

CAPSTONE 19-3 Indo-Pacific Field Study

<u>Subject</u>	<u>Page</u>
Fiji	3
Australia	69
Singapore.....	133
Combatant Command	187
National Security Strategy	237
National Defense Strategy	303
Charting a Course, Chapter 9 (Asia Pacific)	317

This page intentionally blank



Fiji

Subject	Page
Chargé d’Affaires Michael Goldman	5
US Relations with Fiji	7
CultureGram 2019.....	9
BBC Country Profile	19
Economist Intelligence Unit Country Report.....	23
CRS The Pacific Islands: Policy Issues	43

This page intentionally blank



U.S. Embassy in Fiji,
Kiribati, Nauru, Tonga, and Tuvalu

Charge d' Affaires Michael Goldman

As Charge d'Affaires, Mike Goldman is responsible for U.S. relations with the Pacific island nations of Fiji, Kiribati, Nauru, Tonga, and Tuvalu. Before arriving in Suva in 2017, Mike served in Washington as Deputy and Acting Director for China and Mongolia in the Bureau of East Asian and Pacific Affairs (2015-2017). Previous assignments include Kathmandu (2012-2015), where he was Political and Economic Counselor, Hanoi (2008-2011) and Tashkent (2002-2005) as a political officer, and Taipei (2000-2002) as a consular officer, as well as an earlier stint on the China Desk (2005-2007). He's the recipient of several State Department honors, including recognition as the Department's outstanding human rights officer.

Prior to joining the Foreign Service, Mike worked as a dock worker on an oyster farm in Washington State's Puget Sound and as an adjunct professor of political science at San Francisco State University.

Mike earned a Ph.D. and MA in political science from the University of California, Berkeley and a BSFS in international politics from Georgetown University. He completed his dissertation research on a Fulbright scholarship at the Univesiti Sains Malaysia in Penang, Malaysia, and has studied at the Chinese University of Hong Kong, Taiwan Normal University, and the State University of Makassar in Ujung Pandang, Indonesia.

Mike speaks Mandarin Chinese, and at one time or another has also been fluent in Nepali, Vietnamese, Russian, and Indonesian. He has two children and is married to USAID Foreign Service Officer Brett Jones.

This is the official website of the U.S. Embassy in Fiji. External links to other Internet sites should not be construed as an endorsement of the views or privacy policies contained therein.



This page intentionally blank

U.S. Department of State Diplomacy in Action

U.S. Relations With Fiji

BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS

Fact Sheet

July 17, 2018

More information about Fiji is available on the [Fiji Page \(http://www.state.gov/p/eap/ci/fj/\)](http://www.state.gov/p/eap/ci/fj/) and from other Department of State publications and other sources listed at the end of this fact sheet.

U.S.-FIJI RELATIONS

The United States established diplomatic relations with Fiji in 1971, following its independence from the United Kingdom. Relations between Fiji and the United States have traditionally been good. The two countries share a multi-ethnic heritage, a commitment to democratic values, and a record of close cooperation on international peacekeeping operations, regional security, environmental issues including climate change, and economic development. The U.S. Peace Corps is active in Fiji, with some 65 volunteers in 13 Fijian provinces, and in 2018 celebrated its 50th anniversary in the country.

In September 2014, Fiji held elections that restored a democratically elected government and parliament to Fiji for the first time since the 2006 coup. The United States participated in a Multinational Observer Group representing 13 countries, which assessed the elections to be free and fair and broadly representative of the will of the Fijian people. After 2014 elections, the United States reinitiated security assistance and lifted restrictions on U.S. financing assistance to the Government of Fiji that were put in place following in 2006.

U.S. Assistance to Fiji

USAID funds regional projects assisting communities in accessing financing, building institutional capacity, and adapting to climate change. The Ready project (2016-2021) supports climate finance and management capacity. With the Pacific Community (SPC), the Institutional Strengthening in Pacific Island Countries to Adapt to Climate Change project (ISACC, 2015-2020) is undertaking climate finance assessments and supporting scale up of successful multi-sectoral projects. The Pacific American Climate Fund (PACAM, 2013-2019) builds the capacity of small local grantees while supporting their efforts to improve food security and natural resource management. As the largest contributor to the World Bank and, with Japan, to the Asian Development Bank, the United States supports a broad range of economic development and infrastructure programs in the Asia Pacific, including Fiji.

Fiji receives Foreign Military Financing (FMF) to equip its military and participates in the International Military Education and Training (IMET) program, which sends Fijian officers and senior enlisted personnel to professional military education and leadership development courses in the United States. The United States contributes U.S.

Coast Guard and U.S. Navy air assets to regional Forum Fisheries Agency (FFA) operations that help Fiji protect earnings from fishing licenses in the country's exclusive economic zone (EEZ). Additionally, Fiji is a regular participant in U.S. Pacific Command sponsored workshops on topics including humanitarian assistance/disaster relief, maritime security, peacekeeping, and international humanitarian law.

Bilateral Economic Relations

The United States has been among Fiji's principal trading partners. The main products imported to the United States from Fiji include bottled water, tuna, and sugar. U.S. exports to Fiji are mainly machinery, transport equipment, and food. Fiji and the United States do not have a bilateral investment agreement. Tourism and remittances, including from the United States, contribute significantly to the Fijian economy. Fiji is a party to the U.S.-Pacific Islands Multilateral Tuna Fisheries Treaty, which provides access for U.S. fishing vessels in exchange for a license fee from the U.S. industry. Under a separate Economic Assistance Agreement associated with the Treaty, the United States government currently provides \$21 million per year to Pacific Island Parties.

Fiji's Membership in International Organizations

Fiji and the United States belong to a number of the same international organizations, including the United Nations, the International Monetary Fund, the World Bank, the Asian Development Bank, the World Trade Organization, the Pacific Community, and the Secretariat of the Pacific Regional Environmental Programme. Fiji also belongs to the Pacific Islands Forum, of which the United States is a Dialogue Partner.

Public Diplomacy

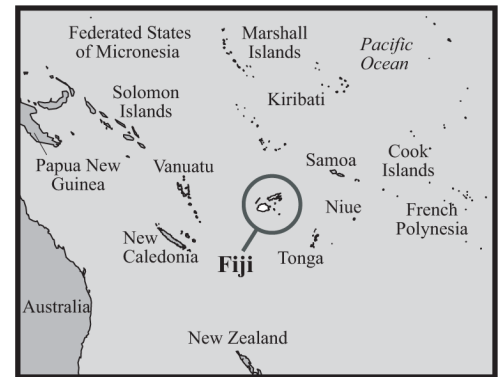
A generally positive view of the United States, shared by most Fijians, along with English as a common language, provides ready audiences for public diplomacy. The Embassy's Public Affairs Section administers small but robust academic and professional exchanges, including Fulbright, Humphrey, International Visitors Leadership (IVLP) and the U.S. - South Pacific Scholarship programs, as well as a wide range of media, cultural, educational, and small grants programs. The public outreach is also maintained through American Spaces in Lautoka and Suva (American Resource Center located in the Embassy).

Bilateral Representation

The position of U.S. Ambassador to Fiji is currently vacant; other principal embassy officials are listed in the Department's **Key Officers List** (<http://www.state.gov/documents/organization/111812.pdf>).

Fiji maintains an **embassy** (<http://www.fijiembassydc.com/>) in the United States at 1707 L Street NW, Suite 200, Washington, DC 20036 (tel: 202-337-8320).

More information about Fiji is available from the Department of State and other sources, some of which are listed here:



Boundary representations are not necessarily authoritative.

BACKGROUND

Land and Climate

Fiji is located in the southwestern Pacific, north of New Zealand. Fiji comprises more than 300 islands, but only about 110 are inhabited. Fiji is just larger than Kuwait and slightly smaller than the U.S. state of New Jersey. Two main islands, Viti Levu and Vanua Levu, are home to most of the population. The larger Fijian islands are volcanic, mountainous, and surrounded by coral reefs. The southeastern sides of the islands are covered with dense tropical forests. The northwestern sides consist of grassy plains that receive less rain.

The climate is humid and tropical. The rainy season is from November to April, when violent tropical cyclones are possible. In December 2012, Cyclone Evan, a Category 4 storm, caused heavy damages to Fiji's infrastructure. In February 2016, Fiji was hit by Cyclone Winston, a Category 5 storm that was the strongest cyclone recorded in the Southern Hemisphere. The western side of Fiji's main island, Viti Levu, is also prone to flooding. Earthquakes are common in Fiji as well. Annual temperatures change little and range from 72 to 86°F (22–30°C).

History

First Inhabitants

The islands of Fiji were first settled at least 3,500 years ago by migrating sailors whose descendants became known as the Lapita. Though their actual origins are unknown and written records do not exist, researchers think these early migrants

may have come from Asia. Various Pacific peoples later migrated to the Fijian Islands, which they called Viti; Western explorers used the Tongan word *Feejee* to name the islands and the people. According to legend, sons of an early settler named Degei established the chiefly system (*yavusa*) that ordered society for centuries to come. Until Christianity was introduced, Degei was worshiped as a god who took the form of a snake.

Although the Dutch had a brief encounter with Fijians in 1643, Captain James Cook of England spent more time with them in 1774. Later, trade vessels came for sandalwood, which was used in ornamental carving and cabinetmaking. The islands were known by many as the Cannibal Islands because of the Fijians' reputation as fierce warriors and cannibals. Fijians believed that eating the enemy let them possess the enemy's power; it was not for lack of food. After years of tribal warfare, Chief Ratu Cakobau converted to Christianity in 1854, united rival tribes under the new religion, ended cannibalism, and became king of Fiji in 1871.

Colonial Period and Independence

Cakobau was aware of European competition for territory in the Pacific and, in 1874, offered to cede the islands to Great Britain (after the United States refused the same offer). Britain brought in laborers from India to work on sugarcane plantations. The descendants of these workers still live in Fiji today.

Exactly 96 years to the day after cession to Britain, Fiji gained its independence (10 October 1970). That year, it also joined the Commonwealth of Nations, an organization mostly composed of former British colonies. Ratu Sir Kamisese Mara became the first prime minister, and his Alliance Party

(mostly indigenous Fijians) governed until 1987, when a coalition led by the National Federation Party (mostly ethnic Indians) won a majority in parliamentary elections.

Elections and Military Coups

Two weeks after the elections, however, General Sitiveni Rabuka led a military coup to restore control to native Fijians (called *iTaukei* in Fijian). The coup was halted because Britain's governor-general (Queen Elizabeth's representative in Fiji) assumed executive control and negotiated a settlement between the Indo-Fijians and *iTaukei*. Rabuka then staged a second coup, establishing a civilian government dominated by *iTaukei*. Fiji subsequently was voted out of the Commonwealth by its member nations. Rabuka appointed Mara to once again serve as the prime minister. In 1992 elections, Rabuka was elected prime minister. Mara became president in 1994.

A new constitution ratified in 1990 favored *iTaukei* over Indo-Fijians, making it impossible for Indo-Fijians to control the government. President Mara subsequently created a commission to review the constitution, which was officially amended and signed into law in July 1997. The amended constitution opened the way for multiracial elections in 1999 and promised equality and basic human rights. Fiji rejoined the Commonwealth soon after the constitutional changes were implemented.

A landslide victory in May 1999 gave the Fiji Labour Party (FLP, an ethnic Indian party) a majority in Parliament, and Mahendra Chaudhry served as Fiji's first Indo-Fijian prime minister. However, in May 2000, rebels seeking control of the government for Fiji's indigenous majority stormed Parliament, taking Chaudhry and members of his multiethnic coalition hostage. Ten days later, the military took control of the country and declared martial law. After nearly two months of negotiations between the government and rebel leader George Speight, the hostages were released, Chaudhry was deposed, and an interim government was established.

Laisenia Qarase of the Fijian United Party (an *iTaukei* party known by the Fijian acronym SDL) headed the interim government until parliamentary elections were held in August 2001. The SDL won by a slim margin over Chaudhry's FLP, allowing Qarase to remain prime minister.

Bainimarama Rule

In December 2006, Fiji experienced its fourth coup in 20 years when Fiji's military leader, Commodore Frank Bainimarama, deposed Qarase. Despite international condemnation, Bainimarama installed himself as the head of the interim government. The regime weakened organized labor, silenced opposition leaders, and was plagued with corruption. Fiji was suspended by the Commonwealth in late 2009 for not agreeing to hold elections in 2010.

In January 2012, Bainimarama announced the lifting of emergency laws that had been in place since 2009. A new constitution came into force in September 2013. The constitution aimed to decrease race-based politics in Fiji and to maintain a strong military role in governing. It was criticized by international human-rights organizations for its strong limitations on freedoms of association, assembly, and expression, as well as for the legal immunity it offered to perpetrators of past human-rights abuses.

In March 2014, Bainimarama was elected prime minister in the country's first elections since 2006. International observers deemed the elections free and fair. That same year, Fiji rejoined the Commonwealth as a full member. Although neighboring countries support Fiji's step toward democracy, the country remains under condemnation for its poor human-rights record.

Recent Events and Trends

• **Mental-health concerns:** In April 2017, the World Health Organization said that over 30,000 Fijians suffered from depression and that many of those cases were linked to the aftereffects of the February 2016 landfall of Cyclone Winston, a powerful storm that killed 44 people and left thousands homeless. Many Fijians, particularly men, avoid seeking help for depression because it is considered a weakness in Fijian society. Fiji has one of the highest suicide rates in the Pacific region.

• **Climate change:** In November 2017, a report released by the Fijian government and the World Bank estimated that Fiji must spend US\$4.5 billion—roughly equivalent to Fiji's yearly gross domestic product (GDP)—over the next 10 years to help protect itself from the effects of climate change. The report warned that Fiji's lowest-lying islands may become uninhabitable because of rising sea levels and storm surges. In addition to highlighting Fiji's need for financial assistance, the report also urged other nations to drastically reduce their greenhouse gas emissions. The threat of rising seas due to climate change is one of the biggest challenges facing low-lying Pacific island countries like Fiji.

• **Reelection of prime minister:** In November 2018, Prime Minister Bainimarama received a second consecutive term after his FijiFirst party won a slim majority of parliamentary seats in a general election. Although the election was deemed free and fair by an international election-monitoring group, Fiji's opposition parties, including the Social Democratic Liberal Party (SODELPA), accused the elections office of irregularities over the way it released voting results. Bainimarama, who is labeled by his critics as authoritarian, campaigned in part on maintaining Fiji's recent economic growth and political stability.

THE PEOPLE

Population

Most of Fiji's population lives on its two main islands, Viti Levu and Vanua Levu. The largest urban areas are Suva (the capital) and Lautoka. The number of urban residents is growing as an increasing number of families search for better opportunities in cities. Urbanization is causing changes in lifestyle, family structure, and work patterns as city dwellers spend less time working the land and transition to living with nuclear families rather than extended families.

Indigenous Fijians (*iTaukei*, 57 percent) and Indo-Fijians (38 percent) together form 95 percent of the total population. Though the *iTaukei* and Indo-Fijian populations were once roughly equal, large numbers of Indo-Fijians have left the country since the first coup in 1987, in part due to discrimination. The Indo-Fijians who remain live mostly on

Viti Levu. The Rotuman, a Melanesian ethnic group, make up 1 percent of the population. The remaining percentage of the population consists mostly of other Pacific Islanders, Asians, and Europeans.

Language

English, Fijian, and Hindi are the official languages. Overall, Fijian is spoken by *iTaukei* (indigenous Fijians), and Hindi is spoken by Indo-Fijians. English is widely used by most Fijians and is the language most commonly used in government and business, especially in urban areas. When English is spoken in more informal settings, words and phrases from Fijian, Hindi, and other languages are often mixed in.

Fijian can be written in two ways, one of which is more phonetic than the other. For instance, the letter *b* is pronounced with an *m* sound before it, as in the case of the town Ba. Its name can be written *Ba* or *Mba*, but it is pronounced "mbah." Also, a *q* is usually pronounced "ngg." That is, *yaqona* is pronounced "yanggona." (In this text, most Fijian words are written in the more standard, less phonetic spelling.)

The Hindi spoken in Fiji is called Fiji Hindi (or, more informally, Fiji Bat or Fiji Talk) and differs slightly from the Hindi spoken in India. Fiji Hindi also varies slightly between the Fijian islands themselves.

Religion

Religion plays a major role in the lives of many Fijians, and Fijians commonly celebrate festivals of other religions. Most *iTaukei* (indigenous Fijians) are Christian, belonging to various churches. Methodists (35 percent) and Roman Catholics (9 percent) predominate. Indo-Fijians are mostly either Hindu (28 percent of the total population) or Muslim (6 percent of the population). There is also a small minority of Sikhs.

Freedom of religion is guaranteed by the constitution and generally respected. The Methodist Church has long played a major role in Fijian politics, and some Methodist church leaders have even advocated that Fiji become a Christian state, though that view does not reflect the position of the church as a whole. The Fijian government has designated Sunday as a day of rest on which work is generally not allowed.

General Attitudes

Fijians are often generous, friendly, and easygoing. Daily life in Fiji is largely relaxed and casual. Some call it the "Pacific way." The community is considered important, as is evident in cooperative building projects, community ceremonies, and community pride. The custom of *kerekere* dictates that a relative or neighbor can ask for something that is needed and it must be given willingly, without expectation of repayment. An exception is if the requested item were a gift from someone else, in which case a person does not have to give it away. Although Fijians have abandoned their tradition as fierce warriors for a more peaceful life, they remain proud of their cultural heritage and traditions.

Despite some improvement, ethnic tensions continue to

exist between indigenous Fijians (*iTaukei*) and Indo-Fijians, although they may work, attend church or school, or play soccer together. Indo-Fijians often feel discriminated against by *iTaukei* government leaders. They point to such inequalities as land ownership to argue their case. Most of the land is owned by *iTaukei* clans; Indo-Fijians do not have access to it. Indo-Fijians are also disadvantaged when it comes to education, employment, and housing.

Personal Appearance

The people of Fiji typically wear light, casual clothing throughout the year, but public attire tends to be fairly conservative (no bathing suits), especially for women. In traditional villages, women do not wear shorts or pants.

Everyday clothing for indigenous Fijian men and women is most often the *sulu*, a medium-to-long wraparound cloth made of colorful cotton. Businessmen, clergy, and civil servants (such as police officers) wear a tailored *sulu* made from suit material. Men typically wear this *sulu*, called a *sulu vakataga* or *pocket sulu*, with a short-sleeved shirt and sometimes a tie.

Indo-Fijian men typically wear long pants and shirts. Indo-Fijian women usually wear skirts or dresses. At more traditional gatherings, such as weddings or prayer ceremonies, Indo-Fijian women often wear a *sari* (wraparound dress) or a *salwaar kameez* (pants with a long matching tunic).

In recent years, Western fashions have become the most popular form of clothing in larger urban areas, where tourists, movies, and social media influence clothing styles. Most youth in Fiji wear jeans or pants and T-shirts or other tops; girls may be seen in dresses and both long and short skirts as well.

CUSTOMS AND COURTESIES

Greetings

Fijians tend to be friendly and will go out of their way to greet whomever they meet. The most common way to say hello among indigenous Fijians is *Bula* (pronounced "mboola," meaning "Health"). For formal meetings, they typically use a handshake and the more formal *Ni sa bula*. The Fijian handshake can last a little while, as the greeters continue polite conversation before they let go. Indo-Fijians typically use shorter handshakes and say *Namaste* when they greet. When passing a rural Fijian house, a person is often greeted with *Mai kana* (Come eat).

Fijians commonly address most people by first name. When people are related or have an established relationship, they may greet by reference to that relationship rather than use first names. For example, close friends may address each other by *itau* (a traditional friendship), and male cousins might use *tavale* (cousin). People address chiefs by the title *Ratu* before their first names.

Gestures

Among *iTaukei* (indigenous Fijians), tilting the head down and avoiding eye contact while speaking to someone shows

respect. Staring is considered offensive. One indicates agreement by raising the eyebrows, closing the mouth, and making an "mm-mm" sound (similar to a sound that would mean "no" in the United States). A "thumbs up" gesture means "good" or "okay."

Pointing directly at someone while speaking to him or her is considered rude. Standing with hands on hips is thought to be aggressive or brash. Pointing the bottom of one's foot at another person is considered impolite. Among *iTaukei*, it is especially offensive to touch someone's head (except for a child's); one must say *Tulou* if it happens by accident to restore respect to the person. *Tulou* is also said when walking among people who are gathered and conversing.

One beckons by waving all fingers of the hand with the palm facing down. Public displays of affection, even for married couples, are usually frowned upon. People practice a custom called *cobo* (pronounced "thombo") when accepting a gift, presenting *yaqona* (see Visiting), or excusing oneself when reaching above a person's head. *Cobo* involves clapping cupped hands three or more times.

Visiting

Visiting is an important part of social relations. Most people visit unannounced, and guests are generally welcome. Removing one's shoes when entering a home is customary. Sitting cross-legged on a mat-covered floor is common in an *iTaukei* (indigenous Fijian) home, but Indo-Fijian homes have furniture. A chief or guest sits in a place of honor. It is considered impolite to stand higher than those who are sitting, so one takes care to also be seated or to walk in a stooped position when others are seated.

The people of Fiji tend to be hospitable; many enjoy sharing a visitor's company, so visits may last a long time. Hosts nearly always offer refreshments, including tea, juice, or food. It is considered impolite to refuse them. Instead, one accepts the offering and says *Vinaka* or *Dhananbaad*, the respective *iTaukei* and Hindi words for "Thank you."

An important symbol of social relations is *yaqona* (also called *kava*). Considered Fiji's national drink, it is made by mixing water with the powdered root and lower stem of a shrub in the pepper family. *Yaqona* may be offered to guests as a special sign of goodwill. People also use it to mark special occasions and end disputes; they drink it at all official ceremonies. Both *iTaukei* and Indo-Fijians use the drink socially. The bitter-tasting drink numbs the tongue, is not addictive, and can produce a mild sense of well-being. *Yaqona* is prepared in a *tanoa* (a special wooden bowl) and drunk from a *bilo* (coconut shell). When strangers enter a Fijian village, they seek out the chief or village headman to ask for permission to enter and visit and are expected to present some unpounded *yaqona* to him.

Receiving the gift of a *tabua* (whale's tooth) is considered a great honor. These expensive gifts are generally reserved for high-ranking officials, visiting dignitaries, and local chieftains. A ceremonial presentation, complete with feasts, *yaqona*, and dances, marks the giving of a *tabua*.

Eating

Overall, neither *iTaukei* (indigenous Fijians) nor Indo-Fijians

use eating utensils, although spoons and forks are becoming more common in urban areas. For all meals, *iTaukei* usually spread a cloth on the mat-covered floor, sit cross-legged, pray, pass a bowl of water around for washing hands, and eat from tin plates and bowls. They pass around the water bowl again after the meal. In more traditional villages, women and girls usually eat after the men and boys. Food is shared in *iTaukei* villages, due not only to communal obligations but also to the fact that most homes do not have refrigerators to keep leftovers. For large feasts and special meals, *iTaukei* still cook food in the traditional manner in a *lovo* (ground oven). Indo-Fijian homes generally have a small washbasin in the dining room for washing hands. Indo-Fijians usually eat with the right hand.

Tipping is not expected in most restaurants. Though nuclear families and single students living away from their families may eat out regularly, most Fijians do not. Fast food is growing in popularity, especially among the youth.

LIFESTYLE

Family

Structure

On average, couples have two or three children. Catholic families tend to be larger. Urban families usually live in nuclear units, but in rural areas, extended family members commonly live together or near each other.

Villages are composed of families that form clans or *mataqali* (landholding units). In this extended-family system, Fijians live in a collective or communal way. *Kerekere* (the custom that dictates that a relative or neighbor can ask for something that is needed and it must be given willingly, without expectation of repayment) plays an important role in family relationships. Extended family members work together to help raise children, with everyone looking after each child's physical, social, and economic development.

