence, logistics and intelligence systems, we really can't operate without U.S. support. That's a great advantage but I also think it's a sovereign risk and it's something that we need to be cautious of.

And I'll mention Malcolm Frazer, an ex-Prime Minister, who wrote in the national interests and I think Malcolm went too far on this but he said that Australia's strategic dependence on the United States has become dangerous to Australia's future. I thought he was wrong also in saying that America is a dangerous ally and that Australia has effectively ceded to America the ability to side when Australia goes to war.

Now he has taken it too far but it is a sovereign issue to Australia that we must be able somehow maintain the flexibility and independence to make some of those decisions and, perhaps, at some time say, well, no thank you, not this time. Maybe more troops to Iraq in the near future might be one of those sorts of decisions we could take. I'm not going to mention China so I'll move onto opportunities. I think the opportunities in the Asia-Pacific are manifest to both countries. Political, economic, diplomatic but military cooperation with regional states. We are in a sweet spot as far as geography is concerned, particularly, located to some of the world's busiest sea lines of

communications and very important strategic choke points.

And if you think back to the closing stages of the second World War, I look at Australia as in some ways operating as a support base or an aircraft carrier for the campaigns that the United States mounted from the island chain north towards Japan. And I think that's really one of the real opportunities Australia can provide that sort of access and we're seeing that in terms of the bases. The presence of the well-behaved Marines in the north ship that they've changed their tune since I knew Marines that closely.

But I think we need to temper that with the Australia consideration of its places, not bases, and I know it's in the semantic area, but this is about places, not bases, and Marines, I think, are well established and very welcome in the north. We've had the Osmond meetings and we've heard about them. They've talked about increased training and exercises for the United States Air Force and the Navy and potentially over in Western Australia.

Let me start to draw to a close to talk about some areas which are, I think, right for further development. Cyber, that's going to hurt us all and we really do need cooperation at the national level but we're going to need it at the industrial level. We're going to need it at the academic level so we need to bring a real community looking at the cyber threat together.

Space, we all know that space is important to us. I can't contemplate driving in my car with my wife navigating so we have to have global positioning systems, my times my marriage. So, but, if we don't have access to space we've lost a lot and we do know that space is a problem. It's full of junk and Australia has not only the advantage of geography in that we can see the junk when you can't watch it from up here but we've also got some very advanced electro-optics and technology that can track this stuff and let us know where it is and let us know what it's path around space is. We need to cooperate for that.

Terror. We've spoken about it but there must be more cooperation in terror, not only as the Under Secretary spoke about the military effect but also what are we are going to do about this ideology. And, it can be approached based by coalitions of countries.

Industry, I think, is a bit of a problem for Australia. We've got an approach that's military off the shelf, which I think is right. Much American equipment is fantastic but that's leaving out industries at home behind and the rift and we need to look at some program of involving them and including them in global supply chains.

Ballistic missile defense. This is not a conversation that we're comfortable having in Australia and I think we do need to become more comfortable, particularly, if we look at some of the U.S. combat systems that are going into our naval vessels. They will become an integral part of ballistic missile defense and what does that mean to our command and control and the way we operate these systems.

And has been mentioned a couple of times today the advantages of humanitarian and disaster relief operations. Those who recall the arrival of the Marines in Darwin might also recall that the Indonesian Foreign Minister, Marty Natalegawa, almost fell out of his tree and said this is a terrible thing but then within a day or two he'd realized that there were advantages and what he saw as the most important advantage was the ability to operate as humanitarian and disaster relief forces.

Asia is pretty much disaster central around about now. And I well remember going to both big disasters of the events in Pakistan, and the Philippines after the tsunami up there. Much of the new relationship and really growing relationship with Japan is because of our support after the earthquake and tsunami up there and the provision of military equipment. But humanitarian cooperation also brings military together at a professional level rather than at a combat level. And I think we need to be looking at that.

So, in summary, real benefits, some challenges, great opportunities and

something by way of an Alliance that makes Australia a better place.

MR. FLAKE: Thank you. Ben, I know that you've done a lot of work on new technologies and we just had a wonderful panel immediately prior to this with Wes Bush talking about the importance of that. I wonder if you would address the role of the U.S.-Australia Alliance in setting international standards and norms for the use of new technologies capabilities, particularly, in the Asia-Pacific.

MR. FITZGERALD: I'm very happy to do that and I think that I'll talk a little bit about capabilities, specifically, but I think all of that exists within the context that the two Generals have laid out, I think, quite perfectly.

So, for me, they are about opportunities and challenges associated with sort of arms racing the West dynasty and that's really a bi-product of increased strategic competition throughout the region. We often think about China when we're discussing this stuff but they're not the only act but clearly they're the largest and most capable. And I think it's important to distinguish two types of capability that we need to be thinking about.

