

# CRS Report for Congress

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## Australia: Background and U.S. Relations

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### Summary

The Commonwealth of Australia and the United States are close allies under the ANZUS treaty. Australia evoked the treaty to offer assistance to the United States after the attacks of September 11, 2001, in which 22 Australians were among the dead. Australia was one of the first countries to commit troops to United States military operations in Afghanistan and Iraq. On October 12, 2002, a terrorist attack on Western tourists in Bali, Indonesia, killed over 200 including 89 Australians and seven Americans. Although Australia has extensive ties with its neighbors in Asia, it is seeking to strengthen its already close ties to the United States. Since November 14, 2002, the United States and Australia have been negotiating a bilateral Free Trade Agreement. Australia has led peace-keeping efforts in the Asia-Pacific region including East Timor and most recently in the Solomon Islands. This report will be updated as warranted.

### Government and Politics

At the general election held on November 11, 2001, the Liberal-National Party coalition maintained the majority that it has held in the House of Representatives since 1996. Prime Minister John Howard, returning for a third term, promised tough lines on immigrants and terrorism. Howard's controversial policy of denying right-of-entry to asylum-seekers and sending them to other South Pacific nations for processing, won considerable domestic support. The center-right government's platform also included reducing taxes and the power of labor unions, strengthening Australia's friendship with the United States, and reformulating former Labor Party leader Paul Keating's diplomatic focus on Asia. In a June 2003 poll, 61% of Australians reported being satisfied with Prime Minister Howard.<sup>1</sup>

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<sup>1</sup> J. Kremmer, "Australia Gets Tough on Security," *The Christian Science Monitor*, June 2, 2003.

## Military

The Howard government has steadily increased funding for defense with an additional AUD\$2.1 billion pledged over the next five years.<sup>2</sup> Total defense spending for FY2003/04 should equal \$11.6 billion.<sup>3</sup> The budget also approved funds for Australian participation in the Joint Strike Fighter (JSF) program, enhanced electronic warfare capabilities and a new airborne tanker fleet. Australian involvement in the JSF program may have to be canceled should proposed “buy American” legislation become law.<sup>4</sup> The Defense White Paper of 2000 was updated to adjust to the new strategic realities of the war against terror. Australia has, like the United States, undergone a fundamental rethinking of the basis of its security posture post-9/11/Bali.

The question for defense is whether the strategic tasks which have underpinned defense planning and capability development — the defense of Australia, operations in the immediate neighborhood, coalition operations further afield and peacetime national tasks — still provide a sufficiently firm but flexible foundation for planning and capability development, particularly when addressing today’s threats.”<sup>5</sup>

### Australia at a Glance

**Government:** Parliamentary democracy and federal state system.

**Leadership:** Prime Minister John Howard  
Head of State Queen Elizabeth II, who appoints a Governor-General, Maj.Gen. Michael Jeffrey

**Political Parties:** Australian Democratic, Australian Labor, Green, Liberal, National, One Nation

**Capital:** Canberra

**Population:** 19.3 million

**Ethnic groups:** Caucasian 92%, Asian 7%, aboriginal and other 1%

**Foreign-born population:** 23.6%

**GDP per capita:** \$27,000 (purchasing power parity)

**GDP composition:** agriculture 3%, industry 25%, services, 72%

**Households with Internet Access via Home PC:** 51%

**Sources:** CIA World Factbook; Niesen-Netratings;

## Economy

Australia’s economy has performed well in recent years. With a purchasing power parity income of \$27,000 Australia ranks 16<sup>th</sup> in the world. A severe drought in 2003 slowed Australia’s economic growth to an expected 3% rate for 2002/03. The Australian government hopes that its recently enacted AUD\$2.4 billion tax cut and a future free trade deal with the United States will fuel further growth.<sup>6</sup> Australia has a wide range of natural resources. While Australia’s economy is dominated by its services sector, the agricultural, mining, and energy sectors account for the bulk of its

<sup>2</sup> “Australian Budget Boosts Security,” *BBC Monitoring Newsfile*, May 13, 2003.

<sup>3</sup> Robert Wall, “Defense Boosts Australia Plans Modest Increase in Defense Spending,” *Aviation Week and Space Technology*, May 19, 2003.