Parents and Children

Fijian parents are expected to support their children in every way until they are grown and independent. Usually, single adult children live with their parents until marriage, though employment and educational opportunities may require them to move out of the house beginning around age 19.

Children begin helping with household chores around age six. For boys, this may include the outdoor tasks of picking up trash, raking the compound, and collecting firewood, in addition to scraping the meat from coconuts and taking out the garbage. Girls help prepare meals, set the table, and keep the house clean.

When aging parents begin needing additional care, their adult children decide among themselves who is best equipped to take on that responsibility, which includes providing the parents shelter, cooking their meals, facilitating their health care, and the like. If an adult child cannot handle these tasks alone, a caretaker may be hired to assist.

Gender Roles

The father acts as the head of the Fijian family and is the traditional breadwinner. Mothers customarily stay home, where they care for children and perform household duties.

However, with modernization, urbanization, and the increased cost of living, many families today rely on the incomes of both fathers and mothers. In these cases, families often employ someone to help with the children and household chores. In villages, subsistence chores are shared between men and women. Men usually engage in spearfishing, gardening, and construction, while women typically cook, collect wild food, and do line and small-net fishing.

Though gender roles are changing, Fiji nonetheless retains a strongly patriarchal culture. Due to cultural expectations and customs, women find it difficult to access the resources and opportunities necessary to excel economically. The gender pay gap in Fiji is significant, with men generally making more than women. A minority of women may be found in business, teaching, and secretarial positions, though they are rarely leaders in their fields and remain underrepresented in government. Women who lack the education or training necessary for such jobs may work in garment factories or in other manufacturing industries as laborers. They may also work in fishing, as house maids, as cane-cutters, or in other unskilled jobs.

Through the work of women's rights activist groups in the country, the voices and opinions of Fijian women are increasingly being heard and their rights gradually recognized to a greater degree. Gender-based violence, however, remains a serious problem for most women in Fiji. Suicide and attempted suicide rates among Fijian women are high, which is attributed, in part, to the prevalence of domestic violence.

Housing

Rural

The traditional Fijian home is called a *bure*. A *bure* consists of one large room and is typically built by the entire community. It usually is built of local hardwoods and a thatched roof. A compound made from finely scraped soft stone, soil, and animal dung is applied to floors, creating a strong, smooth finish. Dried coconut husks or leaves are burned outside the home or in a corner of the *bure* to control mosquitoes at night. The four doors of the *bure*, which typically remain open to improve air circulation, are used by different people. For example, visitors enter through the front door, except for the village chief, who enters at the side.

In all traditional types of rural dwellings, there is usually a small, detached structure in which women cook. Parents and older children generally live and sleep in separate houses. Sleeping quarters are found at the top of a *bure*, accessible by stepladder. A lean-to structure enclosing a pit latrine serves as the bathroom.

A *vale ni bose*, which is similar to but larger than a *bure*, is a structure that serves as a communally owned gathering place.

Urban

City dwellers from all of Fiji's ethnic groups often live in Western-style homes made of tin, cement, or wood. These homes typically consist of a living room, a kitchen, and two or three bedrooms. This type of home is becoming increasingly common in rural areas as well. Security in urban areas is a growing concern. In an attempt to deter robberies, many urban residents attach heavy iron bars to windows and

doors.

Other than beds and sometimes a dresser, there traditionally has not been much furniture in Fijian homes. However, this is changing, and many middle-class families now have more furniture as well as washing machines, air-conditioning units, microwaves, and other modern conveniences.

Outside the major city centers, communities of tin shacks can develop quickly. These neighborhoods are referred to as *bangladesh* (a term coined by Indo-Fijians in reference to the impoverished country that neighbors India), have no access to utilities, and provide only modest protection against the elements.

Dating and Marriage

Dating and Courtship

Dating was traditionally nonexistent in Fijian culture, but Western influences are changing society so that dating is now widespread, though parental approval remains an important aspect of dating and marriage. Most couples begin dating in high school or college. Some group dating happens, but individual dates are more common. Boys usually ask girls out to movies, sports or youth group events, dinner, or other recreational activities.

Engagement

Normally, a young man who is interested in marrying a young woman will inform his parents of his intentions. If the couple has already been dating and the woman's family knows about the relationship, the process of formalizing the engagement tends to go smoothly. The man's extended family formally approaches the woman's to request marriage, which is seen as the social and economic binding of not just the couple but also their two families. If, however, the young man has been courting her without her family's knowledge, the request can lead to hostility and, in years past, even violence between the two families.

Marriage in Society

Fijians generally marry when they are in their twenties, after dating for a period of roughly six months to two years. Traditionally, most marriages (especially among Indo-Fijians) were arranged. While this is still true in rural areas, in urban areas marriage today tends to be based more on romantic love between two individuals.

Whereas most people used to marry someone who lived in the same village, today individuals often meet their future spouses through work, sport teams, or social occasions. In these cases, families play less of a role in the marriage process due to the geographic distance between them.

Once in a while, young couples (especially those who have been intimate before marriage) will run off together and marry without their families' knowledge or approval. Cohabitation outside of marriage is considered completely unacceptable, though attitudes are starting to change in urban areas.

Same-sex marriage is illegal in Fiji. Though many religious groups oppose same-sex unions, tolerance toward homosexuality is growing.

Weddings

Traditional wedding customs vary by area and even family.

The extent to which they are followed depends on the degree to which the families involved maintain a traditional lifestyle and whether they have the money and time required to carry out a full customary celebration. Such a celebration is characterized by a one to two-week-long event, which extended family members travel from afar to attend. Traditional clothing and customary gifts add to the expenses involved. Increasingly, families faced with the demands and costs of modernizing lifestyles plan for scaled-back weddings to which, contrary to tradition, guests unrelated to the couple may be invited. In other cases, couples opt out of traditional weddings, which customarily are reserved for virgins, because they have had a pre-marital relationship.

Before marrying, a couple must register the marriage civilly. Wedding ceremonies themselves may be performed by a civil, religious, or traditional authority. They are followed by a *solevu* (great feast) and celebrations that include singing, dancing, and drinking.

Divorce

Divorce, once virtually unheard of, has become more common in recent years, especially in urban areas. However, it still carries with it immense social stigma, including disgrace and humiliation to both families involved.

Life Cycle

Birth

Many traditional beliefs surround pregnancy. According to one, an owl flying near a house and hooting in the early evening indicates that a woman living in or near the house is pregnant. A woman who realizes she has become pregnant but for whatever reason does not tell others is considered a potential source of bad luck. For example, a look from her is thought to hasten the death of a sick person and bring other problems to the family.

Families eagerly anticipate a pregnancy in a couple's first year of marriage. In some areas of Fiji, women are confined to the house for one to three months during the early stage of pregnancy and fed daily with specially prepared food. An expectant woman's mother and husband attend to her during birth. Today, most births take place in a hospital or, in rural areas, are at least attended by a midwife. Women are expected to bear the pain of labor and childbirth calmly.

In some areas, babies (especially firstborns) are kept inside for a period of a few days to a month after birth. After a birth, family members and fellow villagers help the mother in the early stages of childrearing. In *iTaukei* (indigenous Fijian) communities, there is feasting for usually four nights after a birth. If the baby is born to a chiefly family, the family holds lengthy and dramatic celebrations in which the newborn is showered with gifts and villagers take part in large feasts, *yaqona* ceremonies (see Visiting), and prayer meetings.

In *iTaukei* families, babies are normally named after a member of the father's family (typically a grandparent), largely because this practice aids in tracing one's paternal kinship line. Sometimes a person may request that a child be named after him or her, irrespective of kinship group. Such a request is often made formally to the child's parents by the presentation of *tabua* (whale's tooth); to have a child named after oneself is considered an honor. Sometimes babies may

be named after important events their relatives experienced. For example, a baby may be named Sukanaivalu ("return from war") after a veteran in the family or named Vulimailaucala ("educated in Laucala") after a family member who studied at the University of the South Pacific, located in Laucala. Parents may alternate picking names from paternal and maternal lines.

In Indo-Fijian families, astrological charts are often consulted before a name is chosen. A naming feast follows, during which the child is blessed. Within six days of birth, parents host a ceremony for which the child's head is shaved. The hair is placed in dough that is later cast into the sea or a river.

Milestones

In *iTaukei* communities, boys are circumcised at about age 10, though the Western practice of circumcising soon after birth is becoming more common. Typically, a circumcision rite will be held for a group of boys. On the fourth day following the operation, the boys swim together in the sea. After returning, they are honored with a large celebratory feast.

When an *iTaukei* girl gets her first menstrual cycle, a special mat is laid out for her to sit on while she is taught about the nature and importance of this life event. On the fourth day, the girl's family prepares a feast to celebrate her womanhood. Once brothers and sisters have reached physical maturity, their interactions shift from playful to more guarded. Youth are legally considered adults at age 18 and socially when they begin working or begin university studies.

Death

Death has important social and religious significance to Fijians. It brings together relatives and friends of the deceased who are usually separated by geography, time, or other factors while strengthening existing social and political connections. A dying person will often gather family around him or her to bid them farewell and perhaps offer advice. A person's death is usually announced by a sudden shrill outburst of wailing and grief by the women attending the bedside. Others from the neighborhood and community arrive soon after and join in the weeping and wailing.

The death of an *iTaukei* high chief is announced by a particular pattern beaten on a *lali* (wooden drum). Traditional *iTaukei* funerals stretch over the course of one to two weeks, while those in urban areas tend to be only one or two days. *iTaukeis* and other ethnic groups are usually buried, while Indo-Fijians are cremated and their ashes are thrown into the sea.

Many *iTaukeis* mourn the passing of a loved one for one hundred days, after which a celebratory feast is held. If the death occurs within the family of a chief, then the number of mourners and the length and elaborateness of the rituals increase significantly. Indo-Fijians grieve for 13 days, during which time they sing tributes to the deceased every night. They hold a feast 13 days after the death and a second feast 6 months following the death. After a year, they hold the final rites.

Diet

The mainstays of the Fijian diet are boiled taro and cassava,

starchy roots often grown in the family garden. There are also some leafy vegetables and many tropical fruits (papaya, mangoes, pineapples, bananas). Many families rely on produce grown in their own backyard gardens. Coconuts have many functions: the meat is eaten and the water is drunk from young coconuts, while older coconuts are used to produce coconut milk (*lolo*, a common ingredient), copra, and coconut oil.

Seafood, chicken, pork, and beef are eaten in Fiji. Foods are rarely deep-fried, but are steamed, boiled, or roasted. In Fijian villages, breakfast consists of tea drunk from tin bowls and possibly rice or any leftovers from the previous night's dinner. Hindus do not eat beef; Muslims do not eat pork. Many Indo-Fijians are vegetarians. Indo-Fijian meals are often spicy and consist of curries, rice *dhal* (lentil soup), and *roti* (round, flat bread). *Palusami* (coconut cream in taro leaves) is popular among all Fijians and is often served on Sundays and at most ceremonies and festivals.

Recreation

Sports

Many Fijians are sports enthusiasts. Soccer, cricket, and rugby are the most popular team sports. Though children often lack proper sports equipment, those who have it are eager to share. Women's rugby games are becoming culturally acceptable. The national rugby team has been successful in international competition. The annual Fiji National Athletics Meet, held in April, is a beloved event. Thousands of people gather in Suva from all over the country to watch an annual track-and-field competition among high school students. The winners become local sports stars and are likely to be selected to represent Fiji in the Pacific Games and other regional competitions.

Leisure

Most Fijians enjoy movies, cultural events, walking, visiting, and camping near the beach or in villages. Socializing with friends around the *tanoa*, a special wooden bowl used to prepare *yaqona* (a drink also called *kava*), is also a favorite activity (see Visiting). Card games and swapping stories are popular ways to pass the time. Children and youth may play marbles, go swimming, or attend the movies, and groups of women may go fishing together. Some people participate in canoe and horse racing. Urban residents enjoy video games and spend time on the internet as well.

Many Fijians enjoy gardening, whether in backyard plots or larger areas located away from their homes. Backyard gardens are usually large enough to grow sugarcane; vegetables such as cabbage, eggplant, beans, pumpkin, chilies, and cassava; and fruits such as pawpaw (papaya), mangoes, pineapple, and mandarins.

Festivals are a time of recreation for many Fijians and an opportunity to interact with family and friends. Women in villages play the traditional Fijian game of *veicaqe moli* (kick the orange) in January to celebrate the New Year. The winning team must present the losers with clothes, while the losers are responsible for mixing and serving *yaqona* to the winners that night.

Vacation

Fijian families rarely take vacations other than to travel to

villages during the holidays to spend time with extended family. Depending on the nature of their jobs, Fijians usually receive between two and four weeks of vacation. Visitors to Fiji enjoy the country's beaches, golfing, many water sports (snorkeling, windsurfing, scuba diving, etc.), and game fishing.

The Arts

Fijian handicraft artists produce *masi* cloth from bark and use stencils to decorate them with elaborate patterns. These highly valued cloths are used for ceremonial dress and traditional domestic purposes, although today they largely are made for the tourist market. Other handicrafts include detailed wooden *tanoa* bowls, traditionally used to prepare *yaqona* (a drink also called *kava*), and *ibe* mats, made of pandanus leaves.

Fijian *meke* dances describe legends and historical events. Chanting, clapping, bamboo percussion sticks, and wooden *lali* drums accompany the dancers. Indo-Fijians perform classical Indian dances with intricate movements. Both *iTaukei* (indigenous Fijians) and Indo-Fijians hold ceremonies in which participants walk across hot stones or embers. In the Indo-Fijian ceremony, religious songs and drumming play a prominent role.

Holidays

Official public holidays include New Year's Day (1 January), Easter, National Sports Day, Constitution Day (7 September), Fiji Day (or Independence Day, 10 October), *Diwali*, the Prophet Muhammad's Birthday, Christmas (25 December), and Boxing Day (26 December). Many festivals throughout the year celebrate different events. The largest, held in Suva for a full week in August, is the Hibiscus Festival.

Fiji Day

Independence Day, or Fiji Day as it is officially called, is celebrated at home and abroad by *iTaukeis* (indigenous Fijians) and some Indo-Fijians. The week leading up to the holiday is called Fiji Week, during which religious and cultural ceremonies celebrate the country's diversity. Fiji Day itself is often marked by church services followed by feasts, *yaqona* (a drink also known as *kava*), sports, and cultural performances. *Taralala*, traditional Fijian music, is accompanied by fun and a general sense of good will and pride for country on this day.

Diwali

Also popular is *Diwali*, the Hindu Festival of Lights, held in either October or November. Indo-Fijians and *iTaukei* alike celebrate this holiday, though the broader population may not participate in all of the Hindu rituals associated with it. *Diyas* (lamps) are lit as a way of paying respect to deity for the attainment of health, wealth, knowledge, and peace; houses are decorated with candles and other items; and firecrackers are set off. Friends and family gather together for a feast. In several schools, *Diwali* is marked with organized singing, essay writing, quizzes on the holiday, and *Diwali* card-designing competitions. Schools also host talks in Hindi, English, and Fijian to develop greater multicultural understanding among students.

Christmas

Christmas is celebrated by nearly all Fijians as a time to spend with family, but it is especially significant for Christians, for whom it is the highlight of the year. Most families decorate their houses and a Christmas tree. Parties and family gatherings are common during the Christmas season, with individuals traveling to or from villages to be with the larger extended family.

Christmas Eve is usually spent singing carols and going to church. On Christmas Day, children receive toys and books from Santa Claus. Villagers throw huge communal parties, while Christians in more urban areas have picnics and parties on the beach. Boxing Day, the day after Christmas, comes from the British tradition of presenting gifts to tradesmen and service persons. It is now a day for relaxing and visiting friends and family.

SOCIETY

Government

Structure

Fiji is a parliamentary republic. The president, who serves a mostly ceremonial role, is head of state. The president is elected by members of Parliament to serve a three-year term, with a two-term limit. The legislature consists of a 51-seat unicameral Parliament. Members of Parliament are directly elected in an open-list proportional representation system and serve four-year terms. The party with the greatest number of seats in Parliament selects the prime minister, who serves as head of government. Though formally independent of the executive branch, Fiji's judicial system has been criticized as lacking independence.

Political Landscape

Fiji's political landscape is extremely volatile; since independence in 1970, the country has experienced four coups and multiple constitutions. Fierce rivalry between the country's two main ethnic groups—*iTaukei* (indigenous Fijians) and Indo-Fijians—lies at the heart of Fijian politics. Land reform is a charged issue, with *iTaukei* clans holding most Fijian land.

Historically, political parties were largely ethnically based. However, Fijian politics have begun to move away from strictly ethnically oriented parties, though some political parties tend to have ethnic associations. FijiFirst is the ruling party and advocates racial equality. The Social Democratic Liberal Party (SODELPA) is the main opposition party. A number of smaller parties also operate, but they have little power. Parties may also be strongly influenced by churches.

Even though there has been some improvement in recent years, corruption remains a major problem at all levels of government. Critics of the government are often silenced, and police and military brutality is widespread.

Government and the People

In general, Fijians feel that the government has not represented the entire population. In particular, Indo-Fijians point to discrimination against them in the political realm. Though the government heads development projects related to transportation, utilities, housing, health care, and natural disaster relief, it is unable to properly maintain and repair all

of Fiji's deteriorating infrastructure or improve the poor living conditions that characterize many citizens' lives. This, coupled with regular political turmoil, results in a government that few people feel they can depend on.

While Fiji's constitution guarantees freedoms of speech, assembly, association, religion, and press, these rights are not always respected in practice. Political activism is rare, and reformers are often seen as troublemakers. Voter turnout tends to be high, with nearly three-quarters of eligible voters participating in the last general election. The voting age is 18.

Economy

Tourism is Fiji's primary industry and accounts for much of the country's gross domestic product (GDP). Subsistence farming (supplemented by fishing) is the primary livelihood of many Fijians. Indo-Fijians comprise the vast majority of sugar farmers, though few own the land they farm on. These farmlands are leased primarily from indigenous Fijian owners.

Primary cash crops include sugar and copra (coconut kernels from which coconut oil is extracted). Fiji also exports clothing, gold, lumber, and fish. Although the agricultural sector accounts for less than 11 percent of Fiji's gross domestic product, a large majority of the population works in this industry.

Private sector investment has increased following a free and fair election in 2014. Fiji receives a significant amount of foreign aid from other countries, including aid for development projects. Remittances from abroad remain important, but they vary depending on the global economic situation. Though poverty still affects many Fijians, the younger generation is already benefiting from increased economic opportunities. The currency is the Fiji dollar (FJD).

Transportation and Communications

Most people travel by open-air bus because service is regular and inexpensive. Taxis and private automobiles are also used but are more expensive. Relatively few people own cars. Following the British tradition, traffic travels on the left side of the road. A ferry service and two airlines provide passenger travel between more populated islands, though these options are unaffordable for many.

Fiji has a modern communications system, with satellite links to other countries. Several radio stations broadcast in English, Fijian, or Hindi. Television broadcasting services continue to expand. Daily and weekly English, Fijian, and Hindi newspapers are published in Fiji. A growing number of people use the internet, and social networking sites are very popular. However, internet access is more limited in rural areas.

Education

Structure

The government provides free education for grades one through eight. Students generally begin school at age six. Advancement to the next grade is based on merit (proven by passing exams at the end of each year) and, after the primary level, financial capacity (ability to pay yearly tuition). A student lacking in either area may not complete high school,

though some government support is available to financially needy families.

Almost all secondary schools in Fiji are private institutions, owned and managed by cultural groups, non-governmental organizations, and religious groups, such as the Catholics, Methodists, Hindus, Latter-day Saints (Mormons), and Muslims. Some offer internationally recognized curriculums. Most accept both boys and girls.

Access

The quality of most school facilities is poor, and essential equipment is usually lacking. While some schools offer textbooks, in most cases students are required to purchase their own copies. Students also must pay for school uniforms; each school's uniform has its own unique design. Many parents lack the means to pay for the costs associated with their children's education, which even for tuition-free schools include lunch fees, bus fares, and building-maintenance dues.

The dropout rate is high, and school attendance laws are rarely enforced. Parents often prioritize their children's social and religious commitments over education. The geographical isolation of schools located on small outlying islands or in remote areas of the main islands presents challenges of administration and staffing, as teachers are reluctant to take posts in isolated areas with poor living conditions. Prior to 2001, private-school admission was determined on the basis of academic or athletic abilities, but now a school is legally required to admit anyone living within its zone.

School Life

The subjects of English and math are emphasized. English is the official language of school instruction, though the subjects of Fijian and Hindi languages have become mandatory. Most students do not speak English natively, so in practice early levels of primary school tend to be taught in students' native tongues.

Teaching styles tend to be lecture based, though sometimes discussions also play a role. Textbooks are the most commonly used materials in classrooms. Knowledge is assessed through exams, including comprehensive final exams held at the end of each school year. Cheating is uncommon and warrants serious punishment. Relationships between teachers and students are very formal, and students are expected to treat their teachers with great respect. Teachers go by the titles of Madam, Mistress, Sir, or Master. They sometimes mentor groups of students after school. Apart from the occasional end-of-year event, schools do not usually host social events for students.

Higher Education

The University of the South Pacific is a joint effort by several small Pacific island nations to provide their people with higher education. It receives substantial funding from Fiji's government, and one of its many campuses is located in Suva. The University of Fiji, located in Nadi, was established in 2005. In 2010, several state educational institutions merged to form Fiji National University (FNU). With campuses in all four of Fiji's administrative divisions, FNU offers a wide range of courses in medicine and public health, humanities, technology, business, agriculture, and more. Higher education is unaffordable for many Fijians, so they often strive to secure government- or privately-funded scholarships.

Health

The government provides most medical care through local clinics. In recent years, hospitals have been built in rural areas. Life expectancy rates are rising steadily, and infant mortality rates are falling. Outbreaks of dengue fever, an infectious disease transmitted by mosquitoes, may occur during the rainy season, November to April. The number of non-communicable diseases, such as diabetes, heart disease, and obesity, is on the rise due to changing diets and more sedentary lifestyles. Discrimination against those with HIV/AIDS remains a problem despite a government decree that officially outlawed it in 2011.

AT A GLANCE

Contact Information

Embassy of Fiji, 1707 L Street, Suite 200, Washington, DC 20036; phone (202) 466-8320; web site www.fijiembassydc.com. Fiji Visitors Bureau, phone (310) 568-1616; web site www.fiji.travel.

Country and Development Data

Capital	Suva
Population	926,276 (rank=156)
Area (sq. mi.)	7,056 (rank=151)
Area (sq. km.)	18,274
Human Development Index	91 of 188 countries
Gender Inequality Index	75 of 188 countries
GDP (PPP) per capita	\$9,900
Adult Literacy	94%
Infant Mortality	10 per 1,000 births
Life Expectancy	70 (male); 76 (female)
Currency	Fiji dollar

CultureGrams™

ProQuest
 789 East Eisenhower Parkway
 Ann Arbor, Michigan 48106 USA
 Toll Free: 1.800.521.3042
 Fax: 1.800.864.0019
www.culturegrams.com

© 2019 ProQuest LLC and Brigham Young University. It is against the law to copy, reprint, store, or transmit any part of this publication in any form by any means without strict written permission from ProQuest.

This page intentionally blank

Fiji country profile

4 January 2018



Fiji has one of the most developed economies in the Pacific, relying heavily on its tourism and sugar industries.

Since independence from Britain in 1970, rivalry between the indigenous Fijian and the ethnic Indian communities has been at the root of much of the political upheaval in the country.

The archipelago consists of some 300 islands and 540 islets scattered over about 1,000,000 square miles (3,000,000 square km). Of the 300 islands, about 100 are inhabited.