One is existing military capability that has associated norms and behaviors in the international system but is new to the region or is reintroduced and I'm talking about aircraft carriers being operated by new countries. The very fashionable big decks that look a lot like aircraft carriers would never be used for that purpose, only ever going to be helicopters.

Submarines, cyber capability. We'll get into cyber in a minute but those kinds of capabilities, we know how they get used. If we're using them in the Atlantic we already know the rules of the road but we're seeing that as new actors are bringing them in, they're using them in different ways and intentionally trying to test the rules of the road. And sometimes that's very well thought out.

Witness China's decision to float large vessels through various island chains just to prove that they can; that's a smart message. But when we get into some of

these newer types of technologies, cyber unmanned systems, that becomes more problematic and I think there's a significant risk of miscalculation and inadvertent crisis generation almost. And a good example of that would be 12, 18 months ago, China flew, you may have seen this, but China flew a predator size unarmed UAV directly at the Senkaku Islands. Now, it didn't enter Japanese claimed air space. It peeled off but the Japanese nonetheless scrambled two manned F15's to intercept it. The Japanese responded by saying it's a matter of policy they would shoot any UAV's that entered their air space. The Chinese responded by saying that would be an act of war. We should probably figure out how we feel about those things prior to being on the precipices of a conflict. The odds of that actually seems fairly low but which is frustrating and we see same sorts of behavior in cyber and I think we're going to see it increasingly in space.

So given that that's occurring there's an opportunity here for both the United States and Australia. Now traditionally we would seek to manage the acquisition of new capability through traditional means so export controls, foreign military sales, choosing which nations are able to get access to technologies. Increasingly we're unable to do that either through China's homegrown industry and their increasing propensity to undertake their own foreign military sales or through the important of commercially available software, which we're definitely seeing in the cyber domain. It'll be increasingly important in terms of unmanned systems.

So if we can't control the environment or enforce the rules based systems through denial of access to the technology, we're going to have to do it through the use of our technology and the way in which we export technologies and we're going to have to lead by example.

And I would submit that if other nations in the Asia-Pacific region used UAV's in the way that United States has been using UAV's for the past 10 years, the United States would be quite upset about that. So we need to be very careful about this and we also need to be careful about either reasonable or unreasonable claims about

hypocrisy from newly powerful nations in the region.

So, ultimately, we're going to have to think about the strategic issues and the environment that what we want and then how to back that up through the very wise use of capability. Now as two of the most technically sophisticated militaries operating in the region there's a lot of opportunity for Australia and the United States to do that. The challenge associated with that opportunity, though, is going to be about capacity. Declining budgets but also increased interaction with a growing number of increasingly capable of the militaries.

So we're going to have to think about how we undertake that. There are lots of opportunities in terms of some of things that General Leahy talked about, concept development, exercises, exchanging offices, sharing staff offices, but increasingly I think that there's going to be opportunities around phase zero engagement and exercising around the use of technologies in pretty specific capability ways.

Familiar, I think, this is where I look at Australia's sort of burgeoning amphibious capability as especially interesting. In some way the rationale for which we acquired that capability and General Leahy was heavily involved in that, I think some of those circumstances have changed in the ensuing decade between when we decided to get it and when we actually got it. Nonetheless, it's an important capability set and I think that it will be helpful for us in the short term but also instructive for the future.

Talking to some of Chip's points about interoperability, it's going to be challenging for the United States and the Navy and the Marine Corps to figure out what level of interoperability do we want around amphibious capability and then how do we go about making that happen, technically, doctrinally and in terms of training. If we can't figure it out between the Australian defense force and the U.S. Marine Corps who, I think, have more in common than any two other fighting forces on the planet, we're going to have challenges but once we figure that out we can start to replicate that model.

In addition to figuring out those practical considerations about to

interoperate we need to think about how we're going to use our shared capability in the region. And this gets into slightly more strategic issues, like what's Australia's concept for regional security, how does that tie in with theatre campaigns plan on the PACOM side of things. And also how does that seek to reinforce the rules based system that we are all big fans of.

So we have an opportunity if we get this right to use amphibious capability to both demonstrate how a newly acquired big deck can be used in the region but we can also use that big deck to help project power in a phase zero helpful peacetime method. And, if we get that right, that's a template that we can start to think about for more contentious and more complex technologies and capabilities that we're going to have to address and I think that's going to be about unmanned systems. That's going to be about surveillance tied to strike at range, which we're seeing from an increasing array of actors. The potential for a common operating picture throughout the region, how we will negotiate that, what the value of that looks like and ballistic missile defense.