<sup>4</sup> J.Labbe, “Silly Label Law May Hurt US Forces,” *The Patriot*, July 24, 2003.

<sup>5</sup> Ministry of Defense, *Australia’s National Security: A Defense Update* (Canberra: Commonwealth of Australia, 2003).

<sup>6</sup> Tom Holland, “A Booming Economy Looks Overseas,” *Far Eastern Economic Review*, June 5, 2003.

exports. Among its largest export items are coal, gold, iron ore, aluminum, mineral fuels, meat, and wheat. The Australian economy and balance of trade are strongly influenced by world prices for primary products.

The governing Liberal-National coalition has stressed the importance of the free market, small government, and balanced budgets. In 2000, the Howard government lowered income tax rates and replaced several wholesale sales taxes with a broad based 10% Goods and Services Tax (GST). On labor reforms, the government has attempted to remove trade unions from the central position they have held in negotiating enterprise agreements, place more emphasis on workplace-based collective bargaining for wages, and make compulsory unionism illegal.

## Relations with the United States

**Security.** The Australia, New Zealand, United States Security Treaty (ANZUS) of 1951 remains in force with respect to the Australia-U.S. alliance. In 1986, after the New Zealand government refused port access to U.S. Navy ships with nuclear capabilities, the United States suspended its security obligations to New Zealand. The annual ANZUS meeting was replaced by the Australian-U.S. Ministerial Talks (AUSMIN). The two countries also operate early warning and intelligence joint facilities at Pine Gap and Nurrungar. The *Sydney Declaration* of 1996 reaffirmed the Australia-U.S. defense alliance and sanctioned closer military ties that bolster America's security presence throughout the Asia-Pacific region. Officials from both sides agreed to hold combined large-scale military exercises, upgrade the Pine Gap satellite Command Center, and other activities. The Australian government supports the United States National Missile Defense System. Australia has also joined the U.S.-sponsored Proliferation Security Initiative (PSI) which met in Brisbane, Australia, in July 2003. The PSI's aim is to interdict aircraft and ships that could be carrying weapons of mass destruction, missiles or drugs. Australia is well positioned to play a role in the Pacific and Indian Oceans. In April 2002 Australia interdicted the North Korean ship Pong Su which was carrying \$48 million in heroin.<sup>7</sup> The United States has also reportedly approached Australia on the possibility of positioning combat troops and aircraft in Australia to aid in the war on terror.<sup>8</sup>

Prime Minister John Howard has redefined Australia's relationship with both Asia and the United States by emphasizing that Australia does not need to choose between its history and geography. Although Australia continues to recognize the need for close relationships with Asia, it does not wish to emphasize these ties at the expense of its Western roots and democratic values. The Howard government has also aimed to keep the United States closely involved in East Asian affairs — military, political, and economic. Japan and some other Asian countries have welcomed the strengthened U.S.-Australian defense relationship, but others, notably China, have been critical. Beijing strategists have worried that recent strengthening of the U.S. alliances with Australia and Japan may be aimed at “containing” China and preventing its rising power and influence

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<sup>7</sup> “US Initiative Sets Stage for Miscalculations,” *Stratfor*, July 8, 2003.

<sup>8</sup> Janaki Kremmer, “US Said to Eye Troop Deployment; Terror in Southeast Asia is Focus,” *The Washington Times*, May 26, 2003.

in Asian affairs. Some internal critics have argued that greater Australian support of U.S. foreign policies may undermine Australia's efforts to engage Asia at a deeper level.<sup>9</sup>

Australia was the first country to offer its armed services to the International Coalition Against Terrorism (ICAT); has sent three 150-member rotations of Special Forces (Special Air Service or SAS) troops plus 1,400 regular troops to Afghanistan; and has representatives at U.S. Central Command (CENTCOM). The Howard government supported the U.S. in Iraq by sending about 2,000 defense personnel; F/A-18, P-3 and C-130 aircraft; two ANZAC Frigates; and a special forces task group.<sup>10</sup>

**Trade.**<sup>11</sup> In 2003 imports from Australia totaled \$2.5 billion while United States exports to Australia totaled \$4.8 billion. Australia's main exports to the United States include meat and poultry, wine, crude oil and inorganic chemicals; the major U.S. exports to Australia include aircraft and parts, chemicals, computers, and pharmaceuticals. Unlike the situation with most countries, the United States runs a trade surplus with Australia that averaged approximately \$6 billion annually from 1998 to 2002.<sup>12</sup>