- Read more [country profiles](#) - Profiles by **BBC Monitoring**

KEY FACTS

Republic of the Fiji Islands

Capital: Suva

Population 900,000

Area 18,376 sq km (7,095 sq miles)

Major languages English, Fijian, Hindi

Major religions Christianity, Hinduism, Islam

Life expectancy 67 years (men), 73 years (women)

Currency Fijian dollar

LEADERS

President: Jioji Konousi Konrote

Jioji Konousi Konrote was elected as president in October 2015. He is the first non-indigenous president and the first to be elected by parliament. Previous presidents were selected by the Great Council of Chiefs (GCC).

He has had a long career in the military, government and diplomatic service.

Prime Minister: Josaia Voreqe "Frank" Bainimarama



GETTY IMAGES

Former military leader Josaia Voreqe Bainimarama was sworn in as prime minister in September 2014, eight years after overthrowing the government of Laisenia Qarase in a bloodless coup, accusing it of corruption and a bias towards ethnic Fijians.

An indigenous Fijian born in 1954, Mr Bainimarama has long championed equal rights for the country's minority ethnic Indian community. More commonly known as Frank, he is sometimes referred to with the title Ratu to denote his heritage as a chief.

- [Read full biography](#)

MEDIA



AFP

Since the introduction of the government's Media Decree in 2012, the Fiji Media Industry Development Authority controls what is published by the media industry. Media organizations and journalists face harsh penalties for publishing material not in the public interest. This has led to a degree of self censorship.

- [Read full media profile](#)

TIMELINE

Some key dates in Fiji's history:



GETTY IMAGES

1643 - Dutch explorer Abel Tasman is the first European to visit the islands.

1970 - Independence after a century of British rule.

1987 - The first of two coups overthrows the Indian majority government of Prime Minister Timoci Bavadra.

1999 - Mahendra Chaudhry is elected Fiji's first ethnic Indian prime minister but is overthrown a year later.



GETTY IMAGES

2014 - Former military leader Frank Bainimarama is elected prime minister, eight years after seizing power in a coup.

- [Read full timeline](#)

Country Report

Fiji

Generated on April 9th 2019

Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

The Economist Intelligence Unit

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For 60 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide. The Economist Intelligence Unit delivers its information in four ways: through its digital portfolio, where the latest analysis is updated daily; through printed subscription products ranging from newsletters to annual reference works; through research reports; and by organising seminars and presentations. The firm is a member of The Economist Group.

London

The Economist Intelligence Unit
20 Cabot Square
London
E14 4QW
United Kingdom
Tel: +44 (0) 20 7576 8181
Fax: +44 (0) 20 7576 8476
E-mail: eiucustomerservices@eiu.com

New York

The Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: +1 212 541 0500
Fax: +1 212 586 0248
E-mail: eiucustomerservices@eiu.com

Hong Kong

The Economist Intelligence Unit
1301 Cityplaza Four
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: +852 2585 3888
Fax: +852 2802 7638
E-mail: eiucustomerservices@eiu.com

Geneva

The Economist Intelligence Unit
Rue de l'Athénée 32
1206 Geneva
Switzerland
Tel: +41 22 566 24 70
Fax: +41 22 346 93 47
E-mail: eiucustomerservices@eiu.com

This report can be accessed electronically as soon as it is published by visiting store.eiu.com or by contacting a local sales representative.

The whole report may be viewed in PDF format, or can be navigated section-by-section by using the HTML links. In addition, the full archive of previous reports can be accessed in HTML or PDF format, and our search engine can be used to find content of interest quickly. Our automatic alerting service will send a notification via e-mail when new reports become available.

Copyright

© 2019 The Economist Intelligence Unit Limited. All rights reserved. Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of The Economist Intelligence Unit Limited.

All information in this report is verified to the best of the author's and the publisher's ability. However, the Economist Intelligence Unit does not accept responsibility for any loss arising from reliance on it.

ISSN 2047-5500

Symbols for tables

"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

Fiji

Summary

- 2 [Briefing sheet](#)
- 3 [Basic data](#)
- 4 [Political structure](#)

Economic structure

- 6 [Annual indicators](#)
- 6 [Quarterly indicators](#)

Outlook for 2019-20

- 9 [Political stability](#)
- 9 [Election watch](#)
- 10 [International relations](#)
- 10 [Democracy Index: Fiji](#)
- 12 [Policy trends](#)
- 12 [Fiscal policy](#)
- 13 [Monetary policy](#)
- 13 [International assumptions](#)
- 13 [Economic growth](#)
- 14 [Inflation](#)
- 14 [Exchange rates](#)
- 14 [External sector](#)
- 15 [Forecast summary](#)

Recent analysis

Politics

- 16 [Forecast updates](#)

Economy

- 17 [Forecast updates](#)

Briefing sheet

Editor: **John Marrett**
Forecast Closing Date: **March 4, 2019**

Political and economic outlook

- Voreqe (Frank) Bainimarama, the former military leader who became Fiji's democratically elected prime minister in 2014, was re-elected on November 2018 and will remain in power in 2019-20.
- A reduced parliamentary majority for the ruling Fiji First Party in the forecast period, compared with 2014-18, will lead to greater oversight of government decision-making in 2019-20. However, no significant change in the efficacy of policymaking is expected.
- The government's main priority in 2019-20 will be infrastructure construction, with a particular focus on the energy sector. This will be heavily supported by finance from external partners.
- Real GDP growth will decelerate to 2.5% in 2019, from an estimated 3.9% in 2018, owing to the completion of reconstruction work following Cyclone Winston, which struck in 2016. Exports and remittances will support a pick-up in headline growth in 2020.
- Consumer price inflation will ease to 1.8% on average in 2019, from an estimated 4.1% in 2018, due mostly to declining fuel prices. A continuation of this trend will result in inflation easing further in 2020.
- The current-account deficit will narrow in 2019-20 as falling global oil prices constrain the merchandise import bill while growing tourist arrivals support a large surplus on the services account.

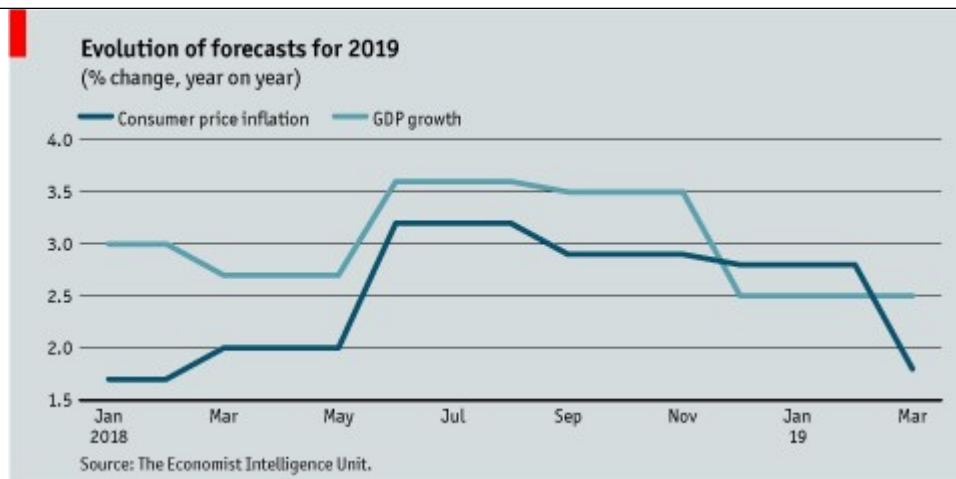
Key indicators

	2017 ^a	2018 ^b	2019 ^c	2020 ^c
Real GDP growth (%)	3.8	3.9	2.5	3.5
Consumer price inflation (av; %)	3.4	4.1	1.8	1.4
Government balance (% of GDP)	-2.2	-2.9	-2.8	-2.6
Current-account balance (% of GDP)	-5.9	-2.4	-1.8	-1.5
Money market rate (av; %)	0.5	0.5	0.5	0.5
Exchange rate F\$:US\$ (av)	2.07	2.08	2.11	2.10

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Market opportunities





Key changes since November 29th

- The Economist Intelligence Unit has revised its historical data for 2015-17 owing to a change in the dating of the fiscal year, from January-December to August-July. However, there have been no major changes to the trends for budgetary indicators.
- As a result of the update to the fiscal year period and a narrower budget deficit in 2017 than we had previously expected, we now forecast the deficit to average 2.7% of GDP in 2019-20, compared with 3.7% of GDP previously.
- We have revised down our forecast for consumer price inflation in 2019 from 2.8% to 1.8%, owing to our expectation that global oil prices will fall this year in annual average terms, rather than rise as we had previously forecast.

The quarter ahead

- Late-March—Merchandise trade data (December): We expect exports to have performed well in the month and to cap off a year of strong growth, amid increased demand for intermediate wood products and a higher supply of prepared foodstuffs and beverages.

Basic data

Land area

18,333 sq km

Population

884,887 (2017 census; Fiji Bureau of Statistics)

Major islands

Viti Levu (10,429 sq km), Vanua Levu (5,556 sq km)

Capital

Suva (population 94,088; 2017 census)

Climate

Tropical

Weather in Suva (altitude 6 metres)

Hottest months January-March, 23-30°C (average daily minimum and maximum); coldest months July-August, 20-26°C; driest month July, 124 mm average rainfall; wettest month March, 368 mm average rainfall

Languages

English, Fijian and Hindi

Measures

Metric

Currency

Fiji dollar (F\$); F\$1 = 100 cents. Average exchange rate in 2018: F\$2.07:US\$1

Fiscal year

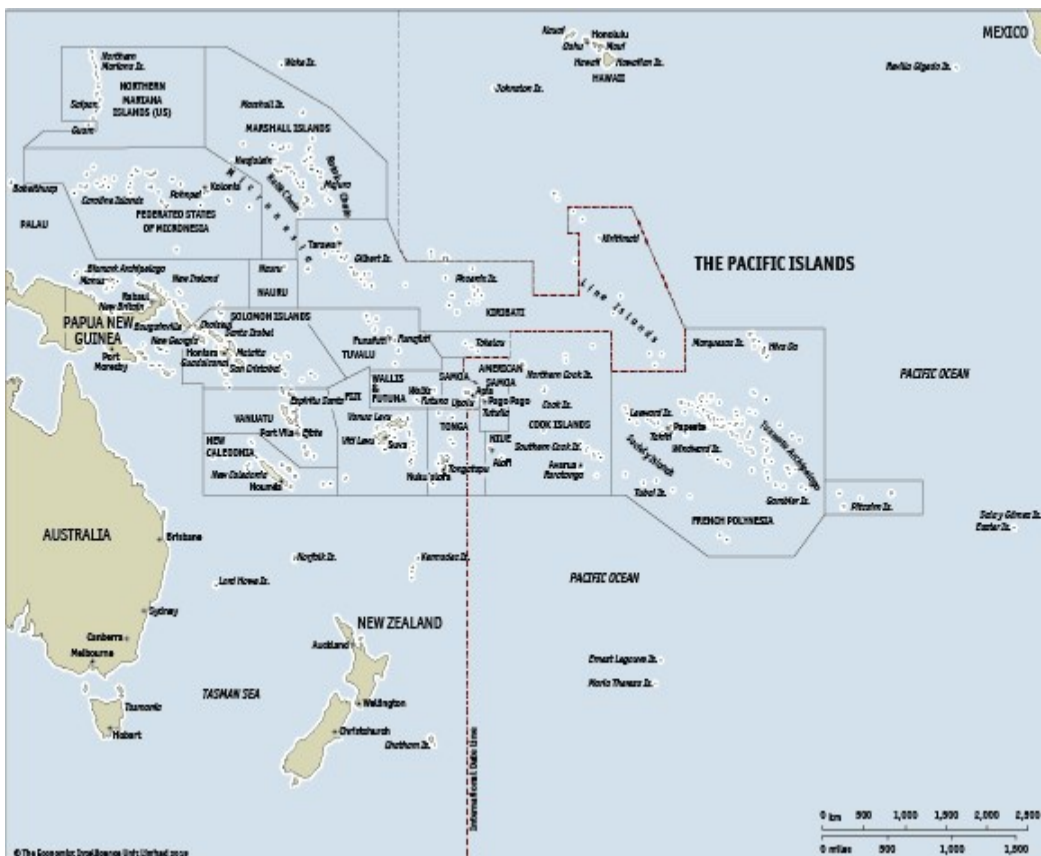
The fiscal year was changed from January-December to August-July with effect from August 1st 2016

Time

12 hours ahead of GMT

Public holidays

January 1st (New Year's Day); April 19th (Good Friday); April 22nd (Easter Monday); September 9th (Constitution Day); October 10th (Fiji Day); October 28th (Diwali); November 11th (Prophet Mohammed's Birthday); December 25th (Christmas Day); December 26th (Boxing Day)



Political structure

Official name

Republic of Fiji Islands

Form of state

Parliamentary democracy. The previous constitution was abrogated in 2009; a new charter was promulgated in 2013

The executive

The president appoints the prime minister, who selects the cabinet

Head of state

The president, who is appointed for a three-year term by parliament. The incumbent is Jioji Konousi Konrote, who took office in November 2015

National legislature

Under the 1997 constitution, the majority of seats were allocated on the basis of ethnicity and there was universal suffrage for citizens aged 21 or over. The constitution promulgated in 2013 established a single-chamber legislature with 50 seats (amended in 2018 to 51 seats), abolished ethnically based representation and lowered the voting age to 18. Parliamentarians are elected for a four-year period, using an open-list system of proportional representation

Regional government

Fiji is divided into four divisions, which consist of 14 provincial administrations. The island of Rotuma has its own council

Legal system

Magistrates courts, High Court and Court of Appeal, presided over by the Supreme Court

National elections

The last general election was held on November 14th 2018, the second democratic national poll after a military coup in 2006. The next general election is due in 2022

Main political parties

Fiji First Party (FFP); Social Democratic Liberal Party (SODELPA); National Federation Party (NFP); People's Democratic Party (PDP); Fiji Labour Party (FLP)

National government

Voreqe (Frank) Bainimarama, the leader of the 2006 coup, became the democratically elected prime minister following the 2014 general election and was re-elected in 2018. Mr Bainimarama deposed the government of Laisenia Qarase, elected in May 2006, in December of that year

Key ministers

Prime minister: Voreqe (Frank) Bainimarama

Agriculture, rural & maritime development, waterways & environment: Mahendra Reddy

Attorney-general; minister for economy, public enterprises, civil service & communications: Aiyaz Sayed-Khaiyum

Education, heritage & arts: Rosy Akbar

Employment, productivity, industrial relations: Parveen Kumar

Fisheries: Semi Koroilavesau

Foreign affairs (assistant minister): George Vegnathan

Forests: Osea Naiqamu

Health & medical services: Ifereimi Waqainabete

Industry, trade, local government, housing & community development: Premila Kumar

Lands & minerals resources: Ashneel Sudhakar

National security & defence: Inia Seruiratu

Women, children & poverty alleviation: Veena Bhatnagar

Central bank governor

Ariff Ali

Economic structure

Annual indicators

	2014 ^a	2015 ^a	2016 ^a	2017 ^a	2018 ^b
GDP at market prices (F\$ bn)	8.5	9.2	9.8	10.5	11.0
GDP (US\$ bn)	4.5	4.4	4.7	5.1	5.3
Real GDP growth at factor cost (%)	5.6	3.8	0.4	3.8 ^b	3.9
Consumer price inflation (av; %)	0.5	1.4	3.9	3.4	4.1
Population (m)	0.9	0.9	0.9	0.9	0.9
Exports of goods fob (US\$ m)	1,208.6	970.1	928.7	985.3	1,231.6
Imports of goods fob (US\$ m)	-2,237.0	-1,879.4	-1,927.3	-2,077.7	-2,243.9
Current-account balance (US\$ m)	-294.4	-118.0	-147.1	-300.0	-125.5
Foreign-exchange reserves excl gold (US\$ m)	915.2	917.9	907.7	1,115.1	946.4
Total external debt (US\$ m)	906.6	1,095.1	899.3	899.6	907.7
Debt-service ratio, paid (%)	1.8	12.3	14.1	2.1	3.6
Exchange rate (av) F\$:US\$	1.89	2.10	2.09	2.07	2.08

^a Actual. ^b Economist Intelligence Unit estimates.

Origins of gross domestic product 2016	% of Components of gross domestic total product 2015	% of total	
Services	68.9	Private consumption	75.8
Industry	17.5	Government consumption	15.2
Agriculture	13.6	Fixed investment	17.1
		Stockbuilding	0.6
		Exports of goods & services	64.2
		Imports of goods & services	72.8
Principal exports (excl re-exports) 2017	F\$ m	Principal imports (excl reimports) 2017	F\$ m
Prepared foodstuffs, beverages, spirits & tobacco	595.1	Mineral products	972.9
Pearls, precious, semi-precious stones & metals	120.9	Machinery & mechanical equipment	888.2
Vegetable products	97.9	Vehicles & transport equipment	495.7
Textiles & textile articles	97.2	Base metals and metal products	356.4
Live animals & animal products	93.9	Live animals & animal products	324.9
Main destinations of exports (excl re-exports) 2017	% of total	Main origins of imports 2017	% of total
US	18.6	Singapore	19.2
Australia	14.8	New Zealand	17.3
New Zealand	6.6	Australia	16.7
UK	5.1	China	15.8

Quarterly indicators

Government finance (F\$ m)	2016		2017		2018			
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Total revenue & grants	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Expenditure	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Balance	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Prices

Consumer prices (av; 2005=100)	122.0	124.8	124.6	125.0	125.2	127.5	130.3	130.6
Consumer prices (% change, year on year)	4.3	6.0	2.9	2.0	2.7	2.1	4.6	4.5

Financial indicators

Exchange rate F\$:US\$ (av)	2.08	2.08	2.09	2.03	2.07	2.03	2.07	2.12
Exchange rate F\$:US\$ (end-period)	2.13	2.08	2.06	2.04	2.05	2.05	2.11	2.14
Deposit rate (av; %)	2.94	3.12	3.27	3.71	3.23	3.23	3.36	n/a
Lending rate (av; %)	5.78	5.80	5.76	5.73	5.67	5.65	5.68	n/a
Money market rate (av; %)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	n/a
M1 (end-period; F\$ m)	4.2	4.3	4.7	n/a	n/a	n/a	n/a	n/a
M1 (% change, year on year)	3.3	2.6	11.5	n/a	n/a	n/a	n/a	n/a
M2 (end-period; F\$ m)	7.4	7.4	n/a	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)	5.0	3.1	n/a	n/a	n/a	n/a	n/a	n/a

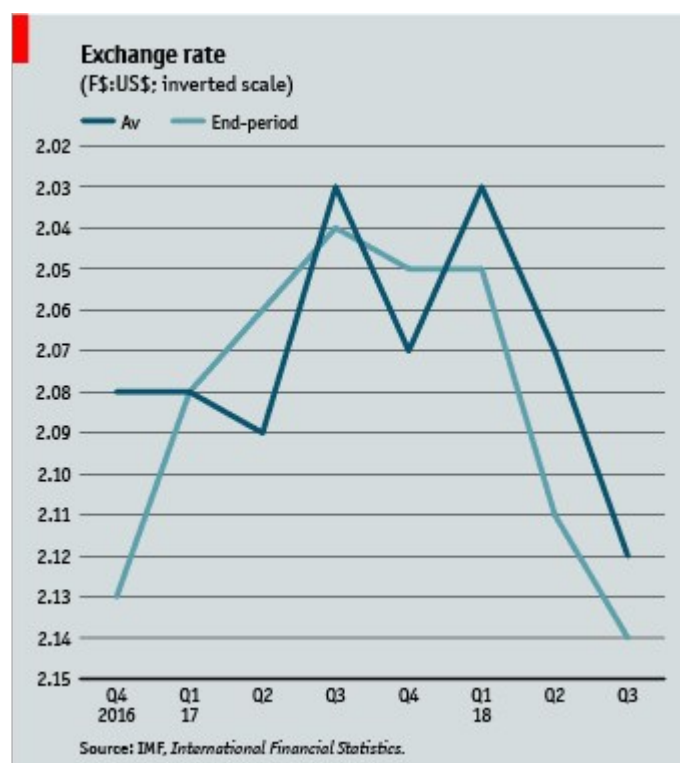
Foreign trade (US\$ m)

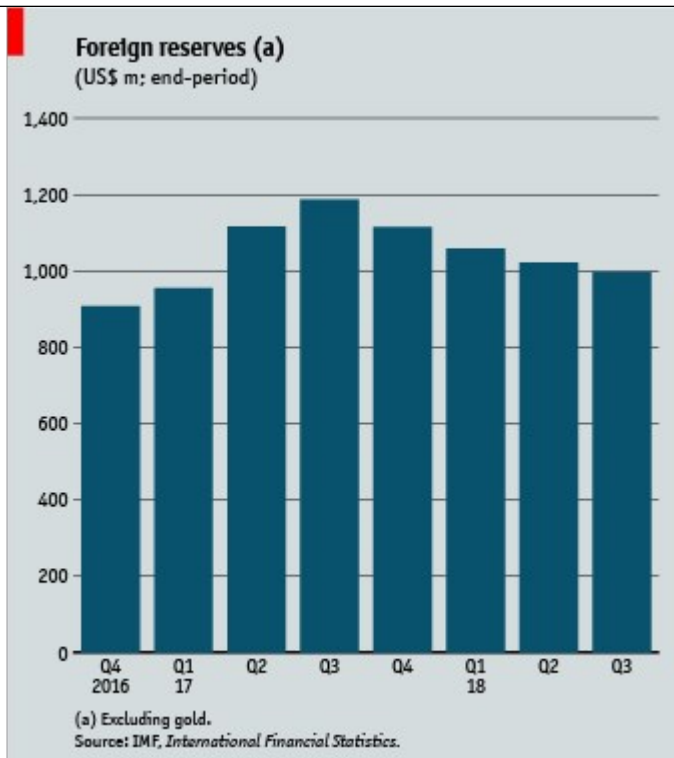
Exports fob	211.5	194.0	247.6	314.4	239.7	n/a	n/a	n/a
Imports cif	-611.2	-548.6	-562.2	-629.0	-669.4	n/a	n/a	n/a
Trade balance	-399.7	-354.6	-314.6	-314.6	-429.7	n/a	n/a	n/a

Foreign reserves (US\$ m)

Reserves excl gold (end-period)	908	955	1,117	1,187	1,115	1,059	1,022	997
---------------------------------	-----	-----	-------	-------	-------	-------	-------	-----

Sources: IMF, International Financial Statistics.





Outlook for 2019-20

Political stability

The Fiji First Party (FFP), led by the prime minister and former military leader, Voreqe (Frank) Bainimarama, retained its parliamentary majority in the general election held in November 2018. However, the FFP won only 27 of the 51 seats, compared with 32 of 50 seats at the 2014 polls (an extra seat was added for the 2018 election). Its dominance of the political scene will therefore be slightly weaker in 2019-20.

However, in recent years party allegiance has proved stronger in Fiji than in many other Pacific Island nations, and there is little reason to believe that this will change in 2019-20. The FFP's cohesion under Mr Bainimarama has also been robust. This suggests that its smaller majority will not have a significant negative impact on the efficacy of policymaking. Nonetheless, the reduction in the FFP's support—it won only the slenderest of majorities in the popular vote, at 50.02%, down from 59.07% in 2014—will lead to a lighter approach towards the opposition and civil society, as the election outcome raises the question of whether the public is becoming more critical of the party's strong-arm tactics.