So I think that these types of eloquent solutions are technically possible. In the past it would've been nice to have. Increasingly it's going to be a must have. We haven't done it yet. I think that if we get it right, both of our nations are going to be in a much stronger position and we'll have a more stable region. If we get it wrong, we're going add to instability in the region and we really need to be careful about how we manage that and how we align our strategic objectives and our capability in a wise and sustainable fashion. That's it for me.

MR. FLAKE: Thank you. I appreciate that. Robert, if we can turn to you and kind of in summation. This has already been a very full panel in terms of issues and we've had a full day of issues on the table. Would you help us think through some of the policy requirements and policy implications of what we've heard thus far?

MR. HILL: So I'll try and I'll try and do it briefly, too, because a number of the things I would've said has already been said. A policy side is important. We've heard

Julie Bishop and the U.S. Under Secretary and their responsibility is policy. Responsibility of the warriors is to fight the war. We purchased those two ships. The first one commissioned a few weeks ago, the Canberra. The second is being finished now, largely because we believe that in any future serious stash we would be alongside the United States. It would be part of an expeditionary force. We needed the capacity to transport troops and equipment on a much larger scale than we'd be able to do in the past. And so we developed a project to obtain that capacity but we did have in mind that there would be so many secondary uses for those ships and you've mentioned the humanitarian one.

When we address the tsunami in Banda Aceh our largest ship was capable of taking equipment to that humanitarian mission. It was an aged American ship that simply couldn't carry the tons so a lot of the equipment we desired to take was left on the wharf in Darwin. That would no longer be the case with the capacity that we're buying. And we've done that more generally. I think of the latest mission we're involved in Iraq. I think it's probably maybe for the first time that we're able to basically move our force there and to operate our force relying a lot less on the United States, our principle partner, that we've ever had to do in the past.

You know, we've sent the fighters. Our own in-air transports that are the most modern in our air transport in a refueling aircraft in the world. There'd be an arrival when the U.S. gets its new version of the Boeing aircraft but, anyway, what we've got we developed as the first development of the basic Airbus 330 Model and it's now operating well and providing that capacity to take our fighters all the way across the world without having to land.

I mentioned earlier our capacity to support them from above. I remember when our defense minister used to go into Iraq during the war when I was Minister. We were talking to American AEW&C. It was nice to have them above telling us that the environment was relatively safe. Australia forces can now rely on their own

capabilities. And, then I think we've now got the second largest fleet of C17's in the world after the U.S., which I think is the best heavy transport. You're denying that?

GENERAL LEAHY: No, I'm just looking at the Air Force plate down there. Ken, is that right?

MR. LIEBERTHAL: (off mic)

MR. HILL: Second largest because we tend to have to deploy over long distances.

GENERAL LEAHY: Yes, just to get the purse. (Laughter)

MR. HILL: And, that's a great capacity for a small military like ours so we're being very conscious of seeking to keep up at the high end but I think the, oh my, I would humbly would say. I think the decisions that have been made in terms of acquisitions have been pretty sensible that's just now starting to show it. We ordered the warfare destroyers because we need something to protect the troops that are in those carriers. We have to bring out and protect against ballistic missiles so we've faced up to that responsibility. Anyway, I didn't want to talk about that.

What I wanted to say is I think probably we haven't said enough today on budgets. Peter did a bit. We invest a lot less per capita than the United States. Australia is growing prosperous on the United States investment in its defense as it's played out in the Asia-Pacific region. In fact, all countries in the Asia-Pacific region are now better off because of the U.S. investment in peace and security in the region since the Second World War although some of them tend to forget it.

But it's no good as policy makers just saying we recognize it, America, and thank you very much. The Americans are saying to us we expect you to invest more and I don't think that that's an unreasonable request. Particularly, it was not an unreasonable request when the U.S. was going through difficult economic times a few years ago and we are still prosperous. Pendulum has swung a bit. The new Australia government has committed to invest more in defense, which I would applaud. As things

are going right at the moment, it's going to become harder to pay for it so it will be another set of challenges.

But defense is expensive and most expect to get a free ride and I think we've got to face up to that reality. Part of that, Peter and I in Australia, are involved on a panel that's looking at internal reform of our defense organization aimed at efficiencies. We're calling it a first principle's, or the government called it a first principle's review. What is really essential? What are the priorities? What do you do? There is an ever greater demand on defense forces across the world now. There's a huge demand in Australia in the last decade has been in relation to illegal people movement. A huge part of our Navy has been taken up in task for which it was never designed or structured.

We've talked about humanitarian. When I was Defense Minister I sent the Australian Navy to the Southern Ocean to chase tooth fish pirates. They didn't much like going down there. The ships weren't built for it and the conditions are not good but what was the story? There was nobody else to go down there and chase the pirates. Mind you when they got to the pirates they chased them all the way across the Southern Ocean. They felt pretty good about it and so but so often now governments, when they're in a fix turn, to defense to help them out in roles for which defense was never structured or funded for and I think policy makers need to think a lot more about that.