President Bush and Prime Minister Howard agreed to finalize a Free Trade Agreement (FTA) by the end of 2003 during Howard's visit at Bush's ranch in Crawford, Texas, in May of 2003. The third round of negotiations for a bilateral FTA were held in Hawaii from July 21-25, 2003. The Free Trade process was begun on November 14, 2002. Some Australian analysts estimate that an Australian-U.S. Free Trade Agreement (AUSFTA) would generate at least \$2 billion per year for both countries by 2010.<sup>13</sup> Despite this, elements within the Labor Party, including former Prime Minister Keating, have expressed doubts about such an accord, arguing that it would hurt Australian farmers and undercut Australia's trade with its East Asian partners.<sup>14</sup> Dairy and sugar producers in the United States are concerned that Australian imports would undercut prices and lead to job losses. The Friends of Australia Congressional Caucus was launched in mid-July. Recognizing Australia's contribution to the United States' initiatives against terror, caucus co-chair Jennifer Dunn stated, "It is important to recognize the people who were there to help."<sup>15</sup>

Australian officials have complained about several U.S. trading practices and actions that they have deemed unfair, including U.S. non-tariff barriers affecting Australian

<sup>9</sup> Derek McDougall, "Australia and Asia-Pacific Security Regionalism: From Hawke and Keating to Howard," *Contemporary Southeast Asia* (Singapore), April 2001.

<sup>10</sup> "Operation Falconer," Australian Department of Defense, [<http://www.defence.gov.au>].

<sup>11</sup> For further information, see CRS Report RS21459, *Australian-U.S. Economic Relations*, by William Cooper and Wayne Morrison; and CRS Report RS21476, *U.S.-Australian FTA Negotiations*, by William Cooper.

<sup>12</sup> "US Enjoys Big Trade Advantage Over Australia," *CQ Today*, July 18, 2003.

<sup>13</sup> "NZ Weighs US Trade Risk," *New Zealand Herald*, October 8, 2002.

<sup>14</sup> Tom Holland, "A Booming Economy Looks Overseas," *Far Eastern Economic Review*, June 5, 2003.

<sup>15</sup> Stephen Norton, "Land Down Under May Be Next Up for Trade Pact," *Congressional Quarterly*, July 17, 2003.

exports of beef, lamb, dairy products, sugar, and steel. U.S. agricultural export subsidies for grain and dairy products are another cause of tension. The U.S. 2002 Farm Bill was criticized for extending further financial support to American farmers.

Prominent U.S. concerns about Australian market accessibility include limits on foreign direct investment for national security reasons and quarantine and health restrictions on imported food and animal products. Affected items include citrus, apples, corn, chicken, and pork. Australian officials argue that quarantines are necessary to protect Australia's unique and relatively pristine environment. Some major U.S. farm lobbies oppose an FTA, contending that the United States is already a large market for Australian agricultural goods, while Australia is unlikely to remove non-tariff barriers on many U.S. agricultural exports.<sup>16</sup>

## Asia-Pacific Affairs

Australia and the United States share economic and security interests in the Asia-Pacific region. The region accounts for about 70% of all Australian trade and approximately 40% of all U.S. trade. Australia and the United States have played leading roles in the formulation and development of the Asia-Pacific Economic Cooperation (APEC) forum. Australia and the United States have also worked closely with the Association of Southeast Asian Nations (ASEAN) Regional Forum (ARF) — a nascent security forum for the Asia-Pacific region. In 2002, Australia and Singapore finalized a Free Trade Agreement (FTA). In 2000, Australia, along with Italy, the Philippines, and Britain, agreed to restore or establish diplomatic relations with North Korea. Australia is strongly committed to the passage of the Comprehensive Nuclear Test Ban Treaty (CTBT), adopted by the United Nations General Assembly in 1996 and ratified by Australia and 96 other countries.<sup>17</sup> In 2002, Australia ratified the treaty authorizing the International Criminal Court and has urged the United States to do so.