The FFP's previous majority had allowed it to suspend members of parliament (MPs) with relative ease. For instance, in 2016 the president of the opposition National Federation Party (NFP), Tupou Draunidalo, was suspended from parliament for the remainder of that term after making a disparaging remark about the then education minister, Mahendra Reddy of the FFP; Ms Draunidalo later resigned as NFP president and as an MP. The Public Order Act, which stipulates that permits are required for public political meetings, has enabled the authorities to put pressure on opposition groups, for example through repeated police inquiries over scheduled meetings. In addition, sedition charges were brought against several local journalists and opposition politicians during the FFP's previous term (2014-18) after they criticised the government.

Although The Economist Intelligence Unit expects this stifling of political association and press freedom to ease in 2019-20, the transition back to a fully functioning democracy is unlikely until well beyond our forecast period. Nevertheless, the lingering authoritarian tendencies of Mr Bainimarama's government will not pose a serious threat to overall political stability.

Concerns remain about the legitimacy and durability of the constitution, which was promulgated by the interim government in 2013. A key test will be the constitution's effect on relations between ethnic-Indian and indigenous Fijians. Tensions between these groups on issues related to land tenure, access to public-sector jobs and political representation have generated political instability in the past. In a bid to end long-standing racial tensions, the 2013 constitution abolished the allocation of parliamentary seats based on ethnicity. However, it also dropped a number of compromises proposed by an independent commission, such as special recognition of indigenous land rights. Land ownership is therefore likely to remain a source of tension.

Election watch

The most recent general election was held in November 2018. The FFP won 27 of the 51 seats in the new parliament, down from 32 seats (out of 50) in 2014, while the Social Democratic Liberal Party gained six seats to secure 21 in total. The National Federation Party retained three seats. Mr Bainimarama was sworn in as prime minister in the same month and the newly elected MPs formally assumed office in December.

The election passed smoothly. International monitors did note that the FFP government was giving out a significant number of grants and also other funding during the campaign. However, the election outcome was accepted by the vast majority of candidates, the media and the public. The next general election is scheduled for 2022, beyond our forecast horizon.

International relations

Fiji's trade relations with its regional neighbours will be prone to minor disputes in the early part of the forecast period following its decision to opt out of the Pacific Agreement on Closer Economic Relations-Plus (PACER-Plus) trade and investment agreement. Fiji opted out because of what it considered to be unfair trade advantages gained by Australia and New Zealand via the pact. However, Fiji continues to hold negotiations with both countries on these issues, and we expect it to join the agreement by late 2020.

Fiji's suspension from full participation in the 16-member Pacific Islands Forum (PIF, the region's main political grouping), from which the PACER-Plus emerged, was lifted in 2014 after its restoration of democracy. However, Mr Bainimarama refuses to attend PIF meetings while Australia and New Zealand retain full membership, which we do not expect them to relinquish. Nonetheless, Fiji has continued to participate in the forum at ministerial level. This suggests that Mr Bainimarama will resume participation later in the forecast period, most probably after Fiji signs the PACER-Plus agreement.

Despite Mr Bainimarama's current position regarding the PIF, the government will maintain generally cordial relations with Australia and New Zealand in 2019-20. Their respective seasonal worker schemes are an important source of foreign exchange for Fiji, and the two countries will be important donors if Fiji experiences another natural disaster. Relations with China will continue to deepen. China and Fiji have begun preparations for a free-trade agreement, although a deal is unlikely to be finalised during the forecast period. Although China has financed some infrastructure works in Fiji, the projects have been small and so Fiji has incurred relatively modest debt from them. There is potential for more important infrastructure investments to be agreed with China during the forecast period. China is also likely to facilitate greater tourism flows to Fiji as political ties deepen.

Democracy Index: Fiji

The Economist Intelligence Unit's 2018 Democracy Index ranks Fiji equal 79th out of 167 countries, up from 81st place in 2017. However, this improvement in its ranking is due to a deterioration in other countries; Fiji's overall score remains unchanged. The country returned to a system of elected government following the general election in 2014—the first poll in eight years. However, the transition to a fully functioning democracy, relative to international standards, is far from complete, with Fiji's history of military-backed coups still looming large. This is reflected in its relatively low scores for electoral process, functioning of government and political culture, and means that the country is still considered a "hybrid regime", rather than a flawed or full democracy.

Democracy Index

	Regime type	Overall score	Overall rank
2018	Hybrid regime	5.85 out of 10	79= out of 167
2017	Hybrid regime	5.85 out of 10	81 out of 167
2016	Hybrid regime	5.64 out of 10	89 out of 167

Opposing opposition

Voreqe (Frank) Bainimarama, the former military chief and leader of the 2006 coup (which toppled the democratically elected government of the then-prime minister, Laisenia Qarase), remains prime minister after his Fiji First Party (FFP) secured a legislative majority for a second consecutive term in the general election held in November 2018. According to an international group of election monitors, the Multinational Observer Group (MOG), the polls broadly represented the will of Fijian voters. However, since the return to democracy in 2014 there has been persistent pressure on the press to avoid reporting on issues that could negatively affect the image of the FFP government or the legal establishment; this is likely to have instilled a tendency towards self-censorship, holding back the development of civil liberties and an open political culture. Similarly, the opposition has been constrained by the Public Order Act, which was amended in 2012 under the then-military government to impose stricter rules on meetings and protests by political groups. Although the act was altered again in early 2017, to loosen the rules on such gatherings, permits

are still required for meetings and marches in open public spaces, discouraging political participation.

Democracy Index 2018 by category

(On a scale of 0 to 10)

Electoral process	Functioning of government	Political participation	Political culture	Civil liberties
6.58	5.36	6.11	5.63	5.59

A free white paper containing the full index and detailed methodology can be downloaded from www.eiu.com/democracy2018.

Note on methodology

There is no consensus on how to measure democracy, and definitions of democracy are contested. Having free and fair competitive elections, and satisfying related aspects of political freedom, is the sine qua non of all definitions. However, our index is based on the view that measures of democracy that reflect the state of political freedom and civil liberties are not "thick" enough: they do not encompass sufficiently some crucial features that determine the quality and substance of democracy. Our index therefore also includes measures of political participation, political culture and functioning of government, which are, at best, marginalised by other measures.

Our index of democracy covers 167 countries and territories. The index, on a 0-10 scale, is based on the ratings (0, 0.5 or 1) for 60 indicators grouped in five categories: electoral process and pluralism; civil liberties; functioning of government; political participation; and political culture. Each category has a rating on a 0-10 scale, and the overall index of democracy is the simple average of the five category indices.

The category indices are based on the sum of the indicator scores in the category, converted to a 0-10 scale. Adjustments to the category scores are made if countries do not score a 1 in the following critical areas for democracy:

- whether national elections are free and fair;
- the security of voters;
- the influence of foreign powers on government; and
- the capability of the civil service to implement policies.

If the scores for the first three questions are 0 (or 0.5), one point (or 0.5 points) is deducted from the index in the relevant category (either electoral process and pluralism or functioning of government). If the score for question 4 is 0, one point is deducted from the functioning of government category index.

The index values are used to place countries within one of four types of regime:

- full democracies—scores greater than 8;
- flawed democracies—scores greater than 6, and less than or equal to 8;
- hybrid regimes—scores greater than 4, and less than or equal to 6;
- authoritarian regimes—scores less than or equal to 4.

Policy trends

Among the main challenges facing Mr Bainimarama will be to continue to develop Fiji's physical infrastructure, including improving resilience to tropical storms, to support economic growth. The country is virtually locked into a natural-disaster reconstruction cycle that undermines more productive resource allocation and broader social development, which would help to increase productivity, among other benefits. Indeed, Fiji has only recently recovered from Cyclone Winston, a category-five storm that struck the country in February 2016, causing widespread damage to housing, infrastructure and crops. There remains an underlying risk of another devastating climatic event in 2019-20. In such a scenario, government policy for the following 6-12 months would again be overwhelmingly focused on the allocation of resources for reconstruction.

The government's five-year National Development Plan, covering 2017-21, prioritises investment in the energy sector and transport infrastructure. It also contains a large number of socio-economic goals, including softer healthcare and education targets. The energy component of the plan sets numerous annual targets, indicating that it will be one of the most significant policy areas in terms of material outcomes in the forecast period. It will focus largely on developing renewable energy sources and increasing rural electrification. Much of the infrastructure maintenance and upgrading carried out in the remainder of the forecast period under the five-year plan will expand upon initial reconstruction efforts initiated after Cyclone Winston.

The government is also seeking to spur foreign direct investment (FDI) in renewable energy and green technology through tax incentives such as tax-exemption periods and the removal of specific import duties. A planned revision of the Investment Act and reform of the national investment-promotion agency, Investment Fiji, aim to facilitate these efforts. However, interest is likely to be tempered by the government's sometimes unpredictable policy towards foreign investors. This is typified by a land law amended in 2014 (which came into force in early 2017) to include the requirement that foreigners who own vacant rural land must build a house valued at a minimum of US\$120,000 within two years of their purchase.

Fiscal policy

We have revised our budget forecast in light of our data source, the Asian Development Bank, now reporting all fiscal years in August-July format, as opposed to January-December previously. This follows the government changing the fiscal year to this date range with effect from August 1st 2016. We have updated our historic data accordingly.

The public finances will remain firmly in deficit in 2019-20. The F\$4.6bn (US\$2.2bn) budget for fiscal year 2018/19 (August-July) is expansionary. Spending rises were particularly geared towards financial support for child-rearing and broad spending on education. We expect the government to maintain the 9% rate of value-added tax (VAT), which was reduced from 15% in January 2016, throughout the forecast period. The effect of the cut has been partly offset by the imposition of VAT on items that were previously excluded, such as basic foods, prescription drugs and kerosene. Duties on alcohol, tobacco and high-sugar drinks were increased in the 2016/17 budget—and, in the case of the last of these, again in the 2018/19 budget—to help to finance higher spending and to address growing health problems.

We forecast a narrowing of the fiscal deficit from the estimated equivalent of 2.9% of GDP in 2017/18 to 2.8% in 2018/19. We expect the government to underspend relative to its planned outlay, as in previous years, particularly because post-cyclone reconstruction activity will come to an end. In 2019/20 the fiscal shortfall will narrow further, to 2.6% of GDP, as an ongoing drive to improve tax collection yields some success, and as GDP expands at a faster rate amid strong growth in both tourism and agricultural exports.

Monetary policy

Monetary conditions will remain accommodative in 2019-20. The Reserve Bank of Fiji (RBF, the central bank) left its benchmark interest rate, the overnight policy rate, unchanged at 0.5% at its most recent monetary policy meeting, in February 2019. It has remained at this level since 2011. We expect price pressures to ebb in 2019-20. We therefore expect the RBF to keep its policy rate unchanged during the forecast period.

International assumptions

International assumptions summary

(% unless otherwise indicated)

	2017	2018	2019	2020
GDP growth				
World	3.1	2.9	2.8	2.6
US	2.2	2.9	2.3	1.5
China	6.8	6.6	6.3	6.1
EU28	2.6	1.9	1.5	1.6
Exchange rates				
US\$ effective (2000=100)	117.5	115.8	119.5	118.4
¥:US\$	112.1	110.4	110.2	109.1
US\$:€	1.13	1.18	1.16	1.22
Financial indicators				
US\$ 3-month commercial paper rate	1.07	2.05	2.57	2.21
¥ 3-month money market rate	0.06	0.05	0.07	0.10
Commodity prices				
Oil (Brent; US\$/b)	54.4	71.1	66.0	60.5
Gold (US\$/troy oz)	1,257.6	1,269.2	1,297.5	1,312.5
Food, feedstuffs & beverages (% change in US\$ terms)	-1.0	1.6	-0.6	5.3
Industrial raw materials (% change in US\$ terms)	20.2	2.2	-2.0	2.2

Note. GDP growth rates are at market exchange rates.

Economic growth

We expect economic growth to ease to 2.5% in 2019, from an estimated 3.9% in 2018—a respectable rate for Fiji by historical standards. The slowdown in growth will partly reflect the normalisation of agricultural and tourism export earnings following a rebound in 2017-18 in the aftermath of Cyclone Winston. It will also reflect the completion of mass infrastructure reconstruction, which will lead to a deceleration of gross fixed investment growth in 2019. Overall investment will see a modest uptick in 2020 as private expenditure comes to the fore again, driven by the tourism sector in particular. In contrast, private consumption growth will pick up slightly during 2019 before easing in 2020, as rural household incomes become more stable and remittances increase amid the expansion of seasonal-worker programmes in Australia and New Zealand.

Competition for visitors between Pacific island nations will intensify, but we believe that tourism will remain a key driver of export growth in 2019-20. Fiji's relatively advanced tourism infrastructure and long-established international appeal should ensure its continued competitiveness. In particular, direct air links to China and Singapore, which were launched in 2017, will provide additional growth momentum for the sector in the medium term.

Much of the impact of Cyclone Winston on agriculture has now subsided. We expect the sector, including the sugar industry, to return to pre-cyclone production levels during 2019. This will be supported by funds provided by the government, the EU and India to advance production techniques and increase resilience to future adverse climate conditions. However, the medium-term outlook for the sugar industry is poor, partly owing to the EU's removal of output caps on sugar-beet production in member states in October 2017 that will weigh down prices in and beyond the forecast period.

Inflation

We forecast that consumer price inflation will decelerate to 1.8% on average in 2019, from an estimated 4.1% in 2018. This has been revised down from our previous forecast, in line with our updated expectations for global oil prices to now fall throughout 2019-20 in annual average terms. An improved supply of local food produce from the agricultural sector (assuming the absence of devastating weather events) will also constrain inflationary pressure. Catastrophic weather events will nevertheless remain an upside risk to our inflation forecast, particularly during the November-April cyclone season. Inclement weather conditions can result in multi-month spikes in food prices.

Exchange rates

We forecast that the Fiji dollar will depreciate slightly against the US dollar in 2019, from an estimated F\$2.08:US\$1 on average in 2018 to F\$2.11:US\$1. However, this will be mainly owing to lingering effects from a strengthening of the US dollar in the latter half of 2018. Indeed, we expect the Fijian currency to appreciate against the US dollar in the second half of 2019, helped in part by lower domestic inflation and inflows of foreign investment. We accordingly expect an increase in foreign-exchange reserves in that year. This appreciating trend will continue into 2020. Even lower domestic inflation will curtail downward pressure on the local currency, and the US dollar will weaken as the result of an expected US economic downturn. We forecast that the Fiji dollar will average F\$2.10:US\$1 in that year.

External sector

We expect the current-account deficit to remain stable in 2019-20 at the equivalent of 1.7% of GDP, on average. This is a relatively low figure by recent historical standards, owing largely to an expected decline in global oil prices over the forecast period, which will reduce the import bill. Demand for imported raw materials and capital equipment for construction will be lower in 2019 following the completion of post-cyclone rebuilding. Moreover, exports of agricultural goods will pick up, keeping the merchandise trade deficit in 2019-20 largely stable. The services account will record a large and widening surplus as the tourism sector expands and broader logistics-related activity benefits from the country's position as a transport hub for other Pacific island nations.

Growing remittances, mainly from seasonal workers in Australia and New Zealand, will also support the external balance. Australia launched a Pacific Labour Scheme in July 2018, which offers employment opportunities in low- and semi-skilled jobs in rural and regional Australia for up to three years. This should help to drive up remittance inflows, although they will remain far less important than the contribution of goods or services during the forecast period.

Fiji should be able to cover its current-account deficit in 2019-20 with FDI inflows, even before taking into account its external borrowing. External financing could become a problem if the country experiences renewed political instability or further natural disasters, but our core forecast is that pressures on the balance of payments should remain manageable.

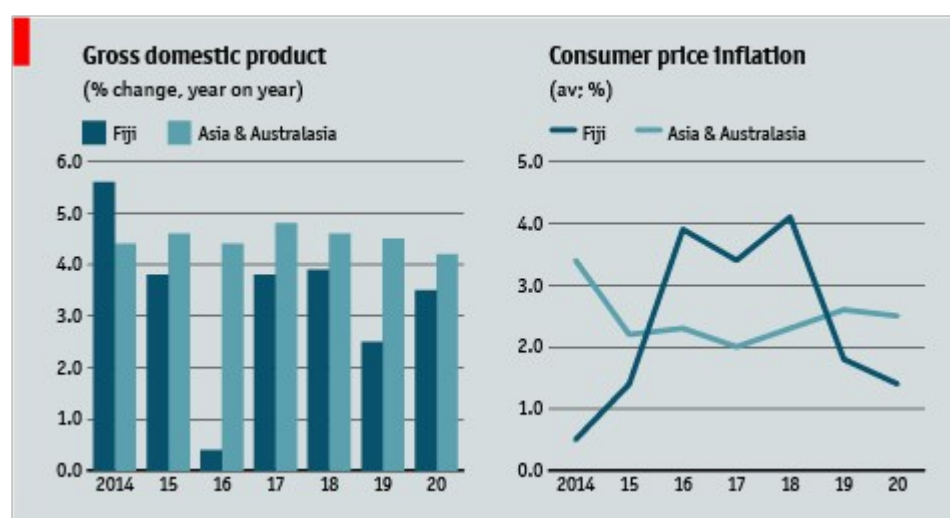
Forecast summary

Forecast summary

(% unless otherwise indicated)

	2017 ^a	2018 ^b	2019 ^c	2020 ^c
Real GDP growth at factor cost	3.8 ^b	3.9	2.5	3.5
Gross fixed investment growth	4.3 ^b	3.3	0.4	1.9
Consumer price inflation (av)	3.4	4.1	1.8	1.4
Lending interest rate	5.7	5.7	5.7	5.7
Government balance (% of GDP) ^d	-2.2	-2.9	-2.8	-2.6
Current-account balance (% of GDP)	-5.9	-2.4	-1.8	-1.5
Exchange rate F\$:US\$ (av)	2.07	2.08	2.11	2.10
Exchange rate F\$:¥100 (av)	1.84	1.89	1.91	1.92
Exchange rate F\$:€ (av)	2.33	2.46	2.44	2.56
Exchange rate F\$:SDR (av)	2.87	2.95	2.94	2.99

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts. ^d Fiscal years ending July 31st.



Recent analysis

Generated on April 9th 2019

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Politics

Forecast updates

New Zealand foreign minister visits Fiji

March 7, 2019: International relations

Event

In late February New Zealand's foreign minister, Winston Peters, made his first official visit to Fiji, as part of efforts to deepen bilateral ties.

Analysis

Mr Peters met his Fijian counterpart, Inia Seruiratu, during the brief visit, as the Fijian prime minister, Voreqe (Frank) Bainimarama, was in Geneva to deliver a speech to the UN Human Rights Council, to which Fiji was elected in October 2018. Mr Peters congratulated Fiji on holding the November 2018 election—the second poll since democracy was restored in 2014. Mr Seruiratu welcomed the New Zealand government's "Pacific reset" policy, which is part of the latter country's commitment to deepening relations with its Pacific island neighbours. Key outcomes from the visit included their agreement to hold regular joint ministerial meetings, in order to facilitate co-operation on issues such as climate change, border control, disaster management and defence. The two governments will also collaborate on the review and modernisation of Fiji's outdated military laws.

The joint communiqué issued following the talks also noted that 2019 marked the year of Fiji's re-engagement at all levels with the 18-member Pacific Islands Forum (PIF, the main regional grouping), including the organisation's annual leaders' summit. Fiji's suspension from full participation in the PIF was lifted in 2014 following the restoration of democracy, but Mr Bainimarama declared that he would boycott PIF meetings for as long as Australia and New Zealand retained full membership. However, in an important softening in his position, he will now attend the annual leaders' summit in Tuvalu this year and has offered to host the 2021 summit in Fiji. According to the communiqué, the two foreign ministers also remained open to discussing the Pacific Agreement on Closer Economic Relations-Plus (PACER-Plus) trade and investment pact. Fiji had decided against joining PACER-Plus because of what it perceived to be unfair trade advantages gained by Australia and New Zealand under the deal.

Impact on the forecast

We maintain our view that Fiji will continue to negotiate with New Zealand and Australia on PACER-Plus, and will eventually join the pact. We will amend our outlook to reflect the Fijian government's plans to re-engage fully with the PIF this year.

Economy

Forecast updates

EU lists Fiji and Vanuatu as tax havens

March 22, 2019: Fiscal policy outlook

Event

On March 12th the EU added Fiji and Vanuatu to its blacklist of alleged "non-co-operative tax jurisdictions". This is the first step in a process that could ultimately lead to the imposition of sanctions.

Analysis

In theory, inclusion on the blacklist precludes a country from receiving certain types of EU funding. Other EU sanctions that can be applied include enhanced monitoring and audits, the withholding of taxes and special documentation requirements. In addition to the reputational damage caused to Fiji and Vanuatu, stricter controls on transactions could complicate trade and investment between entities in the EU and those in the two Pacific island nations. However, sanctions have yet to be imposed and the countries will be given time to respond and implement changes.

The EU established the tax haven blacklist in December 2017 as a means of clamping down on tax abuse, and what it regards as harmful tax competition, in overseas jurisdictions. Fiji and Vanuatu were on the "grey list" of countries that had undertaken to resolve the alleged deficiencies in their tax systems. According to the European Commission press release announcing the updated list, neither country had followed through on these commitments and so had been moved to the blacklist.

For Fiji, the main target is the country's preferential corporate tax regime, in particular the lower tax rate of 17% for non-resident companies that relocate or establish their regional or global headquarters in Fiji. In a statement issued on March 15th, the Fiji Revenue and Customs Service indicated that Fiji stood by its business incentive package. It claimed that the tax incentives had contributed to nine consecutive years of economic growth and that scrapping them could cost "thousands of Fijian jobs".

For Vanuatu, the absence of both corporate and personal income taxes is a concern for the EU. Although the island nation will be reluctant to introduce business taxes, the decision to move Vanuatu to the blacklist is likely to embolden the prime minister, Charlot Salwai, in his ongoing efforts to introduce a personal income tax, which may partially placate the EU.

Impact on the forecast

Given that Fiji and Vanuatu will be given time to respond to the EU's complaints, we do not believe that sanctions will be imposed in 2019-20. This development also reinforces our forecast that Vanuatu will introduce a personal income tax by 2020. No changes to our outlook are required.

Papua New Guinea, Fiji and Indonesia to begin trade talks

March 27, 2019: External sector

Event

Papua New Guinea (PNG) and Fiji agreed to preferential trade talks with Indonesia at the inaugural Indonesia-South Pacific Forum, held in the Indonesian capital, Jakarta, on March 21st.

Analysis

The negotiations will focus on reducing barriers to trade and promoting investment between Indonesia and the Pacific island region's two biggest economies. Indonesia accounted for less than 1% of exports from PNG and Fiji in 2018, and PNG's trade deficit with Indonesia rose to US\$228m last year. Fiji's trade deficit with the country increased to US\$27m.

The Indonesian foreign minister, Retno Marsudi, has described the recent forum as marking a "new era" of engagement between Indonesia and South Pacific countries. There is lingering tension between Indonesia and some Pacific island nations on the issue of self-determination for the Indonesian provinces of Papua and West Papua, although Fiji and PNG are supportive of Indonesian sovereignty. We expect trade and diplomatic ties between the two countries and Indonesia to deepen over the forecast period.

On March 14th PNG and Fiji also signed a post-Brexit trade continuity agreement with the UK to maintain existing trading arrangements once the UK leaves the EU. The agreement broadly replicates the terms of the EU's Economic Partnership Agreement with PNG and Fiji. The UK is a key market for Fiji, accounting for 31% of Fijian sugar exports to the EU in 2017 (in value terms) and all of Fiji's bottled-water exports to the trading bloc.

Impact on the forecast

Given that preferential trade terms between PNG, Fiji and Indonesia are unlikely to come into force during 2019-20 (our forecast period for the island nations), and the fact that the benefits for Indonesia will be small, our existing forecasts for all three countries remain appropriate.