There's now a lot more thought about forced posture. There wasn't much a decade ago when I was defense minister and I'm pleased to see that it's happening. I remember talking to the Americans about whether they'd be interested in facing forces in Australia and the answer to me was, no thanks, it's too far from the action.

So I'm still trying to work out what's changed in the last 10 years and the dynamics in the region. But sharing the load, we hope that we're useful for the Marines in providing a useful service for the Marines in Darwin that are working in our joint interests in the region. My attitude would be I'd have a similar view to U.S. ships if they

wish to be based on a free mantle. We've provided a lot of support for U.S. Air Force in providing target bases and so forth but I think we can do more and Australia should do more. If we're not paying as much as the U.S., at least, there are some other ways in which we can make up for that in being useful. There's been a bit of talk today about strategic policy and I'm pleased that we are talking about it because in the end you've got to make the right strategic decisions and there's not much point having the right tactics if they're not operating to the right strategies. And in relation to our region, the region is changing so rapidly. It's becoming so important, economically, but it is very complex and there's a whole new set of dynamics that weren't there even 10 years ago as states become more powerful and seek to assert themselves.

A few old grudges is starting to rise to the surface again. To have the right strategic policy in place to address these issues in advance is so important and requires time and investment. And the last area I'll mention is the -- with that I think the whole, what I call the regional security architecture in the region, is starting to be addressed but it's almost not pursuant to a plan. That's sort of ad hoc.

So the East Asia Summit came along. Well, for reasons it's not worth the time to go into now but it wasn't really for this purpose but it can now be useful in terms of a strategic dialogue at that high level. Also, mentioned today was the ASEAN Defense Ministers, the plus which involves us, you, Japan and China as a matter of interest as well as all the ASEAN countries that didn't exist a little while ago.

The new developments with Australia and Japan, the trilateral security dialogue. Defense Minister meetings with Japan and now what our Prime Minister has called, just don't get fully understood, an elevated Australia-Japan bilateral security and defense relationship. Some people are saying is this a new alliance? Well, if it's not a new alliance what exactly is it? Australia for the first time is looking at the possibility of buying Japanese defense equipment at the sharp end of submarines. And a few years ago Japan not only wouldn't sell us anything but they weren't allowed to.

MR. FLAKE: They weren't allowed to, that's right.

MR. HILL: That's changing so quickly but what's the -- has the right policy background being put in place pursuant to which ministers are now going to Japan and starting these dialogues?

So I won't go on but I think it is important to do our best from a policy perspective to understand the big picture and get the big picture decisions right in order that we can best equip and support our forces when they have to do the business on the ground.

MR. FLAKE: Well, thank you. If we've gotten nothing else from today we've got a name for a rock band, Tooth Fish Pirates. (Laughter)

Let me ask one kind of broad question for the entire panel before I open it up to the audience itself. Peter had talked about Australian no longer being down under but kind of being in a geographical sweet spot. I will confess that one of the areas where I've had a real shift in opinion in the last year is a year and a half ago in Washington, D.C. whenever somebody would mention the concept of the Indo-Pacific to me I would mock them. I thought it was a silly academic conceit. It made no sense to me.

But after a year of living in Pert on Australia's west coast there on the Indian Ocean and looking up, being in the same time zone as Singapore, Hong Kong and Beijing, the notion of the Indo-Pacific makes a lot of sense. It puts Australia at the focal point in the middle of that very important diagonal.

That said, it seems to me that if you think about the change in geography, that sweet spot, and if you think about the context that we've been discussing today and now for several years about the U.S. rebalance towards Asia, a lot of that is premise on the presumption that the U.S. needed to shift its priorities back towards the Asia-Pacific.

So it's everything from looking at the U.S. Navy from a fifty, fifty split

between Atlantic Pacific to a sixty, forty type of split. The question I would kind of ask the panel is, is there a need for a mini-rebalance in Australia?

So if you look at the changing security needs of Australia and presuming that the tooth fish pirates are not the primary threat, that the Southern Ocean is not the primary theater, that the Tashman Sea isn't the primary theater but that the Indian Ocean, the north, the west, Indo-Pacific is really the future of that, is there a need for Australia to kind of shift strategy, policy, budgets, interoperability to kind of match the U.S. rebalance? So I'll open up with that.

MR. HILL: Well, I think that I used to mark that expression as well but when Julie Bishop started using it I thought I'd better modify my language. (Laughter) But, of course, Julie comes from Pert and she realizes that (inaudible) is a lot closer to Pert than Sidney. So, you have a different geography.

But the subcontinent is very complicated and for years and years we've talked about how we're going to address all these issues around the Indian Ocean. But the dynamic economies has been in Asia and, therefore, we've kept being drawn back there.