**East Timor.** Australia's commitment to regional security and humanitarian concerns in the Asia-Pacific region is demonstrated by its involvement in East Timor. The former Portuguese colony was occupied by Indonesia from 1975 to 1999. In 1998, diplomatic intervention by Prime Minister Howard prompted the dialogue between Indonesian officials and East Timorese nationalists that resulted in an agreement to hold U.N.-supervised elections in 1999. On August 30, 1999, nearly 80% of East Timor's voters voted to separate from Indonesia. Following the announcement of the result, anti-independence militias launched a campaign of violence. On September 15, 1999, the U.N. Security Council authorized the International Force East Timor (INTERFET) to restore peace and security and protect and support the U.N. mission personnel in East Timor. INTERFET operated under a unified command structure headed initially by Australia. East Timor became independent in 2002. In June 2003, Prime Minister Howard indicated that Australian troops might remain in East Timor for years to prevent the country from "coming under unacceptable strain and perhaps collapse." Australia's

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<sup>16</sup> Jim Eagles, "Australian Labor-U.S. Farmer Opposition to FTA Undermines Deal," *Australian Associated Press Financial News Wire*, September 16, 2002.

<sup>17</sup> In October 1999, the U.S. Senate rejected the CTBT. The Bush Administration has indicated that it also opposes it. See CRS Issue Brief #92099, *Nuclear Weapons: Comprehensive Test Ban Treaty*, by Jonathan Medalia.

contingent of 1,000 troops constitutes approximately one quarter of the present U.N. force.<sup>18</sup>

**Regional Engagement.** Under the previous Labor Prime Minister Paul Keating, Australia had been pursuing a policy of engagement or enmeshment with Asia. This initiative garnered little support from either the Australian public or regional states, such as Malaysia, that have had a difficult time accepting Australia as an Asian nation. In November 2002, at the ASEAN annual meeting in Phnom Penh, Indonesian and Malaysian leaders criticized Australia for security raids on the homes of Muslims in Australia and for issuing travel warnings for Southeast Asia. Furthermore, the two predominantly Muslim countries reportedly rejected Australia's bid for membership in ASEAN.<sup>19</sup> Despite diplomatic differences Australia continues to have a number of trade and security linkages with regional states.

Australia's intervention in the Solomon Islands in July of 2003 demonstrated Australia's resolve to reassert its influence and promote stability in the South Pacific. This intervention, when taken in the context of Australia's ongoing presence in East Timor and previous efforts to promote peace on Bougainville, demonstrates Australia's resolve to promote stability in the region in order to prevent territory from slipping into anarchy. Australia has also proposed that the smaller of the South Pacific microstates pool their resources for their common good.

**Terrorism in Southeast Asia.** On October 12, 2002, two bombs decimated two crowded nightclubs full of foreign tourists in Bali, Indonesia, killing more than approximately 200 foreigners and Indonesians and injuring 300. There were 89 Australians among the dead and seven Americans. Indonesian officials attributed the bombing to the militant Islamic network Jemaah Islamiyah (JI), which has links to Al Qaeda. JI has as its goal an Islamic state that encompasses Indonesia, Malaysia, the Southern Philippines, and Northern Australia. Australia and the United States sent teams of forensic specialists and security personnel to Bali to aid in the investigation. Australian and Indonesian counter-terror cooperation has improved as a result of cooperation on the investigation into the Bali blasts. At the October 2002 APEC Leaders' Meeting, Prime Minister Howard pledged US \$5.5 million to Indonesia for counter-terrorism efforts. In 2002, Australia signed anti-terrorism pacts with Indonesia, Malaysia, and Thailand, which marked Australia's ongoing ties with its Asian neighbors. In 2003 Australia signed counter-terror MOUs with Fiji and the Philippines and is negotiating agreements with India and Cambodia. It also provides counter-terror support to the Pacific Island Forum Secretariat.<sup>20</sup>

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<sup>18</sup> "Australian PM Hints at Long-term Military Presence in East Timor," *BBC Monitoring Service*, June 19, 2003.

<sup>19</sup> Lincoln Wright, "New Row Sours Asia Links," *Canberra Times*, November 7, 2002.

<sup>20</sup> Minister for Foreign Affairs Downer, "Counter-Terrorism Package," March 7, 2003.