**Congressional
Research Service**

Informing the legislative debate since 1914

The Pacific Islands: Policy Issues

Thomas Lum

Specialist in Asian Affairs

Bruce Vaughn

Specialist in Asian Affairs

February 2, 2017

Congressional Research Service

7-5700

www.crs.gov

R44753

Summary

The Pacific Islands region, also known as the South Pacific or Southwest Pacific, presents Congress with a diverse array of policy issues. It is a strategically important region with which the United States shares many interests with Australia and New Zealand. The region has attracted growing diplomatic and economic engagement from China, a potential competitor to the influence of the United States, Australia, and New Zealand. Congress plays key roles in approving and overseeing the administration of the Compacts of Free Association that govern U.S. relations with the Marshall Islands, Micronesia, and Palau. The United States has economic interests in the region, particularly fishing, and provides about \$38 million annually in bilateral and regional foreign assistance, not including Compact grant assistance.

This report provides background on the Pacific Islands region and discusses related issues for Congress. It discusses U.S. relations with Pacific Island countries as well as the influence of other powers in the region, including Australia, China, and other external actors. It includes sections on U.S. foreign assistance to the region, the Compacts of Free Association, and issues related to climate change, which has impacted many Pacific Island countries. The report does not focus on U.S. territories in the Pacific, such as Guam, the Northern Mariana Islands, and American Samoa.

The Southwest Pacific includes 14 sovereign states with approximately 9 million people, including three countries in “free association” with the United States—the Marshall Islands, Micronesia, and Palau. New Caledonia, a territory of France, and Bougainville, which is part of Papua New Guinea (PNG), are to hold referenda on independence in 2018 and 2019. U.S. officials have emphasized the diplomatic and strategic importance of the Pacific Islands region to the United States, and some analysts have expressed concerns about the long-term strategic implications of China’s growing engagement in the region. Other experts have argued that China’s mostly diplomatic and economic inroads have not translated into significantly greater political influence over South Pacific countries, and that Australia remains the dominant power and provider of development assistance in the region.

Major U.S. objectives and responsibilities in the Southwest Pacific include promoting sustainable economic development and good governance, administering the Compacts of Free Association, supporting regional organizations, helping to address the effects of climate change, and cooperating with Australia, New Zealand, and other major foreign aid donors. U.S. foreign assistance activities include regional environmental programs, military training, disaster assistance and preparedness, fisheries management, HIV/AIDS prevention, care, and treatment programs in Papua New Guinea, and strengthening democratic institutions in PNG, Fiji, and elsewhere. Other areas of U.S. concern and cooperation include illegal fishing and peacekeeping operations.

Congressional interests include overseeing U.S. policies in the Southwest Pacific and helping to set the future course of U.S. policy in the region, approving the U.S.-Palau agreement to provide U.S. economic assistance through 2024, and funding and shaping ongoing foreign assistance efforts. The Obama Administration asserted that as part of its “rebalancing” to the Asia-Pacific region, it had increased its level of engagement in the region. Other observers contended that the rebalancing policy had not included a corresponding change in the level of attention paid to the Pacific Islands.

Contents

Overview	1
Regional Organizations	2
The Pacific Islands and U.S. Interests.....	2
U.S. Policies in the South Pacific	4
Foreign Assistance	6
South Pacific Tuna Treaty.....	7
Compacts of Free Association	8
Background	8
Palau: Compact of Free Association Review Agreement.....	9
Marshall Islands Nuclear Test Damages Claims	11
U.S. Nuclear Test Compensation	11
Marshall Islands Legal Actions.....	12
China’s Growing Influence.....	13
China’s Foreign Assistance and Trade	14
Australia, New Zealand, and Other External Actors	16
France.....	17
Other External Actors.....	17
Climate Change and Other Environmental Issues	18
The Paris Agreement and the Pacific	19
Ocean Acidification.....	20
Fisheries	20
Referenda on Self-Determination.....	21
New Caledonia.....	21
Bougainville	21

Figures

Figure 1. The Southwest Pacific: Melanesia, Micronesia, and Polynesia	4
---	---

Tables

Table 1. Pacific Island Countries.....	1
Table 2. Selected U.S. Foreign Operations, Compact of Free Association, and Other Assistance to the Pacific Islands, FY2016 (estimated)	7
Table 3. Palau Amended Compact.....	10
Table 4. Pacific Island Trade with the China, Australia, and the United States, 2015	15

Appendixes

Appendix. Social and Economic Indicators	22
--	----

Contacts

Author Contact Information 22

Overview

The Pacific Islands region, also known as the South Pacific or Southwest Pacific, presents Congress with a diverse array of policy issues. It is a strategically important region that encompasses U.S. Pacific territories.¹ U.S. relations with Australia and New Zealand include pursuing common interests in the Southwest Pacific, which also has attracted Chinese diplomatic attention and economic engagement. Congress plays key roles in approving and overseeing the administration of the Compacts of Free Association that govern U.S. relations with the Marshall Islands, Micronesia, and Palau (also referred to as the Freely Associated States or FAS). The United States has economic interests in the region, particularly fishing. The United States provides foreign assistance to Pacific Island countries, which are among those most affected by climate change, particularly in the areas of climate change adaptation and mitigation.

Table 1. Pacific Island Countries

Melanesian Region	Micronesian Region	Polynesian Region
Fiji	Kiribati	Cook Islands (in free association with New Zealand)
Papua New Guinea	Marshall Islands (in free association with the United States)	Niue (in free association with New Zealand)
Solomon Islands	Federated States of Micronesia (in free association with the United States)	Samoa
Vanuatu	Nauru	Tonga
	Palau (in free association with the United States)	Tuvalu

Notes: The Pacific Islands Forum, the main regional organization, includes the 14 states in this table, plus Australia and New Zealand, and 2 territories of France (French Polynesia and New Caledonia).

The Southwest Pacific covers 20 million square miles of ocean and 117,000 square miles of land area (roughly the size of Cuba).² The region includes 14 sovereign states with approximately 9 million people, including three countries in “free association” with the United States—the Marshall Islands, Micronesia, and Palau. Papua New Guinea (PNG), the largest country in the Southwest Pacific, constitutes 80% of region’s land area and 75% of its population. (See **Table 1.**) The region’s gross domestic product (GDP) totals around \$32 billion (about the size of Albania’s GDP). Per capita incomes range from lower middle income (Solomon Islands at \$2,000 per capita GDP) to upper middle income (Nauru and Palau at \$14,200).³

According to many analysts, since gaining independence during the post-World War II era, many Pacific Island countries have experienced greater political than economic success. Despite weak political institutions and occasional civil unrest, human rights generally are respected and international observers largely have regarded governmental elections as free and fair. Of 12

¹ This report does not focus on U.S. territories in the Pacific, such as Guam, the Northern Mariana Islands, and American Samoa.

² This area is also referred to as the “Pacific Islands” and the “South Pacific.”

³ Central Intelligence Agency, *The World Factbook*, 2016 (purchasing power parity); World Bank income categories.

Pacific Island states ranked by Freedom House for political rights and civil liberties, eight are given “free” status, while Fiji, Papua New Guinea, and the Solomon Islands—the three largest countries in the region—are ranked as “partly free.”⁴

Most Pacific Island countries, with some exceptions such as Fiji, Papua New Guinea, and the Solomon Islands, have limited natural and human resources upon which to launch sustained development. Many small atoll countries in the region are hindered by lack of resources, skilled labor, and economies of scale; inadequate infrastructure; poor government services; and remoteness from international markets. In addition, some areas also are threatened by frequent weather-related natural disasters and rising sea levels related to climate change.

Regional Organizations

The Pacific Islands Forum (PIF), which was known as the South Pacific Forum until 1999, seeks to foster cooperation between member states. It is comprised of 18 states and territories. The PIF’s 16 states are Australia, Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, the Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Its two territories are French Polynesia and New Caledonia. The PIF Secretariat is located in Suva, Fiji. Key issues addressed by the PIF include climate change, regional security, and fisheries. American Samoa, Guam, and the Northern Marianas have observer status with the PIF.

The Melanesian Spearhead Group (MSG), founded in 1986, includes the following Melanesian countries and organizations: Fiji, the Kanak Socialist Liberation Front (FLNKS) of New Caledonia, Papua New Guinea, the Solomon Islands, and Vanuatu. The MSG seeks to have “common positions and solidarity in spearheading regional issues of common interest, including the FLNKS cause for political independence in New Caledonia.”⁵ In 2015, the MSG granted the United Liberation Movement for West Papua observer status and Indonesia associate member status.⁶

The Pacific Islands and U.S. Interests

On the whole, the United States enjoys friendly relations with Pacific Island countries and has benefitted from their support in the United Nations. This is especially true of the Freely Associated States, particularly Palau, which in 2014 reportedly voted with the United States 90% of the time.⁷ (See “Compacts of Free Association” below.) The United States has worked with Australia, the preeminent power in the Southwest Pacific, to help advance shared strategic interests, maintain regional stability, and promote economic development, particularly since the end of the Cold War in the early 1990s. New Zealand also has cooperated with U.S. initiatives in the region, been a major provider of foreign aid, and helped lead peacekeeping efforts. France and Japan also maintain significant interests in the region. China has become a diplomatic force,

⁴ Freedom House, *Freedom in the World, 2016*, <https://freedomhouse.org/report/freedom-world/freedom-world-2016>. The Cook Islands and Niue are not included in the survey.

⁵ “Melanesian Spearhead Group,” Melanesian Spearhead Group Secretariat, 2016, <http://www.msgsec.info/index.php>.

⁶ Gregory Poling, “The Upside of Melanesian Leader’s West Papua Compromise,” Center for Strategic and International Studies, July 2, 2015.

⁷ Matthew Matthews, Deputy Assistant Secretary of State, Bureau of East Asian and Pacific Affairs, Statement before the House Foreign Affairs Committee, Subcommittee on Asia and the Pacific, June 23, 2016; Department of State, *Fact Sheet: U.S. Relations with Palau*, February 4, 2015; Department of State, “Voting Practices in the United Nations 2014,” July 2015.

major source of foreign aid, and leading trade partner in the Southwest Pacific. In addition, more recently, other nations, including Russia, India, and Indonesia, have made efforts to expand their engagement in the region.

The Pacific Islands generally can be divided according to four spheres of influence, those of the United States, Australia, New Zealand, and France. The American sphere extends through parts of the Micronesian and Polynesian subregions. (See **Figure 1**.) In the Micronesian region lie the U.S. territories Guam and the Northern Mariana Islands as well as the Freely Associated States. In the Polynesian region lie Hawaii and American Samoa. U.S. security interests in the Micronesian subregion, including military bases on Guam and Kwajalein Atoll in the Marshall Islands, constitute what some experts call a defensive line or “second island chain” in the Pacific.⁸ The first island chain includes southern Japan, Taiwan, and the Philippines. Some analysts in China have viewed the island chains as serving to contain China and the Chinese navy.⁹ The region also was a key strategic battleground during World War II, where the United States and its allies fought against Japan.

Australia’s interests focus on the islands south of the equator, particularly the relatively large Melanesian nations of Papua New Guinea, which Australia administered until PNG gained its independence in 1975, the Solomon Islands, and Vanuatu. New Zealand has long-standing ties with its territory of Tokelau, former colony of Samoa (also known as Western Samoa), and the Cook Islands and Niue, two self-governing states in “free association” with New Zealand. Australia and New Zealand often cooperate on regional security matters such as peacekeeping. France continues to administer French Polynesia, New Caledonia, and Wallis and Futuna.

U.S. policymakers have emphasized the importance of the Pacific Islands region for U.S. strategic and security interests. In testimony before the Subcommittee on Asia and the Pacific of the House Committee on Foreign Affairs, former Deputy Assistant Secretary of State Matthew Matthews emphasized the changing strategic context of the Pacific Islands region:

The Pacific Island region has been free of great power conflict since the end of World War II, we have enjoyed friendly relations with all of the Pacific island countries. This state of affairs, however, is not guaranteed.... Our relations with our Pacific partners are unfolding against the backdrop of shifting strategic environment, where emerging powers in Asia and elsewhere seek to exert a greater influence in the Pacific region, through development and economic aid, people-to-people contacts and security cooperation. There is continued uncertainty in the region about the United States’ ... willingness and ability to sustain a robust forward presence.¹⁰

During the hearing, then-Chairman of the Subcommittee on Asia and the Pacific former Representative Matt Salmon stated that the countries of the region deserve U.S. attention “for the important roles that they play in regional security, as participants in international organizations, and as the neighbors to our own U.S. territories of American Samoa, Guam and the Commonwealth of the Northern Mariana Islands.”¹¹

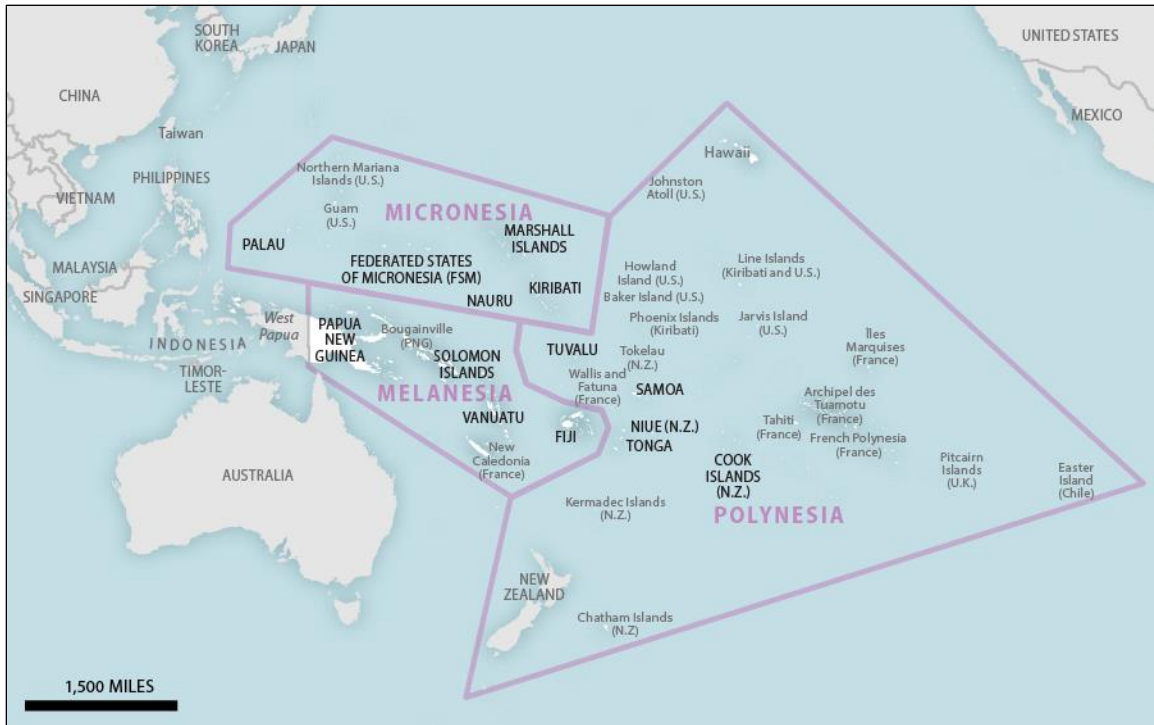
⁸ Robert Scher, “Department of Defense’s Support of the Palau Compact Agreement Review,” Testimony before the Senate Committee on Energy and Natural Resources, June 16, 2011; “The Rising Strategic Stock of Micronesia,” *PACNEWS*, February 3, 2015.

⁹ “Why Islands Still Matter in Asia,” *China and the World Program*, February 5, 2016.

¹⁰ Matthew Matthews, *op. cit.*

¹¹ Rep. Matt Salmon, Opening Statement, “U.S. Policy in the Pacific: The Struggle to Maintain Influence,” House Foreign Affairs Committee, Subcommittee on Asia and the Pacific, June 23, 2016.

Figure I. The Southwest Pacific: Melanesia, Micronesia, and Polynesia



Source: Congressional Research Service

Note: Pacific Island entities in bold are fully independent states and freely associated states.

Some analysts have expressed concerns about the long-term strategic implications of China’s growing engagement in the region. Other experts have argued that China’s diplomatic outreach and economic influence have not translated into significantly greater political sway over South Pacific countries, and that Australia, a U.S. ally, remains the dominant power and provider of development assistance in the region.¹² Some observers also have contended that Chinese military assistance and cooperation in the region remain modest compared to that of Australia, and that China has not actively sought to project “hard power.”¹³

U.S. Policies in the South Pacific

Broad U.S. objectives and policies in the region have included promoting sustainable economic development and good governance, addressing the effects of climate change, administering the Compacts of Free Association, supporting regional organizations, projecting a presence in the region, and cooperating with Australia and regional aid donors. Other areas of concern and

¹² Graeme Smith, “The Top Four Myths About China in the Pacific,” Lowy Institute for International Policy, *The Interpreter*, November 18, 2014; Jenny Hayward-Jones, “Dreaming of China in the Pacific Islands,” Lowy Institute for International Policy, *The Interpreter*, May 16, 2013.

¹³ Joanna McCarthy, “China Extends Its Influence in the South Pacific,” *ABC News Australia*, September 10, 2016; Darryn Webb, “China’s South Pacific Expansion and the Changing Regional Order: A Cause for Concern to the Regional Status Quo?” Australian Defence College, September 2015; Karl Claxton, “Decoding China’s Rising Influence in the South Pacific,” *Australian Strategic Policy Institute*, May 17, 2013; Jian Yang, *The Pacific Islands in China’s Grand Strategy*, New York: Palgrave Macmillan, 2011.

cooperation include combating illegal fishing, supporting peacekeeping operations, and responding to natural disasters.

Areas of particular concern to Congress include overseeing U.S. policies in the Southwest Pacific and the administration of the Compacts of Free Association; regional foreign aid programs and appropriations; approving the U.S.-Palau agreement to provide U.S. economic assistance through 2024; and supporting the U.S. tuna fleet. The Obama Administration asserted that as part of its “rebalancing” to the Asia-Pacific region, it had increased its level of engagement in the Southwest Pacific, including expanding staffing and programming and increasing the frequency of high-level meetings with Pacific leaders.¹⁴ Other observers contended that the rebalancing policy had not included a corresponding change in the level of attention paid to the Pacific Islands region.¹⁵

U.S. diplomatic outreach to the region includes the following:

- In 2011, then-President Obama met with Pacific Island leaders on the margins of the Asia Pacific Economic Cooperation (APEC) Leaders Meeting.
- In 2012, Hillary Clinton attended the Pacific Islands Forum annual summit, the first Secretary of State to do so, in the Cook Islands, where she noted U.S. assistance to the region and highlighted three U.S. objectives: trade, investment in energy, and sustainable growth; peace and security; and women’s empowerment.¹⁶
- In 2013, then-Secretary of State John Kerry met with Pacific Island leaders at the United Nations and pledged to work with the region to address climate change.
- In 2014, then-Secretary Kerry visited the Solomon Islands following devastating floods there.¹⁷
- In 2015, then-President Obama met with leaders of Kiribati, the Marshall Islands, and Papua New Guinea at the Paris Climate Conference.
- In September 2016, then-Assistant Secretary of State for East Asian and Pacific Affairs Daniel Russel led a U.S. delegation to the 28th Pacific Islands Forum in Pohnpei, Micronesia. Main topics of discussion included climate change, management and conservation of fisheries and other marine resources, sustainable development, regional economic integration, and human rights in West Papua.¹⁸

¹⁴ Matthew Matthews, op. cit.; Rep. Matt Salmon, op. cit.

¹⁵ Michael Field, “Pacific Islands Sore About US Inattention,” *Nikkei Report*, March 11, 2016;

¹⁶ Department of State, “Hillary Rodham Clinton: Remarks at the Pacific Islands Forum Post-Forum Dialogue,” Rarotonga, August 31, 2012. The Pacific Islands Forum (PIF) is the main regional organization consisting of the 14 independent Pacific Island states plus Australia and New Zealand. There are currently 14 dialogue partners: Canada, China, the EU, France, India, Indonesia, Italy, Japan, South Korea, Malaysia, the Philippines, Thailand, the U.K., and the United States. The PIF Secretariat is located in Suva, Fiji.

¹⁷ Department of State, “Secretary of State John Kerry at a Meeting of the Pacific Islands Forum,” New York, September 27, 2013; Eileen Natuzzi, “Epilogue to the South Pacific Tuna Treaty,” *PACNEWS*, February 15, 2016.

¹⁸ “Forum Communiqué,” Forty Seventh Pacific Island Forum, Pohnpei, Federated States of Micronesia, 8-10 September, 2016.

Foreign Assistance

The region depends heavily upon foreign aid. In terms of official development assistance (ODA) as defined by the Organization for Economic Cooperation and Development (OECD), which focuses on grant-based assistance, OECD members Australia, New Zealand, the United States, France, and Japan are the principal aid donors in the Southwest Pacific. Major multilateral sources of ODA include the World Bank's International Development Association and the Asian Development Bank. According to the OECD, in 2014, the most recent year for which full data are available, the leading aid donors committed ODA to the region as follows: Australia, \$850 million; New Zealand, \$374 million; the United States, \$277 million; France, \$126 million; and Japan, \$107 million.¹⁹ Although the United States remains one of the largest providers of ODA to the region by some measures, U.S. assistance remains concentrated among the Freely Associated States. China has become a major source of foreign assistance, but Chinese aid differs from traditional ODA due to its heavy emphasis on concessional loans and infrastructure projects (see "China's Foreign Assistance and Trade" below).

The U.S. government administers foreign assistance to Pacific Island countries through the U.S. Agency for International Development (USAID) Office for the Pacific Islands (based in the Philippines) and Pacific Islands Satellite Office (based in Papua New Guinea). U.S. foreign assistance activities include regional environmental programs; military training; disaster assistance and preparedness; fisheries management; HIV/AIDS prevention, care, and treatment programs in Papua New Guinea; and strengthening democratic institutions in Papua New Guinea, Fiji, and elsewhere.²⁰ U.S. assistance also aims to help strengthen Pacific Islands regional fora.²¹

MCC Compact with Vanuatu

The Millennium Challenge Corporation (MCC), an independent U.S. foreign aid agency established in 2004, awards aid packages to countries that have demonstrated good governance, investments in health and education, and a commitment to economic freedom. The 5-year MCC compact with Vanuatu (2006-2011) funded 11 public works projects worth \$65 million, including roads, an air strip, wharves, and storage warehouses.

USAID has partnered with Pacific Islands regional organizations to carry out a five-year program to coordinate responses to the adverse impacts of climate change.²² Through the Coastal Community Adaptation Program, USAID supports local-level climate change interventions in nine Pacific Island countries.²³ The United States supports natural disaster mitigation and response capabilities and weather and climate change adaptation programs in the Marshall Islands and Micronesia, two low-lying atoll nations, and elsewhere in the Pacific Islands region. USAID's Regional Development Mission-Asia (RDM/A) carries out several environmental programs in the region, particularly in Papua New Guinea.

¹⁹ Organisation for Economic Cooperation and Development, *Creditor Reporting System*, <http://stats.oecd.org/index.aspx?DataSetCode=CRS1>, accessed September 22, 2016. These totals include U.S. economic assistance to the Freely Associated States and French foreign assistance to its territory of Wallis and Fortuna.

²⁰ USAID, "Pacific Islands," <https://www.usaid.gov/pacific-islands>, accessed September 22, 2016.

²¹ Department of State, *Congressional Budget Justification, Foreign Operations, Appendix 2, FY2017*.

²² USAID, "U.S. and Pacific Partners Unite to Build Climate Resilience," November 5, 2015.

²³ USAID, "Coastal Community Adaptation Project," February 12, 2016.