Now that was our economic future but I think the Indian Sea and, particularly, under the new Prime Minister and that's now changing that dynamic very quickly and I see how President Obama's off to India. Australia's a major trade delegation in India now. The Modi visit to Australia was very successful. We're talking about a new strategic relationship with India that nobody has really thought through. Our Defense Minister now meets on a regular basis. We've done some exercises but it's never been easy but I think there'll be a much greater focus on India in the years ahead. That'll create issues in itself with China and if China doesn't like us working as a tri-lateral with Japan and the United States, we'd be even more unhappy if we're working with India as well.

In fact, there was quadro-lateral security dialogue established but how

did Prime Minister Rudd withdrew it from us because he thought it was upsetting to China. But I can sort of see us heading back in that direction in the years ahead and that will set our new set of dynamics.

MR. FLAKE: Peter?

GENERAL LEAHY: We heard mention a couple of times this morning of the rebalance and the force posture review in Australia. There has been a force posture review. I don't think much has come of it. There's a real sense of inertia in our bases in Australia and for those who don't know Australia all that well, the majority of the population is in the southeast corner and that's where the majority of our bases are and have been historically. For the Navy, Sidney, and if you ever think the Navy's moving out of Sidney, you just -- that's not going to happen.

But we do have half of the Navy, basically, in Sidney and the other half in Pert and so I think there's a balance there. Now the Army over a period of time has moved from the southeast to the north and the majority of the Army combat forces north of the Tropic of Capricorn, which is sort of Brisbane (inaudible) Darwin. It's a difficult area to operate it. It brings strategic advantages because it's an empty part of Australia up in the north and we went through, I think, a mantra in the '50s with immigration populate our parish. We need to essentially claim that part. It's a very difficult part because it's in the monsoonal belt and you can only train up there for really half of the year. It's very uncomfortable so the Marines are welcome to look at it. (Laughter)

I think one thing that's going to -- will exercise a four-structure pull is going to be the resources in the northwest of Australia. Enormous iron-ore deposits and that's where a lot of the LNG gas will come from as well and it's essentially fly in, fly out towns. It's a very small population. I'm not sure we need to have people on the ground claiming it. We need to have the strategic reach internally in Australia to be able to get there and look after it and respond to it.

So I think there's a lot of inertia in our basing but there will be some

adjustments around the edges, particularly, looking at the multiple of bases and we're headed towards fewer, larger super bases, which it's not only cost but also retention of soldiers and their ability to be able to have a family, keep them in the one area, wives employments and those social amenities sorts of things. Some changes not to be mostly shift to the northwest. Thank you.

MR. FITZGERALD: I'm mean the one thing that I would add from a capability perspective is if you think about Australia's strategic circumstance today and into the future and what we needed and if you removed two impossible things, our history and our culture, military culture, we would have a completely different defense force. It would make sense based on allocation, the size of our population, the size of our geography, the relatively high levels of capital and technology and smart people we have access to. We would go heavily unmanned, heavily air and sea and undersea but that's not the type of defense force we have.

So the question for me is who should we be in the 21st century and how do we develop that over time because we can't ignore our history and culture but I think the change that we're going through is sufficiently significant that we're going to have to make some of those changes. And I think that'll be a big challenge for us over the next 30 to 40 years.

MR. FLAKE: I'll just add one antidote on that, too, and during the search for MH370 it was quite jarring to kind of fly into Pert airport and see all these Chinese airplanes lined up there at the airport itself. And the notion of the Indo-Pacific really isn't just about the rise of India. The Chinese actually floated, I think, three or four vessels 1000 kilometers off the coast of Western Australia and kept them there for several months. So they're very much in the Indian Ocean in a very serious way right now as are the resources. Chip?

GENERAL GREGSON: If I could add one point on this. Where the bases are as Peter said matter somewhat but what the capabilities are matters a lot

more. For instance, Talisman Sabre 2007, the Australians to their great credit took a green field area, the Bradshaw training area, the one that Peter says has floods every six months and built a C17 capable 8000 foot air field in less than 30 days and the graduation exercise was one of a U.S. C17 and an Australia C17 landing area.

So it matters somewhat where the forces are but it matters more if you have the capability both technology and doctrine to be able to move forces around quickly to get them to where they need to be. And the Australians need to take more credit for their ability to take a 58,000 person force and cover the continent that you have in rapid fashion.

MR. FLAKE: Fantastic. Well, wonderful. We have about 20 minutes for questions from the audience so go ahead please. The lady back there with your hand raised, yeah, please. Right there.

MS. SOMERINIKA: Thank you. Nalanthi Somerinika from CNI Corporation. I have a question for the panel about one of the recommendations in the report about a U.S. Australia ASW Anti-Submarine Warfare Center of Excellence. I just wanted to get the panel's thoughts on the thinking about setting this up and potential reactions from China, for example. Minister Hill, your comment about the quadrilateral and Prime Minister Rudd pulling out of that due to some of this feeling that it was anti-China. I just wanted to get your thoughts about such a center of excellence. Thanks.

MR. FLAKE: Robert, want to start with you in that?

MR. HILL: I think we were addressing -- this is a report we put out last year after the first three years and we drew attention to the fact that anti-submarine warfare capabilities in Australia have been run down around somewhat. And I'm not a military person but I was always taught that the best way to address a submarine threat is through another submarine. And we have a fleet of submarines that are now moving towards the end of their tenure as well and that's going to require to replace them with a new generation of submarines. It's going to require a huge investment, largest

investment we've ever made in this area. And getting it, we think it's still important, not only just in that narrow sense but if you do think that Australia having a capability that is complimentary to that of the United States, then, a submarine that compliments the U.S., which would be a conventional submarine, which compliments the U.S. nuclear submarine. The smaller (inaudible) of submarines be able to do some things that America's submarines can't do becomes quite important. So, anyway, we were pointing out that we saw these as areas that needed to be addressed and within the budget challenges that we face.

GENERAL LEAHY: I'd say that submarines are really very capable psychological and physical weapon. Not only are they good for any submarine warfare but for any convoy warfare and as we know gathering intelligence and those sorts of things.

So I think we need to be able to protect against it and it's probably going to be more submarines providing the ASW capability. Of course, though, the aircraft provides that is ahead for the role of Australia Air Force and their new capabilities but also some of the Navy surface ships and that submarine capability. If I look at submarines I don't know where we're going to buy it from and there's lot of hints. What I see is the essential nature of the submarine capability for Australia in the future is most likely to be that it will contain a U.S. combat system. And if we're to know how to use that and to use it well and use it in an interoperable way with our major ally, the United States, and in this case, the U.S. Navy, I reckon that a combined integrated AWS Center of Excellence is a really good idea.

MR. FITZGERALD: I think there's another sort of brought up point about centers of excellence and the role that Australia can play in the U.S.-Australia Alliance but more broadly across the region which is from a, and I don't especially like this term, I apologize, from a thought leadership perspective.

So we shouldn't overlook the extent to which our ability to confine people

in something of an unusual space and talk about potentially contentious issues in ways that benefit us in terms of the normative system that we promote throughout the region is critically important to securing our interests.

So these are relatively inexpensive investments if we do it well. We don't want to become like center of excellence central and just every time we throw out a center of excellence for something but in critical areas like ASW, I think it's a good investment to make. Thanks.

MR. FLAKE: The far back corner there, please, and then I'll come to this gentleman here.

MS. WAINWRIGHT: Thank you. Alison Wainwright, Centre International Corporation in New York University. Thank you very much to the panel for a very interesting discussion.

I was pleased to hear Robert Hill mention defense budgets. Could we hear a bit more please from General Gregson and Ben Fitzgerald about the challenge of declining military budgets that you both mentioned and, particularly, the threat of continuing sequestration and the uncertainties of defense planning? I think Secretary Hagel said last week this was the greatest threat which was facing the U.S. military. We've heard some optimist assessments this morning about the potential for sequestration to be softened or repealed but I'd love your views on the impact it's had on the Asia-Pacific theater thus far and has it been less, potentially, in regions. Thank you.

MR. FLAKE: We'll start with you, Chip, if we could.

GENERAL GREGSON: Let me attack the easy target first. Sequestration is an absolutely dumb way to do things. The law mandated 10 percent cuts across the board. Shortly after that law passed, Admiral Jonathan Greenert, the Chief and Naval Operations, was castigated because he couldn't deploy an aircraft carrier. What do you mean you can't deploy an aircraft carrier. Well, taking 10 percent of some things makes it critical. And finally got that corrected but it's still a machine that's

running by itself and there's not the thought needed behind it.

Secondly, we develop some habits over the last 15 years with overseas contingency operating budgets so that basically it was, I won't say unlimited, but it was constantly rising budgets. If you can prove that people were going to die if we didn't have capability X. You got the money to get capability X and it went that way. What happened is that we're now in a situation where we've got to start thinking seriously about strategy.

In other words, ends, what are we trying to do? Ways, how are we going do it? And, the means, what the resources are that are necessary to do it? And clearly you can't do everything so some choices have to be made.

We went through the cold war with a villain right out of center casting. The Soviet Union was the enemy. It drove the thought process in the Pentagon. It drove the acquisition process. Everything was geared to what the Soviet capabilities were. We had a little bit of a holiday in the 1990's and then with the 911 and all the things that transpired after that. We came very close to trying to fit terrorism into the new model of the designated enemy. And that doesn't work.