Table 2. Selected U.S. Foreign Operations, Compact of Free Association, and Other Assistance to the Pacific Islands, FY2016 (estimated)
(in millions of dollars)

Account	DA	ESF	GHP	IMET	Compact	Total
Fiji				0.200		0.200
Marshall Islands	0.500				109.000	109.500
Micronesia	0.500				75.000	75.500
Palau					13.000	13.000
Papua New Guinea	1.500		4.500	0.250		6.25.0
Samoa				0.100		0.100
Tonga				0.250		0.250
Regional	9.500					9.500
RDM/A	0.436					0.436
SPTT		21.000				21.000
Total	12.436	21.000	4.500	0.800	197.000	235.736

Source: U.S. Department of State, *Congressional Budget Justification, Foreign Operations, FY2017*; U.S. Department of the Interior, Office of Insular Affairs, FY2017 Budget Justification; USAID, *Foreign Aid Explorer*.

Notes: Compact—Compact of Free Association direct economic assistance; DA—Development Assistance; ESF—Economic Support Fund; GHP—Global Health Programs; IMET—International Military Education and Training; RDM/A—Regional Development Mission-Asia; SPTT—South Pacific Tuna Treaty. The amounts in this table do not include disaster assistance.

The United States conducts International Military Education and Training (IMET) programs related to peacekeeping operations, strengthening national security, responding to natural and man-made crises, developing democratic civil-military relationships, and building military and police professionalism in Fiji, Papua New Guinea, Samoa, and Tonga.²⁴ The Obama Administration requested \$1 million in Foreign Military Financing (FMF) for FY2016 for a regional program to promote peacekeeping activities, English language capabilities, and professionalism in the military. (See **Table 2**.) For FY2017, U.S. assistance aims to expand engagement with the PIF and other regional bodies to improve democratic development and governance in the region.²⁵

South Pacific Tuna Treaty

Funding provided pursuant to the South Pacific Tuna Treaty (SPTT) constitutes a major source of U.S. assistance to some Pacific Island countries.²⁶ Under the SPTT, in force since 1988, Pacific Island parties to the treaty provide access for U.S. tuna fishing vessels to fishing zones in the Southwest Pacific, which supplies one-third of the world's tuna. In exchange, the American Tunaboat Association pays licensing fees to Pacific Island parties to the treaty. In addition, as part

²⁴ Fiji, Papua New Guinea, and Tonga are the only Pacific Island states with formal defense forces.

²⁵ Department of State, *Congressional Budget Justification, Foreign Operations, Appendix 2, FY2016*; Department of State, *Congressional Budget Justification, Foreign Operations, Appendix 2, FY2017*.

²⁶ Australia, Cook Islands, Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, the United States, and Vanuatu are parties to the treaty.

of the agreement, the United States provides economic assistance to the Pacific Island parties totaling \$21 million per year. In January 2016, the United States temporarily withdrew from the agreement, arguing that the terms were “no longer viable” for the U.S. tuna fleet. The U.S. fleet argued that it could no longer pay quarterly fees due to sharply declining prices for tuna and competition from other countries, some of which was illegal. U.S. boats resumed fishing in the region in March 2016 but with fewer fishing days allotted than in 2015.²⁷ Talks to renegotiate the SPTT resulted in an agreement in principle in June 2016 that aims to “establish more flexible procedures for commercial cooperation between Pacific Island Parties and US industry.”²⁸

Compacts of Free Association

Congress plays roles in approving and overseeing the administration of the Compacts of Free Association that govern U.S. diplomatic, economic, and military relations with the Marshall Islands, Micronesia, and Palau. U.S. economic commitments to the Freely Associated States—totaling nearly \$200 million in FY2015²⁹—are administered by the Department of the Interior. The Compact of Free Association Review Agreement, signed by the United States and the Republic of Palau in 2010, awaits congressional approval. Since 2000, the Republic of the Marshall Islands has unsuccessfully sought additional compensation for damages related to U.S. nuclear testing on Marshall Islands atolls during the 1940s and 1950s.

Background

In 1947, the Marshall Islands, the Federated States of Micronesia, Palau, and the Northern Marianas, which had been under Japanese control during part of World War II, became part of the U.S.-administered United Nations Trust Territory of the Pacific Islands. In the early 1980s, the Marshall Islands and Micronesia rejected the option of U.S. territorial or commonwealth status and instead chose *free association* with the United States. Compacts of Free Association were negotiated and agreed by the governments of the United States, the Marshall Islands, and Micronesia, and approved by plebiscites in the Trust Territory districts and by the U.S. Congress in 1985 (P.L. 99-239). Congress approved the Compact with Palau in 1986 (P.L. 99-658), which Palau ratified in 1994. The Compacts were intended to establish democratic self-government and to advance economic development and self-sufficiency through U.S. grant and federal program assistance, and to further the national security of the Freely Associated States (FAS) and the United States in light of Cold War geopolitical concerns.

Under the Compacts, the FAS are sovereign nations that conduct their own foreign policy, but the United States and the FAS are subject to certain limitations and obligations regarding international security and economic relations. The United States is obligated to defend the Freely Associated States against attack or threat of attack. The United States may block FAS government policies that it deems inconsistent with its duty to defend the FAS (the “defense veto”), and it has the prerogative to reject the strategic use of, or military access to, the FAS by third countries (the

²⁷ Giff Johnson, “U.S. Officially Pulls out of Pacific Fisheries Treaty,” *Marianas Variety*, January 20, 2016; Michael Field, op. cit. For additional information, see also Brian Hallman, Executive Director, American Tunaboat Association, Statement before the Subcommittee on Water, Power, and Oceans, Committee on Natural Resources, House of Representatives, March 1, 2016.

²⁸ “Parties to South Pacific Tuna Treaty Agree on Principles of Fishing Access,” *ForeignAffairs.co.nz*, July 5, 2016; Department of State, “South Pacific Tuna Treaty,” June 29, 2016.

²⁹ This total includes Compact grant assistance, Kwajalein “impact” assistance, and trust fund contributions. U.S. Department of the Interior, Office of Insular Affairs, FY2017 Budget Justification.

“right of strategic denial”). The United States also may establish military bases in the FAS, and the Marshall Islands is home to a premier U.S. military facility (the Ronald Reagan Ballistic Missile Defense Test Site [RTS], also known as the Kwajalein Missile Range).³⁰

The Freely Associated States and their citizens are eligible for various U.S. federal programs and services. FAS citizens are entitled to reside and work in the United States and its territories as “lawful non-immigrants” and are eligible to volunteer for service in the U.S. armed forces. Several hundred FAS citizens serve in the U.S. military and roughly 12 FAS citizens serving in the U.S. armed forces died in the Iraq and Afghanistan war efforts. The Marshall Islands, Micronesia, and Palau were members of the U.S.-led coalition that launched Operation Iraqi Freedom in 2003.³¹

Kwajalein Missile Range

The United States military regularly conducts intercontinental ballistic missile (ICBM) testing and space surveillance activities from the Kwajalein Missile Range. Former Chairman of the Joint Chiefs of Staff General Martin E. Dempsey referred to the site as the “world’s premier range and test site for intercontinental ballistic missiles and space operations support.”³² Under the Military Use and Operating Rights Agreement (MUORA), the United States makes annual payments (\$18 million) to the Marshall Islands government, which compensates Kwajalein landowners for relinquishing their property through a Land Use Agreement. The amended Compact of 2003 extended U.S. base rights at Kwajalein Atoll through 2066, with the U.S. option to continue the arrangement for an additional 20 years (to 2086).

The FAS economies depend heavily on U.S. support. The Department of the Interior provides direct economic or grant assistance to the FAS. Its Office of Insular Affairs is responsible for administering the Compacts. The Compacts with the Marshall Islands and Micronesia provided economic assistance totaling roughly \$2.5 billion between 1987 and 2003, including payments for damages and personal injuries caused by U.S. nuclear testing on Marshall Islands atolls during the 1940s and 1950s. In December 2003, the Compacts were amended in order to extend economic assistance for another 20 years and establish trust funds that aim to provide sustainable sources of government revenue after 2023. Projected U.S. grant assistance and trust fund contributions to the Marshall Islands for the 2004-2023 period total \$629 million and \$235 million, respectively. Projected grant assistance and trust fund contributions to Micronesia for the same period total \$1.4 billion and \$442 million, respectively.³³

Palau: Compact of Free Association Review Agreement

In 1986, the United States and Palau signed a 50-year Compact of Free Association. The Compact was approved by the U.S. Congress but not ratified in Palau until 1993 (entering into force on October 4, 1994). The U.S.-Palau Compact provided for 15 years of direct economic assistance, the construction of a 53-mile road system, a trust fund, services of some U.S. federal agencies

³⁰ U.S. Army Kwajalein Atoll (USAKA) Reagan Test Site / Kwajalein Missile Range, GlobalSecurity.org, accessed September 22, 2016.

³¹ Tomoko A. Hosaka, “Soldier’s Death, Guantanamo Detainees Rattle Palau,” *Associated Press*, June 16, 2009; Remarks by Peter A. Prahar, Ambassador of the United States of America, Federated States of Micronesia, February 5, 2010; Edgard Kagan, Deputy Assistant Secretary of State, Testimony before the House Committee on Natural Resources, Subcommittee on Fisheries, Wildlife, Oceans, and Insular Affairs, September 10, 2012.

³² Lisa Ferdinando, “Dempsey Visits Strategic, Remote Kwajalein Atoll,” *Federal Information and News Dispatch*, February 21, 2015.

³³ United States Government Accountability Office, *Micronesia and the Marshall Islands Continue to Face Challenges Measuring Progress and Ensuring Accountability*, September 2013.

such as the U.S. Postal Service and the National Weather Service, and eligibility for some U.S. federal education, health, and other programs. Between 1995 and 2009, U.S. assistance totaled over \$850 million, including grant assistance, road construction, and the establishment of a trust fund (\$574 million), Compact federal services (\$25 million), and discretionary federal program assistance (\$267 million).³⁴

Table 3. Palau Amended Compact
(in millions of dollars)

Economic Assistance Provisions	
Trust Fund Contributions, FY2013-23	30.3
Infrastructure Maintenance Fund, FY2011-24	28.0
Fiscal Consolidation Fund, FY2011-12	10.0
Economic Assistance, FY2011-23	107.5
Infrastructure Projects, FY2011-15	40.0
Direct Economic Assistance Subtotal	215.0

Source: Government Accountability Office, 2012.

Notes: Numbers may differ slightly from other sources due to rounding.

Under the Compact, direct economic assistance was to terminate in 2009 while annual distributions from the trust fund were to increase, to help offset the loss of economic assistance. However, Palauan leaders and some U.S. policymakers argued that continued assistance to Palau beyond 2009 was necessary. Furthermore, the value of the Compact trust fund fell from nearly \$170 million to \$110 million in 2008-2009 due to the global financial crisis, although it rebounded and was valued at approximately \$184 million in 2015.³⁵ In September 2010, the United States and Palau agreed to renew Compact economic assistance, but it awaits approval by Congress. (See **Table 3**.)

The 2010 accord provided for \$215.75 million in direct economic assistance over an additional 15-year period (2011-2024).³⁶ According to some estimates, U.S. support, including both direct economic assistance and projected discretionary program assistance, would total approximately \$427 million between 2011 and 2024. In addition, the agreement committed Palau to undertake economic, legislative, financial, and management reforms.³⁷

Although there has been bipartisan support for continued assistance, Congress has yet to approve the renewal agreement, also known as the Compact of Free Association Review Agreement,

³⁴ David Gootnick, Government Accountability Office, “Compact of Free Association: Proposed U.S. Assistance to Palau for Fiscal Years 2016 to 2024,” Testimony before the Subcommittee on Indian, Insular, and Alaska Native Affairs, Committee on Natural Resources, House of Representatives, July 6, 2016; David Gootnick, Government Accountability Office, “Compacts of Free Association: Issues Associated with Implementation in Palau, Micronesia, and the Marshall Islands,” Testimony before the Committee on Energy and Natural Resources, U.S. Senate, April 5, 2016; David Gootnick, Government Accountability Office, “Compact of Free Association: Proposed U.S. Assistance to Palau through Fiscal Year 2024,” Testimony before the Subcommittee on Fisheries, Wildlife, Oceans, and Insular Affairs, Committee on Natural Resources, House of Representatives, September 10, 2012.

³⁵ David Gootnick, Government Accountability Office, “Compacts of Free Association: Issues Associated with Implementation in Palau, Micronesia, and the Marshall Islands,” op. cit.

³⁶ David Gootnick, Government Accountability Office, “Compact of Free Association: Proposed U.S. Assistance to Palau through Fiscal Year 2024,” op. cit.

³⁷ Ibid.

largely for budgetary reasons. From FY2010 to FY2016, the U.S. government continued annual direct economic assistance to Palau at 2009 levels (\$13.1 million), pending congressional approval of the 2010 agreement and resolution of funding issues. Other U.S. assistance pursuant to the agreement, however, remained unfunded.³⁸

During the 114th Congress, two bills were introduced in support of the agreement to extend Compact assistance to Palau. S. 2610, A Bill to Approve an Agreement Between The United States and the Republic of Palau, would not significantly alter total U.S. economic assistance to Palau from the levels specified in the 2010 renewal agreement, although the assistance would be allocated in different increments due in part to the delay in implementing the agreement. H.R. 4531, To Approve an Agreement Between the United States and the Republic of Palau, and for Other Purposes, would provide an additional \$31.8 million as well as reschedule U.S. assistance.³⁹ In addition, the conference report (H.Rept. 114-840) to accompany S. 2943, The National Defense Authorization Act for Fiscal Year 2017, included the following statement: “The conferees believe that enacting the Compact Review Agreement is important to United States’ national security interests and, as such, believe that the President should include the Compact Review Agreement in the Fiscal Year 2018 budget request.”⁴⁰

Marshall Islands Nuclear Test Damages Claims

From 1946 to 1958, the United States conducted 67 atmospheric atomic and thermonuclear weapons tests on the Marshall Islands atolls of Bikini and Enewetak. In 1954, “Castle Bravo,” the second test of a hydrogen bomb, was detonated over Bikini atoll, resulting in dangerous levels of radioactive fallout upon the populated atolls of Rongelap and Utrik. Between 1957 and 1980, the residents of the four northern atolls returned to their homelands (Rongelap and Utrik in 1957; Bikini in 1968; and Enewetak in 1980). However, the peoples of Bikini and Rongelap were re-evacuated to other islands in 1978 and 1985, respectively, after the levels of radiation detected in the soil were deemed unsafe for human habitation. Although diving and tourist facilities have operated on Bikini on and off since 1996, and the U.S. government had declared some parts of Rongelap safe for human habitation following a \$45 million cleanup effort, neither atoll has been resettled.⁴¹ Some experts claim that remediation techniques, primarily replacing surface soil in populated areas and adding potassium chloride fertilizer to agricultural areas, has made resettlement possible, although most of the displaced people have refused to return.⁴²

U.S. Nuclear Test Compensation

The Compact of Free Association established a Nuclear Claims Fund of \$150 million and a Nuclear Claims Tribunal (NCT) to adjudicate claims. Investment returns on the Fund were expected to generate revenue for personal injury and property damages awards, health care, resettlement, trust funds for the four atolls, and quarterly distributions to the peoples of the four

³⁸ Esther P. Kia’aina, Department of the Interior, Statement before the House Subcommittee on Indian, Insular, and Alaska Native Affairs, Regarding H.R. 4531, To Approve an Agreement between the United States and the Republic of Palau, July 6, 2016.

³⁹ David Gootnick, Government Accountability Office, “Compact of Free Association: Proposed U.S. Assistance to Palau for Fiscal Years 2016 to 2024,” op. cit.

⁴⁰ S. 2943 was signed into law (P.L. 114-328) on December 23, 2016.

⁴¹ “Islanders Afraid to Go Home 60 Years After Bikini Atoll H-Bomb,” *Agence France Presse*, March 1, 2014.

⁴² Lawrence Livermore National Laboratory, <https://marshallislands.llnl.gov/rongelap.php>; Dan Zak, “A Ground Zero Forgotten,” *Washington Post*, November 29, 2015.

atolls for hardships suffered. In all, the United States reportedly has provided over \$600 million for nuclear claims, health and medical programs, and environmental cleanup and monitoring.⁴³

The Compact deems the Nuclear Claims Fund as part of a “full and final settlement” of legal claims against the U.S. government. However, the Fund was depleted by 2009 and was not sufficient to cover the NCT’s awards of \$96 million to approximately 2,000 individuals for compensable injuries. In addition, the Tribunal awarded, but was unable to pay, approximately \$2.2 billion to the four atoll governments for remediation and restoration costs, loss of use, and consequential damages.⁴⁴

Marshall Islands Legal Actions

The Marshall Islands government and peoples of the four most-affected atolls long have argued that greater U.S. compensation was justified for loss of land, personal injuries, and property damages. They have claimed that the nuclear tests caused high incidences of miscarriage, birth defects, and weakened immune systems, as well as high rates of thyroid, cervical, and breast cancer.⁴⁵ In addition, some experts contend that more than a dozen Marshall Islands atolls, rather than only four, were affected.⁴⁶ Some experts have disputed the Marshall Islands claims, pointing to some earlier studies.⁴⁷

In September 2000, the government of the Republic of the Marshall Islands (RMI) submitted to the U.S. Congress a *Changed Circumstances Petition* requesting additional compensation of roughly \$1 billion for personal injuries, property damages, public health infrastructure, and a health care program for those exposed to radiation. The Petition based its claims upon the “changed circumstances” provision of Section 177 of the Compact, arguing that “new and additional” information, such as greater radioactive fallout than previously known or disclosed and revised radiation protection standards, constituted “changed circumstances” and that existing compensation was “manifestly inadequate.” In November 2004, the George W. Bush Administration released a report evaluating the Petition, *Report Evaluating the Request of the Government of the Republic of the Marshall Islands Presented to the Congress of the United States of America*, concluding that there was no legal basis for considering additional compensation payments.⁴⁸

In April 2006, the peoples of Bikini and Enewetak atolls filed lawsuits against the United States government in the U.S. Court of Federal Claims seeking additional compensation related to the

⁴³ Embassy of the United States, Majuro, Marshall Islands, “The Legacy of U.S. Nuclear Testing and Radiation Exposure in the Marshall Islands,” <http://majuro.usembassy.gov/legacy.html>, accessed September 22, 2016.

⁴⁴ Testimony of Bill Graham, Marshall Islands Nuclear Claims Tribunal, before the House Committee on Foreign Affairs Subcommittee on Asia, the Pacific, and the Global Environment, May 21, 2010.

⁴⁵ Advocates for greater nuclear test compensation have based some claims on a National Cancer Institute study: U.S. Dept. of Health and Human Services, National Institutes of Health, National Cancer Institute, *Estimation of the Baseline Number of Cancers Among Marshallese and the Number of Cancers Attributable to Exposure to Fallout from Nuclear Weapons Testing Conducted in the Marshall Islands*, September 2004. Prepared for the Senate Committee on Energy and Natural Resources.

⁴⁶ James H. Plasman, Testimony before the House Committee on Foreign Affairs, Subcommittee on Asia, the Pacific and the Global Environment, July 25, 2007.

⁴⁷ Steven L. Simon and James C. Graham, “Findings of the Nationwide Radiological Study,” 1994. See also Steven L. Simon and James C. Graham, “Findings of the First Comprehensive Radiological Monitoring Program of the Republic of the Marshall Islands,” *Health Physics*, vol. 73, no. 1 (July 1997).

⁴⁸ U.S. Department of State, *Report Evaluating the Request of the Government of the Republic of the Marshall Islands Presented to the Congress of the United States of America*, November 2004.

U.S. nuclear testing program. The court dismissed both lawsuits on August 2, 2007. The U.S. Court of Appeals for the Federal Circuit upheld the lower court ruling on January 30, 2009, finding that Section 177 of the Compact removed U.S. jurisdiction. In April 2010, the Supreme Court declined to hear the case.⁴⁹

In April 2014, the RMI filed suits in the United States and the International Court of Justice in the Hague against the United States and eight other nuclear powers, claiming their failure to meet their obligations toward nuclear disarmament under Article VI of the Nuclear Non-Proliferation Treaty. The lawsuits did not seek compensation but rather action on disarmament. On February 3, 2015, a federal court in California dismissed the RMI suit against the United States, on the grounds that the RMI lacked standing to bring the case and that the case was resolvable by the political branches of government rather than the courts.⁵⁰

China's Growing Influence

Some policymakers, including Members of Congress, have expressed concerns about China's growing influence in the region.⁵¹ China has become a growing political and economic actor in the Southwest Pacific, and some observers contend that it aims to promote its interests in a way that potentially displaces the influence of traditional actors in the region such as the United States, Australia, and New Zealand. In the view of one analyst, "China clearly does seek to become at least a leading power in the Western Pacific and perhaps the leading power in the Western Pacific."⁵² One expert reports that China's principal strategic activity in the region is signals intelligence monitoring. Toward this end, China reportedly has regularly sent vessels to the region that both track satellites and ballistic missiles and also gather intelligence.⁵³

Other analysts argue that Beijing does not consider the South Pacific to be of key strategic importance, and note that Australian assistance remains significantly larger than that provided by Beijing.⁵⁴ Some believe that although many Pacific Island leaders say they appreciate China's economic engagement and diplomatic policy of "non-interference" in domestic affairs, the region maintains strong ties to Australia and the West that are rooted in shared history and culture as well as migration.⁵⁵

Beijing's engagement in the region has been motivated largely by a desire to garner support in international fora and find sources of raw materials. According to some analysts, China began to fill a vacuum created by waning U.S. attention following the end of the Cold War.⁵⁶ While the United States does not maintain an embassy in several Pacific Islands countries, for example, Beijing has opened diplomatic missions in all eight of the Pacific Island countries with which it

⁴⁹ Warren Richey, "Supreme Court: No Review of Award for US Nuclear Weapons Tests," *Christian Science Monitor*, April 5, 2010.

⁵⁰ This also is known as the "political question doctrine." Department of State, U.S. Relations with Marshall Islands, Fact Sheet, February 4, 2015; "Marshall Islands Will Appeal in Nuclear Case against US," *Daily Mail*, April 2, 2015.

⁵¹ See, for example, Rep. Matt Salmon, op. cit.

⁵² McCarthy, op. cit.

⁵³ "Chinese 'Spy Ship' Slips into Auckland," *New Zealand Herald*, October 3, 2016; "Satellite Tracking Ship in Suva," *Fiji Sun*, August 23, 2015; Joanne Wallis, "China's South Pacific Diplomacy," *The Diplomat*, August 30, 2012.

⁵⁴ McCarthy, op. cit.; Webb, op. cit.; Claxton, op. cit.; Jian Yang, op. cit.

⁵⁵ Cleo Paskal, "The New Battle for the Pacific: How the West Is Losing the South Pacific to China, the UAE, and Just About Everyone Else," East-West Center, October 3, 2013.

⁵⁶ Julie Pendray, "China Pours Aid to Islands: Rising Power's Financial Interest in South Pacific Under Scrutiny," *Washington Times*, October 19, 2007; McCarthy, op. cit.

has diplomatic relations. China-Taiwan “dollar diplomacy,” in which the two entities competed for official diplomatic recognition through offers of foreign aid, has been a declining factor since the late 2000s.⁵⁷

Fiji-China Relations

Some analysts view Fiji as an example of how deteriorating relations between Pacific Island countries and Western powers in the region may result in greater Chinese influence, although the significance of that influence is debated. China has become a main source of foreign aid and diplomatic support to Fiji, particularly after major foreign aid donors, including Australia, New Zealand, the EU, and the United States, imposed limited sanctions in response to the 2006 military coup.⁵⁸ Major donors resumed foreign aid after Fiji held parliamentary elections in 2014, which international observers viewed as free and fair.⁵⁹ During the interim period, Josaia Voreqe “Frank” Bainimarama, who has been the leader of Fiji since 2007 and was elected Prime Minister in 2014, put in place a “Look North” policy under which relations with China became more important.⁶⁰ After Australia and New Zealand supported Fiji’s suspension from the PIF, the Fijian government focused its attention on the Melanesian Spearhead Group. According to analysts, China seized this opportunity, sponsoring the creation of the MSG Secretariat, and building its headquarters in Vanuatu.⁶¹ Prime Minister Bainimarama has argued that Australia and New Zealand should only be allowed to remain members of the Pacific Islands Forum if China and Japan are allowed to join.⁶² In 2015, China and Fiji agreed to expand military cooperation.⁶³

China’s Foreign Assistance and Trade

China is one of the top providers of foreign assistance in the Southwest Pacific, providing \$150 million in foreign assistance per year on average during the past decade. China has held two China-Pacific Island Countries Economic Development and Cooperation Forums (2006 and 2013), where Chinese officials announced large aid packages, including pledges of preferential loans (\$376 million in 2006 and \$1 billion in 2013). In November 2014, Chinese President Xi Jinping travelled to Fiji to establish a strategic partnership between China and eight Pacific Island countries.⁶⁴ China also has provided support to the Pacific Islands Forum and has helped finance some of the organization’s activities and initiatives.

Despite China’s rise, Australia remains the dominant foreign aid donor in the region. Between 2006 and 2014, Australia reportedly provided approximately \$7.7 billion in foreign aid to the region, compared to the United States (\$1.9 billion), China (\$1.8 billion), New Zealand (\$1.3 billion), Japan (\$1.2 billion), and France (\$1.0 billion).⁶⁵ In terms of grant-based aid, China’s

⁵⁷ Taiwan (Republic of China) has official diplomatic relations with Kiribati, the Marshall Islands, Nauru, Palau, the Solomon Islands, and Tuvalu.

⁵⁸ Philippa Brant, “The Geopolitics of Chinese Aid: Mapping Beijing’s Funding in the Pacific,” *Foreign Affairs*, March 4, 2015.

⁵⁹ “Aust-NZ Response to Winston May Reset Diplomatic Relations,” Open Source Center Australia, March 4, 2016.

⁶⁰ “Fiji’s Look North Policy Finds an Open Armed Russia,” *Nikkei*, February 25, 2016.

⁶¹ Joanne Wallis, “China’s South Pacific Diplomacy,” *The Diplomat* August 30, 2012. The Melanesian Spearhead Group, formed in 1986, is composed of Fiji, Papua New Guinea, the Solomon Islands, Vanuatu, and New Caledonia (France), whose native populations are predominantly ethnically Melanesian.

⁶² “Renewed Friction over Fiji’s Stance on Pacific Islands Forum,” Economist Intelligence Unit, April 29, 2015.

⁶³ “China, Fiji Agree to Expand Military Cooperation,” *China Military Online*, July 16, 2015.

⁶⁴ “China, Pacific Island Countries Announce Strategic Partnership,” *Xinhuanet*, November 22, 2014.

⁶⁵ “China Has Become a ‘Major Donor’ in the Pacific Islands Region,” DW.COM, March 3, 2015; Danielle Cave, “Witnessing (an Opaque) Pacific Power Shift,” Lowy Institute for International Policy, *The Interpreter*, September 5, 2016; Lowy Institute for International Policy, “Chinese Aid in the Pacific,” updated September 2016, <http://www.lowyinstitute.org/chinese-aid-map/>

foreign assistance is relatively small. Unlike other major donors, which provide mostly grant assistance, nearly 80% of Chinese aid reportedly has been provided in the form of preferential loans, generally to finance infrastructure projects that use Chinese companies and labor.⁶⁶

Table 4. Pacific Island Trade with the China, Australia, and the United States, 2015

(in millions of dollars)

	China	Australia	United States
Cook Islands	17	7	5
Micronesia	16	5	41
Fiji	352	414	260
Kiribati	49	20	10
Nauru	5	61	2
Niue	0	0	1
Palau	22	2	26
Papua New Guinea	2,875	3,523	299
Marshall Islands	3,399	5	83
Samoa	66	49	27
Solomon Islands	544	124	9
Tonga	30	11	16
Tuvalu	16	6	1
Vanuatu	86	65	10
Totals	7,477	4,292	790

Source: Global Trade Atlas

China's foreign assistance to the Southwest Pacific, like its economic assistance to many other regions, largely consists of concessional loans, infrastructure and public works projects, and investments in the extraction of natural resources. Papua New Guinea is the largest Pacific recipient of Chinese aid, having received 35% of Chinese assistance to the region. Other major recipients include Fiji, Vanuatu, and Samoa. China's foreign assistance has resulted in 218 projects since 2006, including Chinese-built roads, sea ports, airports, hydropower facilities, mining operations, hospitals, government buildings, educational facilities, sports stadiums, and other public works. Other Chinese assistance areas include public health, education, fisheries conservation, the environment, and financial support for Fiji's elections in 2014.⁶⁷ Recent, smaller forms of aid reportedly include rowing machines for Samoa, water supply systems for small towns in Tonga, and quad bikes for Cook Islands legislators. Beijing also reportedly has provided modest military equipment and training to Fiji, Papua New Guinea, and Tonga.⁶⁸

Some observers have criticized Chinese assistance, arguing that some infrastructure projects are poor in quality and that some Chinese loans and aid activities lack transparency and exacerbate

⁶⁶ "Chinese Aid in the Pacific," *ibid.*

⁶⁷ "China in the Pacific: Big Fish in a Big Pond," *Economist.com*, March 25, 2015.

⁶⁸ Danielle Cave, *op. cit.*

corruption, increase debt burdens, or harm the environment. Other concerns are that some Chinese economic projects and investments do not employ local labor or that they are not directly aimed at reducing poverty.⁶⁹ Some experts contend that Chinese aid has reduced the regional influence of Australia, the United States, and European countries, while others dispute this contention. Another issue is the relatively recent influx of Chinese traders and shop owners in some urban areas, which reportedly has caused resentment among some native residents.⁷⁰

China is a major trading partner in the region, surpassing even Australia, and has economic interests in the following sectors: energy production (hydro power and gas), mining, fisheries, timber, agriculture, and tourism. (See **Table 3.**) The largest Chinese investment project is the \$1.6 billion Ramu Nickel mine in Papua New Guinea. China also has become a major source of tourists and is the only non-Pacific Island nation to be a member of the South Pacific Tourism Organization.

Australia, New Zealand, and Other External Actors

The United States has relied upon Australia, and to a lesser extent New Zealand, to help advance shared strategic interests, maintain regional stability, and promote economic development in the Southwest Pacific. Australia has played a critical role in helping to promote security in places such as Timor-Leste, which gained its independence from Indonesia following a 1999 referendum that turned violent, the Solomon Islands, and Bougainville, which is part of Papua New Guinea.⁷¹ The 2016 Australia Defence White Paper articulates Australia's approach to the South Pacific:

The South Pacific region will face challenges from slow economic growth, social and governance challenges, population growth and climate change. Instability in our immediate region could have strategic consequences for Australia should it lead to increasing influence by actors from outside the region with interests inimical to ours. It is crucial that Australia help support the development of national resilience in the region to reduce the likelihood of instability. This assistance includes defence cooperation, aid, policing and building regional organisations.... We will also continue to take a leading role in providing humanitarian and security assistance where required.⁷²

New Zealand's Pacific identity, derived from its geography and growing population of New Zealanders with Polynesian or other Pacific Island ethnic backgrounds, as well as its historical relationship with the South Pacific, undergirds its relationship with the region.⁷³ The June 2016 New Zealand Defence White Paper articulates New Zealand's ongoing interest in the South Pacific:

Given its strong connections with South Pacific countries, New Zealand has an enduring interest in regional stability. The South Pacific has remained relatively stable since 2010, and is unlikely to face an external military threat in the foreseeable future. However, the

⁶⁹ McCarthy, op. cit.; "China in the Pacific: Big Fish in a Big Pond," op. cit.; Matthew Dornan and Philippa Brant, "Chinese Assistance in the Pacific: Agency, Effectiveness and the Role of Pacific Island Governments," *Asia and the Pacific Policy Studies*, vol. 1, no. 2 (May 14, 2014); Kalafi Moala, "The Chinese Are Here to Stay," Pacific Institute of Public Policy, May 14, 2014; Matthew Dornan, Denghua Zhang, and Philippa Brant, "China Announces More Aid, and Loans, to Pacific Island Countries," Development Policy Center, November 13, 2013.

⁷⁰ Moala, op. cit.; Graeme Smith, op. cit.; Jenny Hayward-Jones, op. cit.

⁷¹ "Australia Aims to Begin Troop Withdrawal from E. Timor Next Year," *Kyodo News*, April 15, 2011.

⁷² Government of Australia, Department of Defence, White Paper, 2016.

⁷³ "Demographics of New Zealand's Pacific Population," http://www.stats.govt.nz/browse_for_stats/people_and_communities, accessed October 27, 2016.

region continues to face a range of economic, governance, and environmental challenges. These challenges indicate that it is likely that the Defence Force will have to deploy to the region over the next ten years, for a response beyond humanitarian assistance and disaster relief. New Zealand will continue to protect and advance its interests by maintaining strong international relationships, with Australia in particular, and with its South Pacific partners, with whom it maintains a range of important constitutional and historical links.⁷⁴

New Zealand works closely with Pacific Island states on a bilateral and multilateral basis. It has played a key role in promoting peace and stability in the Southwest Pacific in places such as Timor-Leste, the Solomon Islands, and Bougainville, and Papua New Guinea. Approximately 60% of New Zealand's foreign assistance goes to the Southwest Pacific.⁷⁵ In September 2015, Auckland pledged to increase foreign assistance to the region by \$100 million to reach a total of \$1 billion in expenditures over the next three years.⁷⁶ New Zealand also has provided development and disaster assistance to the region. In 2015, New Zealand's then-Prime Minister John Key reaffirmed New Zealand's support for the Pacific Islands Forum and sustainable South Pacific economic development, including for sustainable fisheries.⁷⁷ An estimated \$2 billion worth of fish is taken legally from the waters of the 14 PIF countries, with an additional \$400 million worth of fish thought to be taken illegally each year.⁷⁸

France

France's decision to stop nuclear testing in the South Pacific in 1996 opened the way for improved relations with the region. Although much of France's regional military presence was withdrawn following its decision to stop nuclear testing, France continues to have a military presence that reportedly includes 2,800 personnel and 7 ships, including surveillance frigates and patrol vessels.⁷⁹ France is also a member of the Quadrilateral Defense Coordination Group, along with the United States, Australia, and New Zealand, which seeks to coordinate maritime security in the South Pacific. France recently signed a \$39 billion deal to provide 12 new submarines to the Australian Navy.⁸⁰

Other External Actors

Other external actors are becoming more active in the Southwest Pacific.⁸¹ Russia reportedly has sent a shipment of weapons with advisors to help train the Fijian military in the use of recently

⁷⁴ Government of New Zealand, 2016 Defence White Paper, June 2016.

⁷⁵ Ministry of Foreign Affairs and Trade, "Strategic Direction," <http://www.mfat.govt.nz> undated, accessed October 27, 2016.

⁷⁶ John Key, "NZ Support for the Pacific to Reach \$1 Billion," September 9, 2015, [beehive.govt.nz](http://www.beehive.govt.nz).

⁷⁷ John Key, "New Funding Supports Sustainable Fisheries," September 11, 2015, <https://www.beehive.govt.nz/release/new-funding-supports-sustainable-pacific-fisheries>.

⁷⁸ Audrey Young, "US Extending Eye on Pacific to Help Cut Illegal Fishing," *New Zealand Herald*, February 22, 2011.

⁷⁹ "France and Security in the Asia-Pacific," France Ministry of Defense, <http://www.defense.gouv.fr/content/download/261113/3194598/file/>, accessed October 27, 2016.

⁸⁰ Bruno Tertrais, "With Military Deals, France Asserts its Presence in the Asia-Pacific," *World Politics Review*, June 15, 2016; Center for Strategic and International Studies, "France: The Other Pacific Power," December 14, 2012.

⁸¹ Euan Graham, "Replacing the Patrol Boats: A Smart Re-Investment Play," PACNEWS, February 3, 2016.

delivered equipment.⁸² India reportedly is exploring the possibility of establishing a satellite monitoring station in Fiji.⁸³

Indonesia, too, has become more interested in the region, often with regards to its relations with the Melanesian countries. Indonesia has been a dialogue partner of the Pacific Islands Forum since 2001. Indonesian objectives related to the PIF include repositioning Indonesia's foreign policy towards a "look east policy" and getting "closer to the countries of the Pacific region," maintaining "the integrity of the unitary Republic of Indonesia," and improving the "image of Indonesia."⁸⁴ The PIF and Melanesian countries have criticized human rights abuses in West Papua, Indonesia, which has a large, ethnically Melanesian indigenous population.⁸⁵ Alleged human rights violations include the harassment of human rights groups and arbitrary arrests of independence activists.⁸⁶ Some Melanesian countries have supported self-determination for West Papua and its inclusion in the Melanesian Spearhead Group.⁸⁷ Indonesia has responded that it is a democratic country that is committed to human rights. It has resisted "interference in its domestic affairs" and in 2015 refused to accept a PIF fact-finding mission to investigate human rights violations.⁸⁸

Climate Change and Other Environmental Issues

Pacific Island countries have sought international support for helping them to cope with the impacts of climate change, reduce greenhouse gas (GHG) emissions, and increase renewable energy use and energy efficiency. U.S. assistance efforts in the region have focused on climate change adaptation and strengthening governmental capacity to attract international financing and successfully implement environmental programs.⁸⁹ Many experts view the Pacific Islands as highly vulnerable to the effects of climate change and other environmental problems, such as sea level rise, ocean acidification, invasive species, and extreme weather events. These environmental issues can have adverse effects on agriculture, drinking water supplies, fisheries, and tourism.

A report by the U.S. Fish and Wildlife Service states

Climate change presents Pacific Islands with unique challenges including rising temperatures, sea-level rise, contamination of freshwater resources with saltwater, coastal erosion, an increase in extreme weather events, coral reef bleaching, and ocean acidification. Projections for the rest of this century suggest continued increases in air and ocean surface temperatures in the Pacific, increased frequency of extreme weather events,

⁸² "Russian Arms Deal with Fiji Prompts Regional Concerns," *Nikkei*, February 15, 2016.

⁸³ "India for Satellite Tracking Unit in Fiji," *Deccan Herald*, August 20, 2015.

⁸⁴ Republic of Indonesia, Ministry of Foreign Affairs, *Pacific Islands Forum*, <http://www.kemlu.go.id/en/kebijakan/kerjasama-regional/Pages/PIF.aspx>, accessed October 27, 2016.

⁸⁵ The island of Papua is divided into two parts: West Papua, Indonesia, in the west and Papua New Guinea in the east.

⁸⁶ Department of State, *Country Reports on Human Rights Practices for 2015—Indonesia*; "Guest Blog: Maire Leadbeater—Pacific Nations Diplomacy for West Papua Puts New Zealand to Shame," *The Daily Blog*, October 18, 2016; "Geo-Politics At Play over Leaders' Lack of Expressed Commitment on West Papua," *PACNEWS*, September 12, 2016.

⁸⁷ "Full Membership for West Papua Expected in December," *PACNEWS*, October 9, 2016.

⁸⁸ Benny Giay, "Finding a Dignified Resolution for West Papua," *The Conversation*, May 6, 2016; Petrus Farneubun, "Commentary: Indonesia Rejects Pacific Leaders' Statement on Human Rights Abuses in Papua," *PACNEWS*, September 27, 2016.

⁸⁹ Gloria Steele, Deputy Assistant Administrator, Bureau for Asia, U.S. Agency for International Development, Statement before the House Foreign Affairs Committee, Subcommittee on Asia and the Pacific, June 23, 2016.

and increased rainfall during the summer months and a decrease in rainfall during the winter months.⁹⁰

Some areas of the region lie only 15 feet above sea level, and if sea levels continue to rise as projected, Kiribati, Tokelau, and Tuvalu may be uninhabitable by 2050.⁹¹ Some experts predict that many Pacific Islanders face displacement over the coming decades. Kiribati reportedly is buying land in Fiji in case its population needs to relocate.⁹²

Much of the Republic of the Marshall Islands is less than six feet above the sea, and some experts say that rising sea levels may make many areas of the country unfit for human habitation in the coming decades.⁹³ Bikini Islanders, with the support of the U.S. Department of the Interior, have asked to be allowed to resettle in the United States. They claim that Kili and Ejit, the islands to which Bikini Islanders were relocated before and after the nuclear tests of the 1940s and 1950s and where about 1,000 of them currently live, can no longer sustain them, due to a lack of resources and a greater frequency of bad weather. Recurrent flooding from storms and high tides has disrupted water supplies and destroyed crops. The Department of the Interior has proposed that the U.S. resettlement fund set up for Bikini Islanders help to support their relocation to the United States.⁹⁴

The Paris Agreement and the Pacific

Pacific Island states were very active in seeking to influence the outcome of the U.N. Climate Change Conference of the Parties (COP) in Paris, France, in 2015. The Paris Agreement includes several outcomes sought by Pacific Island countries, such as a commitment to limit temperature rise.⁹⁵ The Agreement reaffirms “the goal of limiting global temperature increase well below 2 degrees Celsius, while urging efforts to limit the increase to 1.5 degrees.”⁹⁶ Twelve Pacific Island countries signed the Paris Agreement on April 22, 2016.⁹⁷

The Pacific Islands Forum 2016 annual meeting continued the organization’s focus on climate change. The Forum Communique included the following statement:

⁹⁰ Intergovernmental Panel on Climate Change, *Climate Change 2013: The Physical Science Basis*, <http://www.ipcc.ch/report/ar5/wg1/>; U.S. Fish and Wildlife Service, “Climate Change in the Pacific Region,” <https://www.fws.gov/pacific/climatechange/changepi.html>.

⁹¹ CRS In Focus IF10468, *Sea-Level Rise and U.S. Coasts*, by Nicole T. Carter and Peter Folger; Rob Taylor, “Pacific Islands Take Steps to Counter Rising Sea Levels,” *Dow Jones*, November 30, 2015; USAID, “Pacific Islands: Environment and Global Climate Change,” <https://www.usaid.gov/pacific-islands/environment-and-global-climate-change>.

⁹² “Small Islands Demand Coal Moratorium,” *Australian Associated Press*, September 7, 2015; After Paris: Climate Finance in the Pacific Islands,” Oxfam Research Report, September 2016.

⁹³ Coral Davenport, “The Marshall Islands Are Disappearing,” *New York Times*, December 1, 2015.

⁹⁴ Giff Johnson, “Interior Official Focuses on Bikini Resettlement Options,” *Marianas Variety*, July 17, 2016; “Bikini Islanders Demand Refuge in US amid Radiation and Climate Concerns,” *Sputnik News Service*, March 22, 2015; Taryn Tarrant-Cornish, “Bikini Islanders in Desperate Plea to USA as Island Home Disappears Due to Climate Change,” *Express.co.uk*, October 27, 2015; Department of the Interior, Office of Insular Affairs, “Interior Proposes Legislation to Expand Bikini Islanders’ Use of Resettlement Fund beyond the Marshall Islands,” October 20, 2015.

⁹⁵ “Framework for Pacific Regionalism,” *PACNEWS*, February 8, 2016.

⁹⁶ “Outcomes of the UN Climate Change Conference in Paris,” Center for Climate and Energy Solutions, December 12, 2015. <http://www.c2es.org>

⁹⁷ Fiji, Nauru, Palau, Republic of the Marshall Islands, Samoa, and Tuvalu ratified the agreement. “Six Pacific Island Nations Ratify Paris Accord on Climate Change,” *ForeignAffairs.co.nz*, April 26, 2016.

Leaders reiterated the importance of the Pacific Islands Forum in maintaining a strong voice considering the region's vulnerabilities to the impact of climate change. Leaders welcomed the Paris Agreement and reinforced that achieving the Agreement goal of limiting global temperature increases to 1.5°C above pre-industrialised levels is an existential matter for many Forum Members which must be addressed with urgency. Leaders congratulated the eight Forum countries that have ratified the Agreement and encouraged remaining Members and all other countries to sign and ratify the Agreement before the end of 2016 or as soon as possible. Leaders called for ambitious climate change action in and across all sectors and encouraged key stakeholders to prioritise their support for the implementation of key obligations under the Agreement.⁹⁸

Ocean Acidification

Climate change and sea level rise are not the only environmental challenges “substantially enhanced” by anthropogenic activity facing the region.⁹⁹ Ocean acidification is likely to have a severe impact on Pacific Island states. According to some experts, carbon dioxide, absorbed by seawater, creates acidification which in turn reduces the ability of many marine organisms, such as coral, from regenerating.¹⁰⁰ Coral reefs play a key role in supporting fisheries and tourism which are two key components of the economy of many Pacific Island states. A recent study has found that coral cover in the Great Barrier Reef off the coast of Australia has declined by 50% over the past 30 years. Various studies have predicted that if current trends continue, ocean reefs will “be the first major ecosystem in the modern era to become ecologically extinct” by the end of the century. Others predict an earlier demise.¹⁰¹

Fisheries

The Southwest Pacific straddles the largest tuna fisheries in the world. According to one advocacy group, over half of the tuna consumed in the world is harvested from the Western and Central Pacific Ocean at an unsustainable rate.¹⁰² Many of the Pacific Islands states lack the capacity to effectively monitor and patrol their fisheries resources. In one example, Palau, a nation with a land area of 177 square miles and a maritime exclusive economic zone (EEZ) of 230,000 square miles, has a maritime police division of 18 personnel and one patrol ship. The global black market for seafood is estimated to be worth \$20 billion with one in five fish caught illegally.¹⁰³ As a result, poaching of fisheries is a major problem in the Pacific. In order to minimize poaching, the United States and nine Pacific Island states have entered into ship rider agreements. Under the program, enforcement officials from Pacific Island states may ride U.S. Coast Guard ships while they are patrolling the EEZs of those states. U.S. Coast Guard ships are empowered to enforce the laws of the host nation.¹⁰⁴

⁹⁸ “Forum Communique,” op. cit.

⁹⁹ “It is unequivocal that anthropogenic increases in the well-mixed greenhouse gases (WMGHGs) have substantially enhanced the greenhouse effect.” Intergovernmental Panel on Climate Change, *Climate Change 2013: The Physical Science Basis*, op. cit.

¹⁰⁰ “What Is Ocean Acidification?” National Oceanic and Atmospheric Administration Carbon Program, <http://www.pmel.noaa.gov>, accessed October 27, 2016.

¹⁰¹ Elizabeth Kolbert, *The Sixth Extinction* (New York: Picador Publishers, 2014), pp. 130, 138.

¹⁰² Greenpeace, “Pacific Ocean,” <http://www.greenpeace.org>, accessed September 22, 2016.

¹⁰³ Ian Urbina, “Palau vs the Poachers,” *New York Times*, February 17, 2016.

¹⁰⁴ “The Value of Ship Rider Agreements in the Pacific,” cogitASIA, CSIS, December 10, 2014; CRS Report RL34124, *Seafood Fraud*, by Harold F. Upton.

Referenda on Self-Determination

New Caledonia, a territory of France, and Bougainville, which is part of Papua New Guinea, are to hold referenda on independence in 2018 and 2019. Issues and areas of possible concern to Congress include U.S. assistance for the administration of free and fair elections, the building of political institutions, and the mitigation of potential conflict. Developments in Bougainville also may affect U.S. relations with Papua New Guinea.

New Caledonia

The French Overseas Territory of New Caledonia, annexed by France in 1853 and formerly used as a penal colony for French convicts, may become the world's next state. An estimated 39% of New Caledonia's 260,000 people are Kanaks while 27% are European, with the balance composed of "mixed race" persons and others from elsewhere in the Asia-Pacific.¹⁰⁵ In the 1980s, the indigenous Kanaks clashed with pro-France settlers. In a referendum in 1987, which was boycotted by local independence groups, New Caledonians voted to remain with France.¹⁰⁶ Under the Noumea Accord of 1998, signed by France, the Kanak Socialist Liberation Front, and the territory's anti-independence RCPR Party,¹⁰⁷ a referendum on independence must be held by the end of 2018.