We're facing a situation as I said earlier that is unprecedented at least in modern American thinking where we have a country that is a major economic partner of all of us in this room. But is also the source of some bone-deep security threats and we have to re-think what deterrents means now. I would vote for quiet deterrence. We don't need to be particularly demonstrative about it but we have to develop the capabilities that allow us to achieve doubt in the minds of those within China that would like to see a more hostile relationship. We're not trying to pick a fight with China. China, for one thing, is a vast geographic sanctuary.

China also has nuclear weapons so a first conclusion should be the regime change is out of the question, which should lead you to the second conclusion that what's important to us is to ensure that (A) the situation does not turn hostile and (B) if it does get hostile that what's important to us are the territory, the interest and the lives

of our allies and friends, which means we have a number of areas to defend out there.

We've got 10,000 islands between the Philippines and Japan, for one, and I don't know how many you get when you get down to Indonesia and things. But there's a strategy that suggests itself here that can fit into this quiet deterrence type thing that's not provocative and this also fits into the ASW question that we can be quite candid about developing the ASW capability. That'd be a good thing for people to know that we're doing it but we need to have the context built behind it that we favor China's successful rise and re-integration into the international system. We see no reason why the relationship should be hostile, etcetera, etcetera. We have as many positive conversations as we can with China. That is as high a decibel level as we can to put the more difficult things into context but we have to achieve some sort of clarity to both sort out the defense budget and what's really important to us and what we need and what our strategic concept is in Asia. And also that a valid coherence strategic concept would also go a long way towards reassuring our allies and friends on what exactly it is we're trying to do and how to fashion these goals so it's compatible with the policy goals of Australia and the policy goals of all our other allies and friends.

MR. FLAKE: Thank you. Robert?

MR. HILL: Well, I agree with all of that, that but in addition to that policy makers have to remember that there are very long-lead times in building defense capability. And a very bad thing that policy makers do to chop and change on the money side. If you chop and change budgets it is impossible to develop the long-term capabilities that you need to fit the long-term strategic policy that hopefully you've made. And the other thing policy makers need to remember it is also unhelpful to be unrealistic, to expect that you can achieve certain capabilities that simply is not going to be achieved within the founding envelope that you are providing. And that's been a major mistake that's been made in Australia and in recent years and it's unhelpful. It leads to sort of instability and uncertainty. And that some of those things that we're trying to clean out,

aren't we, Peter with our review.

GENERAL LEAHY: That's right.

MR. FITZGERALD: So, the thing I'd add and you should have truth in advertising here. I've been hanging out with Chip for almost a decade at this point so there's a certain similarity in our answers at times but which mean we're both right, of course. I think going to Hagel's comment about risk. The risk for me is more about the uncertainty than the actual budget decrease. There are issues -- don't get me wrong there -- there are significant issues associated with budget decreases but it's the uncertainty that's killing us. It means that you can't plan. It impacts readiness in not necessarily well understood ways. Associated with the inability to plan means you can't invest and you can't provide a clear demand signal to industry and to your partners so that they can make their own investments to develop capability over time.

On the Australian side I think the critical important thing is that we maintain this reputation for carrying our own weight and for paying our way. We don't want to be seen in the sort of European light even though I agree with some of the earlier comments that we're not necessarily paying our way to the extent that we could. We don't want to get into that position. More broadly I think that we need to accept that in the short term we can see that our budgets is decreasing in real terms. And that may change over the coming years but over the medium to long term we need to understand the U.S. and Australia defense budgets in relative terms are going to be significantly less than what we're used to in terms of their power through the 20th century.

And that's going to be relative to the myriad of other actors in Algerian and some certain specific nations and also from a technology and capability perspective relative to private sector budgets in terms of research and development, in terms of access to new and emerging technologies.

So all of this should be a catalyst for reform and you'll see my old boss, Bob Work, as the Deputy Secretary of Defense, has announced this whole defense

innovation initiative. I think, again, I've worked with (inaudible) so I think he's very much on the money. All of this should be a catalyst for reform but it requires reform in an area assuming on the American side and I think also on the Australian side is the one area that we're least comfortable reforming. We're very comfortable coming out with new doctrine, new policies but it's very difficult for us to reform the institutions.

So when Chip talks about ends, ways, means, you'll see that most of the conversation of sequestration has been, well, how do we have fewer ends or less means. No one's looking at what are the ways. And so it's somewhat boring but I think critically important sort of call for institutional reform in ways that we haven't seen in a meaningful way in a very long time.

MR. FLAKE: Thank you. We're quickly running out time and we've got two final questions. The gentleman right there, right there, and then the gentleman in the far back. We'll collect those two questions and then we'll turn to the panel. Yes?

MR. MCDONALD: Thank you. Lieutenant Scott McDonald, headquarters U.S. Marine Corps. This panel has spent a lot of time saying what Australia needs to do to make the Alliance better but seems to me in Southeast Asia and Oceania the leadership experience and familiarity, Australia's a natural lead. I would appreciate your thoughts on what the United States could be doing to be a better Alliance partner in the region with Australia. Thank you.

MR. FLAKE: Thank you. And, the gentleman in the back. We'll put the two together.

MR. HERSHEIM: Thank you. This may be a complimentary question to the question just posed. I'm Lauren Hersheim, a former member of the Department of Justice and was a guest scholar here 30 years ago. But I do follow Asia-Pacific matters since 1966; that's another story. My question to the Australians, what you do with a few other countries the India-Australia initiative is quite interesting. What about Indonesia? What about Singapore? What about Vietnam? Just to pick out three. Thank you.

MR. FLAKE: Inevitably the big questions come at the very end when we just five minutes left so just kind of short pithy responses you might have to expectations from the U.S. and some of the other partners in the Asia-Pacific. Peter, why don't we start with you?

GENERAL LEAHY: Well, keep doing what you're doing. Seriously, I think it's a very valuable relationship. At times and we've heard the term burden sharing and I can recall, I was chief of Army for six years and most of that was during Iraq and Afghanistan. I think you were tolerant of us, accommodating us. At times it was embarrassing that we weren't able to offer more and at times it was quite embarrassing that we, perhaps, pulled our punches and I'm thinking of things around Bagdad and we were down in the south.

So I think your level of intolerance. The cooperation, the interoperability. I can't think of many things where I'd say you're doing this wrong. Do something more. It would be around ration packs and we just can't eat that shit. (Laughter)

MR. FITZGERALD: Veggie omelet. Always avoid the veggie omelet.

GENERAL LEAHY: But essentially I think what we have in the partnership from Australia to the United States is something very special and something that we value.

And just quickly in terms of India. We've talked a little bit of India today. I do think that India is very important. I think globally we've tended to neglect India from an Australia point of view we think we have a special relationship because they play cricket too and we beat them.

That's not enough. We have to understand them economically. We have to understand their problems with their nuclear neighbor to the west and they are very distracted by that. Their nuclear neighbor to the north and I think we have to understand that but we do need to get much closer to Indonesia, rather to India. And I think we can do that as they're looking to come forward and to try and do a bit of what China's done

and hope that millions and millions of poor people that they've got there and develop the country.

Indonesia, I would just say a new president there. I think he's getting to know the country. We have to get to know him. I think Indonesia is probably the most important relationship that Australia will have in the future. They do cover that sweet spot in geography. Those sea lines of communications and the strategic checkpoints. They're a growing economy. They're a leader in (inaudible) but their focus is to the north and to other places rather than Australia. And so, I think it's incumbent upon us to get closer to them and to support them as they go through what I think will be some difficult times.

And, just quickly, one clear example of that is there's a thing called the Jakarta Center for Law Enforcement Cooperation and that's essentially our federal police and other support, supporting Indonesia and the development of their police forces and their counterterrorism force. And that's the sort of thing we can do. Provide technical assistance and allow Indonesia to get on and do the job.

MR. FLAKE: Thank you. We're just out of time but any final short --

MR. HILL: I think what can the U.S. do that would help us better. I think that there still needs to be changes in the access to defense industry in this country, the supply chains and some of it is cultural, some of it is actually still law. If you want us to be a good reliable partner we only have a small defense industry but we do need to be able to sustain that. The most sensible way to sustain that is to be able to settle into the U.S. supply chains.

Otherwise, there was a time when we would have called for greater transparency but nowadays that's changed pretty much with the access of our people into your commands and so forth. We appreciate that you can be tolerant. That we operate under rules, different laws so we have different rules of engagement but yet has still been able to work side by side.

So I don't think there's -- we're very appreciative as I said that you've invested so much in the Asia-Pacific region for so long, which has enabled us to grow wealthy and successful. So on top of that it would be pretty hard to demand more. On the stray countries we provide enormous amounts to Singapore in terms of its defense capabilities, basing supports, exercises, whatever they want, really, they can take and they often do.

So they are our partner and sometimes a demanding partner but they're important. Indonesia, I just agree with what Peter said. Indonesia is complex but very important. We have our differences from time to time but they are not a threat. We want to be supportive of Indonesia as it grows politically and economically in every way, which is very challenging for them but they've made great strides in the last 10 to 20 years.

And Vietnam is an important economic partner. We're becoming closer to them all of the time in terms of security policy as well. When they were upset about China, I reckon they were knocking on our doors as quickly as they were knocking on the door in Washington.

MR. FLAKE: And, that works out, yeah. Wonderful. Why don't we go ahead and wrap it there. Please join me in thanking the excellent panel today.

(Applause)

* * * * *

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2016