Bougainville

The Bougainville conflict between the Papua New Guinea Defense Force and the pro-independence Bougainville Revolutionary Army began over disputes related to the Panguna copper mine on Bougainville in the late 1980s. Key grievances related to the mine included the influx of workers from elsewhere in Papua New Guinea and Australia, environmental damage caused by the mine, and Bougainville islanders' dissatisfaction with their share of mine revenue.¹⁰⁸ Tensions over the mine and secessionist sentiment led to a decade-long, low-intensity war in which an estimated 10,000 to 20,000 government troops, militants, and civilians died. Peace between the government and rebels was restored in 1997 under a New Zealand-brokered agreement.¹⁰⁹ Under the terms of the agreement, a referendum on self-determination is to be held by mid-2020. A target date of June 2019 has now been agreed to by the Papua New Guinea government and Bougainville regional government.¹¹⁰ Some factions reportedly have held onto their weapons out of concern that the PNG government will not go through with the referendum.¹¹¹

¹⁰⁵ "Introducing Your Future Pacific Neighbors," *PACNEWS*, April 5, 2016.

¹⁰⁶ "New Caledonia Rights Campaigner Found Dead on Nudist Beach," *The Guardian*, June 7, 2016.

¹⁰⁷ *Rassemblement pour une Calédonie dans la République*

¹⁰⁸ Timothy Hammond, "Resolving Hybrid Conflicts: The Bougainville Story," *Foreign Policy Journal*, December 2012, and "Bougainville Island," *Encyclopedia Britannica*, <http://britannica.com>.

¹⁰⁹ Bede Cory, "The Bougainville Peace Process," in Bruce Vaughn ed. *The Unraveling of Island Asia? Governmental, Communal, and Regional Instability* (Westport: Praeger Publishers, 2002).

¹¹⁰ "Ball Rolling on Bougainville Referendum," *Radio New Zealand*, May 23, 2016.

¹¹¹ "Decision Set to Change Bougainville Future," *PACNEWS*, May 22, 2016.

Appendix. Social and Economic Indicators

Country	Population	GDP per capita \$US (PPP)	Life Expectancy (years)
Papua New Guinea	6,672,429	2,700	67
Fiji	909,389	9,000	72
Solomon Islands	622,469	1,900	75
Vanuatu	272,264	2,500	73
Samoa	197,773	5,200	73
Tonga	106,501	5,100	76
Kiribati	105,711	1,800	65
Micronesia	105,216	3,000	72
Marshall Islands	72,191	3,200	72
Palau	21,265	15,100	72
Tuvalu	10,869	3,400	66
Cook Islands	9,838	12,300	75
Nauru	9,540	14,800	66
Niue	1,190	5,800	n/a

Source: Central Intelligence Agency, *The World Factbook*, 2016.

Note: PPP = Purchasing Power Parity

Author Contact Information

Thomas Lum
Specialist in Asian Affairs
tlum@crs.loc.gov, 7-7616

Bruce Vaughn
Specialist in Asian Affairs
bvaughn@crs.loc.gov, 7-3144

Acknowledgments

Amber Wilhelm and Hannah Fischer created the map of the Southwest Pacific (**Figure 1**).



Australia

Subject	Page
Ambassador Arthur B. Culvahouse, Jr.	71
US Relations with Australia.....	73
CultureGram 2019.....	77
BBC Country Profile	85
Economist Intelligence Unit Country Report.....	89
CRS Australia: Foreign Policy	129

This page intentionally blank



U.S. Embassy & Consulates in Australia

Ambassador Arthur B. (A.B.) Culvahouse, Jr.

President Donald J. Trump nominated Ambassador Arthur B. (A.B.) Culvahouse, Jr. to be the United States Ambassador to Australia on November 6, 2018. Confirmed by the U.S. Senate on January 2, 2019 by unanimous consent, he was formally sworn in by Vice President Mike Pence on February 19, 2019 and presented his credentials to the Governor-General, Sir Peter Cosgrove, on March 13, 2019.

Ambassador Culvahouse serves as the President's personal representative to the government and people of Australia. He leads the U.S. Mission to Australia, which is comprised of the embassy in Canberra and three consulates in Melbourne, Sydney, and Perth.

Ambassador Culvahouse has a long and distinguished career. He is the former Chair of O'Melveny & Myers, an international law firm he was associated with for more than four decades. He began his career as Chief Legislative Assistant to United States Senator Howard H. Baker, Jr. and later served as White House Counsel to President Ronald Reagan. In 1989, President Reagan awarded Ambassador Culvahouse the Presidential Citizens' Medal, an award to "recognize citizens who performed exemplary deeds of service for the country or their fellow citizens." In December 1992, then-Secretary of Defense Dick Cheney awarded Ambassador Culvahouse the Defense Medal for Distinguished Public Service for his work on the Federal Advisory Committee on Nuclear Failsafe and Risk Reduction.

Both President Trump and the late-Senator John McCain tapped Ambassador Culvahouse to head the search to select their running mates.

Ambassador Culvahouse was raised in Ten Mile, Tennessee and attended the University of Tennessee and the New York University School of Law. He is the proud father of three accomplished daughters.

This is the official website of the U.S. Embassy and Consulates in Australia. External links to other Internet sites should not be construed as an endorsement of the views or privacy policies contained therein.



This page intentionally blank

U.S. Department of State Diplomacy in Action

U.S. Relations With Australia

BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS

Fact Sheet

August 23, 2018

More information about Australia is available on the [Australia Page \(http://www.state.gov/p/eap/ci/as/\)](http://www.state.gov/p/eap/ci/as/) and from other Department of State publications and other sources listed at the end of this fact sheet.

U.S.-AUSTRALIA RELATIONS

Australia is a vital ally, partner, and friend of the United States. The United States and Australia maintain a robust relationship underpinned by shared democratic values, common interests, and cultural affinities. Economic, academic, and people-to-people ties are vibrant and strong. The two countries marked the 75th anniversary of diplomatic relations in 2015. In 2017, the United States and Australia marked the 75th anniversary of a number of key World War II battles, including the Battles of the Coral Sea, Midway, and Guadalcanal. On July 4, 2018, the two countries marked 100 Years of Mateship (Friendship) since U.S. and Australian forces fought side-by-side for the first time at the Battle of Hamel.

Defense ties and cooperation are exceptionally close. U.S. and Australian forces have fought together in every significant conflict since World War I. The Australia, New Zealand and United States (ANZUS) Security Treaty, concluded in 1951, is Australia's pre-eminent security treaty alliance and enjoys broad bipartisan support. It was invoked for the first time – by Australia – in response to the September 11, 2001 terrorist attacks. The two countries signed the U.S.-Australia Force Posture Agreement at the annual Australia-United States Ministerial Consultations (AUSMIN) in August 2014, paving the way for even closer defense and security cooperation, including the annual rotation of Marines to Darwin and enhanced rotations of U.S. Air Force aircraft to Australia. In October 2015, the U.S. and Australian defense agencies signed a Joint Statement on Defense Cooperation to serve as a guide for future cooperation. In 2017, the United States and Australia participated in the seventh Talisman Saber, a biennial joint military exercise designed to ensure and demonstrate the ability of the two defense forces to work together with the highest levels of interoperability.

The U.S.-Australia alliance is an anchor for peace and stability in the Indo-Pacific region and around the world. U.S. and Australian bilateral security cooperation activities enhance the stability and resiliency of the Indo-Pacific region. Both countries share a strong interest in maintaining freedom of navigation and overflight and other lawful uses of the sea, including in the South China Sea. They work closely in Afghanistan and Iraq, and cooperate on efforts to defeat

the Islamic State of Iraq and the Levant and address the challenges and counter foreign terrorist fighters and violent extremism. Arms control and counter-proliferation is another area of close U.S.-Australia cooperation. In addition to AUSMIN consultations, Australia and the United States engage in a trilateral security dialogue with Japan.

The first treaty signed between the United States and Australia was the 1949 agreement that established the Fulbright program, and since then more than 5,000 Australians and Americans have received Fulbright scholarships. The United States and Australia have concluded a mutual legal assistance treaty to enhance bilateral cooperation on legal and counter-narcotics issues. The two countries have also signed tax and defense trade cooperation treaties, as well as agreements on health cooperation, space, science and technology, emergency management cooperation, and social security. In February 2018, OPIC and Australia's Department of Foreign Affairs and Trade (DFAT) signed a bilateral Memorandum of Understanding on joint infrastructure investment in the Pacific. In July of 2018, the United States, Australia, and Japan announced they would work together on a trilateral basis to invest in infrastructure projects in the region. A number of U.S. institutions conduct cooperative scientific activities in Australia. The United States and Australia responded to the Ebola and Zika epidemics and support the Global Health Security Agenda to accelerate measureable progress toward a world safe and secure from infectious disease threats.

U.S. Assistance to Australia

The United States provides no development assistance to Australia.

Bilateral Economic Relations

The U.S.-Australia Free Trade Agreement has boosted U.S. exports to Australia over 100 percent since coming into force in 2005. In 2016, total U.S. goods and services trade with Australia totaled US \$64 billion, and the United States ran a trade surplus of nearly US \$17 billion. U.S. exports to Australia support over 300,000 U.S. jobs, in sectors including machinery, travel services, industrial supplies and materials, consumer goods, and financial services. In return, Australia exports foods, feeds, and beverages; industrial supplies and materials; and business and travel services.

Bilateral investment cumulatively totals more than US \$1 trillion. About 30 percent, or US \$440 billion, of Australian overseas investment is in the United States. The United States is Australia's largest foreign investor, with US \$650 billion in accumulated investment – almost 30 percent of Australia's total stock – including more than US \$167 billion in foreign direct investment. Leading sectors for U.S. investment are mining, finance, and insurance.

Australia has the world's 12th-largest economy and the sixth-highest per capita income. It has marked 27 years of sustained annual economic growth, driven largely by China's demand for minerals and other resources. An energy powerhouse, Australia is the world's fourth-largest coal producer and second-largest LNG exporter. U.S. firms have operated in Australia for over 100 years and currently employ over 335,000 Australians, many in high-paying sectors. Almost 730,000 U.S. residents visited Australia in 2017, up nearly 27% over the last two years, and almost 1.5 million Australians visited the United States.

Australia's Membership in International Organizations

Australia and the United States belong to a number of the same international organizations, including the United Nations, ASEAN Regional Forum, Asia-Pacific Economic Cooperation (APEC), G-20, International Monetary Fund (IMF), Organization for Economic Cooperation and Development (OECD), World Bank, and the World Trade Organization (WTO). Australia is a Partner for Cooperation with the Organization for Security and Cooperation in Europe (OSCE), an Enhanced Partner of the North Atlantic Treaty Organization (NATO), and a member of the Pacific Islands Forum.

Bilateral Representation

The position of U.S. Ambassador to Australia is currently vacant; other principal embassy officials are listed in the Department's [Key Officers List](http://www.state.gov/documents/organization/111812.pdf) (<http://www.state.gov/documents/organization/111812.pdf>).

Australia maintains an [embassy](http://www.usa.embassy.gov.au/whwh/home.html) (<http://www.usa.embassy.gov.au/whwh/home.html>) in the United States at 1601 Massachusetts Avenue NW, Washington, DC 20036 (tel. 202-797-3000).

More information about Australia is available from the Department of State and other sources, some of which are listed here:

[Department of State Australia Country Page](http://www.state.gov/p/eap/ci/as/) (<http://www.state.gov/p/eap/ci/as/>)

[Department of State Key Officers List](http://www.state.gov/documents/organization/111812.pdf) (<http://www.state.gov/documents/organization/111812.pdf>)

[CIA World Factbook Australia Page](https://www.cia.gov/library/publications/the-world-factbook/geos/as.html) (<https://www.cia.gov/library/publications/the-world-factbook/geos/as.html>)

[U.S. Embassy](https://au.usembassy.gov/) (<https://au.usembassy.gov/>)

[History of U.S. Relations With Australia](http://history.state.gov/countries) (<http://history.state.gov/countries>)

[Human Rights Reports](http://www.state.gov/j/drl/rls/hrrpt/) (<http://www.state.gov/j/drl/rls/hrrpt/>)

[International Religious Freedom Reports](http://www.state.gov/j/drl/irf/rpt/index.htm) (<http://www.state.gov/j/drl/irf/rpt/index.htm>)

[Trafficking in Persons Reports](http://www.state.gov/j/tip/rls/tiprpt/index.htm) (<http://www.state.gov/j/tip/rls/tiprpt/index.htm>)

[Narcotics Control Reports](http://www.state.gov/j/inl/rls/nrcrpt/index.htm) (<http://www.state.gov/j/inl/rls/nrcrpt/index.htm>)

[Investment Climate Statements](http://www.state.gov/e/eb/rls/othr/ics/index.htm) (<http://www.state.gov/e/eb/rls/othr/ics/index.htm>)

[Office of the U.S. Trade Representative Countries Page](https://ustr.gov/countries-regions/southeast-asia-pacific/australia) (<https://ustr.gov/countries-regions/southeast-asia-pacific/australia>)

[U.S. Census Bureau Foreign Trade Statistics](http://www.census.gov/foreign-trade/balance/index.html) (<http://www.census.gov/foreign-trade/balance/index.html>)

[Export.gov International Offices Page](http://export.gov/worldwide_us/index.asp) (http://export.gov/worldwide_us/index.asp)

[Travel Information](https://travel.state.gov/content/travel/en.html) (<https://travel.state.gov/content/travel/en.html>)

The Office of Website Management, Bureau of Public Affairs, manages this site as a portal for information from the U.S. State Department.

External links to other Internet sites should not be construed as an endorsement of the views or privacy policies contained therein.

Note: documents in Portable Document Format (PDF) require Adobe Acrobat Reader 5.0 or higher to view, [download Adobe Acrobat Reader \(http://get.adobe.com/reader/\)](#).



Boundary representations are not necessarily authoritative.

BACKGROUND

Land and Climate

Australia is the sixth largest country in the world. It is just smaller than Brazil and about four-and-a-half times the size of the U.S. state of Alaska. Australia is the only country that occupies a complete continent. It is also the driest inhabited continent in the world. About one-third of its land is desert. A long chain of mountains, the Great Dividing Range, runs along the Pacific coast. Fertile farmland lies east of the Great Dividing Range, in the southwestern corner of Western Australia, and in the island state of Tasmania, but only 6 percent of the country's total land is arable. Cattle *stations* (ranches) reach the edge of the barren interior desert. The famed Australian Outback is an undefined region that encompasses all remote, undeveloped areas. The Outback is seen as a mystical heartland or frontier—a symbol of Australia's strength and independence—where the climate is hot, life is hard, and people are tough, independent, and few.

Among Australia's natural wonders is the Great Barrier Reef, a system of coral reefs that extends 1,429 miles (2,300 kilometers) near Australia's northeast coast. Regarded as a national treasure, it is the largest coral formation in the world. Australia is also famous for its wildlife: marsupials such as the koala, kangaroo, wallaby, possum, and wombat, as well as other distinctive species such as the platypus, echidna, and dingo. Birds native to Australia include the emu, cockatoo, and kookaburra. Australia's snakes are among the most venomous in the world.

Summer is December through February, and winter is June

through August. The climate varies considerably by region: a tropical climate prevails in the north; the interior is arid and hot, with temperatures routinely above 100°F (38°C) in the summer; the south is more temperate; and snow falls in the southeastern mountains in winter.

History

Indigenous Australians

Indigenous Australians, later called Aborigines or Aboriginal Australians, inhabited the continent for tens of thousands of years prior to the arrival of Europeans. They lived in hunter-gatherer communities across Australia, most of them nomadic or semi-nomadic. Their hunting tools included boomerangs and spears. Some one million Aboriginal people lived in Australia when Europeans arrived. Once European colonization began, many Aboriginal people died due to foreign diseases, land loss, and conflicts with settlers.

Colonization

The Dutch explored parts of Australia in the early 17th century, but most of it was left undisturbed by Europeans until 1770, when Captain James Cook claimed the eastern coast for Britain. On 26 January 1788, the British established a penal colony (a settlement used to exile criminals) at Port Jackson, which later became the city of Sydney. Other penal colonies were founded in what became Hobart and Brisbane. Therefore, many of Australia's early settlers were convicts or soldiers. With the discovery of gold in 1851, the number of free persons immigrating to Australia increased rapidly, and free settlements were established in Melbourne, Adelaide, and Perth. In 1868, the practice of transporting convicts to Australia ceased.

Commonwealth of Australia

In 1901, the continent's six British colonies (New South Wales, Queensland, South Australia, Tasmania, Victoria, and Western Australia) agreed to federate as the Commonwealth of Australia. Australia's traditional role as a dutiful member of the British Empire, established by supplying troops for British conflicts such as the Boer Wars and World Wars I and II, eventually evolved into a more independent Australian identity. For example, Australian troops' harsh experiences during a World War I campaign in Gallipoli, Turkey, helped create an Australian national consciousness. This transformation of identity has come to be known as the ANZAC (Australian and New Zealand Army Corps) tradition.

The second half of the 20th century brought a transformation in the ethnic makeup of Australia. At the end of World War II in 1945, Australians were almost entirely of Anglo-Celtic descent, with 90 percent born in Australia. During the 1950s and '60s, a large influx of immigrants from Greece, Italy, and other European countries began to shape a more multicultural society. Significant Asian migration began in the 1970s.

Aboriginal-Related Reforms

Starting in the 1960s, a series of reforms began to address issues facing Aboriginal Australians. In 1962, Aboriginal people received national voting rights, and in 1970, the government ended a longstanding assimilation policy, which had forcibly removed Aboriginal children from their parents, children who came to be known as the "stolen generations." Australia's High Court ruled in 1992 that Aboriginal peoples possessed Australia prior to the arrival of Europeans, rejecting a policy that had conceived of the continent as being empty. The decision opened the way for legislation that allowed Aboriginal people to press land claims.

Controversy still surrounds the history of relations between Aboriginal Australians and Europeans, but Aboriginal culture is increasingly recognized as an integral part of Australia's national heritage. In a historic speech in February 2008, then prime minister Kevin Rudd issued a formal apology for the past mistreatment of Aboriginal people, particularly the stolen generations, on behalf of the Australian government. In 2010, the Australian government established the Indigenous Electoral Participation Program to increase political participation among Aboriginal people.

Australia Today

In the 21st century, Australia has continued to take on a greater role in the world, both militarily and economically. Australia has increased its military budget, and Australian troops have been involved in numerous peacekeeping and military operations around the world, including ones in Afghanistan, Iraq, the Solomon Islands, and Syria. To strengthen its economic competitiveness, Australia has pursued free-trade agreements, particularly with countries in the Asia-Pacific region.

With high rates of immigration, Australia has become increasingly diverse. Today, over a quarter of Australians were born overseas. In recent years, however, Australia has struggled to deal with asylum seekers entering the country illegally, which has led to contentious political debates over its immigration policy and treatment of asylum seekers

housed in offshore detention centers.

Recent Events and Trends

- **Same-sex marriage:** In December 2017, Australia became the 26th nation to legalize same-sex marriage. The law, which passed overwhelmingly in Australia's Parliament, came weeks after 62 percent of Australians favored legalizing same-sex marriage in a nonbinding postal referendum. After Australia banned same-sex marriage in 2004, Australia's Parliament had tried—and failed—to legalize same-sex marriage 22 times.

- **Great Barrier Reef:** In April 2018, Australia's government pledged US\$379 million to help protect the Great Barrier Reef, which has suffered extensive damage in recent years due to a host of factors, including pollution, invasive species, and warming ocean waters. Located near Australia's northeast coast, the Great Barrier Reef is a system of coral reefs that extends 1,429 miles (2,300 kilometers), making it the largest coral formation in the world. In addition to being a national treasure, the Great Barrier Reef supports about 70,000 jobs and provides Australia with billions of dollars a year in tourism revenue.

- **New prime minister:** In August 2018, Scott Morrison became Australia's new prime minister, replacing Malcolm Turnbull, who lost the support of his center-right Labor Party after he introduced a controversial plan to reduce both energy prices and greenhouse gas emissions. In recent years, Australia's political climate has been volatile, which has resulted in a high turnover of prime ministers. Morrison is the nation's fourth prime minister in five years.

THE PEOPLE

Population

Although the Outback plays an important role in Australia's perception of itself and the country's image abroad, the nation has a predominantly urban and coastal population. The vast majority of Australians live in urban areas and within 30 miles (50 kilometers) of the coast. Sydney is the largest city, with over 4.5 million residents. Melbourne is the second-largest city, with about 4.2 million residents, followed by Brisbane (about 2.2 million), Perth (about 1.9 million), and Adelaide (about 1.3 million). Most urban residents live in a state or territorial capital (Sydney, Melbourne, Brisbane, Perth, Adelaide, Canberra, Hobart, or Darwin), often in a sprawling suburb.

Most Australians are Caucasian, with a majority claiming European heritage. The Asian population is growing. Because of heavy immigration, Australia is a mosaic of many nationalities, with groups from throughout Asia, Europe, Africa, and the Pacific islands. In a recent census, Australians reported more than three hundred different ancestries in all.

The Aboriginal Australian population makes up less than 1 percent of Australians as a whole. The terms *Aborigine* and *Aboriginal* have been criticized as colonially imposed labels. Some indigenous people refer to themselves using regionally specific terms from their languages, such as Koorie, Nyungar, Murri, Yolngu, and others. Torres Strait Islander peoples

prefer to be distinguished from mainland indigenous groups.

Language

English is the national language and is taught in all schools. Colloquialisms and idioms make Australian English distinct from English spoken elsewhere. For example, *Spot on* means “Right on.” A *prang* is a “fender bender.” If someone is unwell, he or she is *crook*. A *bloke* is a “guy,” and friends (particularly males) may refer to each other as *mate*. Australians, or *Aussies* (pronounced “AH-zeez”) as they are often called, also shorten words for everyday conversation. Examples include *uni* (university), *kindy* (kindergarten), *telly* (television), and *footy* (football).

Australia is increasingly becoming a multicultural society, and it is quite common to see immigrants from a vast number of countries, particularly from Asia. As a result, there are many first-generation Australians who are conversant in two languages—Australian English and the tongue of their parents. Immigrant groups often continue to use their native languages at home. About 20 percent of the population speaks a language other than English at home. People who do not come from an immigrant family tend to be monolingual, although this trend is changing as more Australians are choosing to travel or study abroad. Also, foreign language study is required at the secondary school level for at least two to three years.

Aboriginal peoples once had more than 250 languages, but only about 120 are still in use today. There is now an effort to place more emphasis on Aboriginal languages. Aboriginal Australians have their own radio system, more families are speaking traditional languages at home, and many Aboriginal schools delay English instruction for a few years. Australian universities have been recording and documenting Aboriginal languages in an effort to preserve them.

Religion

Generally, religion does not play a strong role in daily life, but many people attend church on special occasions, and public and school holidays are held during Christmas and Easter. A slim majority of Australians are Christian, mostly Protestant (23 percent) and Roman Catholic (23 percent). Islam, Buddhism, and Hinduism have an increasing number of adherents. About 30 percent of the population is not affiliated with any religion.

Aboriginal beliefs are based on legends of the *dreamtime*, when ancient ancestors sang the land and living things into being. In Aboriginal society, ceremonies and social responsibilities help people maintain connections to each other and the land.

General Attitudes

Australians tend to be proud of their heritage—that a nation of convicts and laborers established a wealthy, educated, and egalitarian society in a harsh and inhospitable land. Many Australians value tolerance and fairness (called *a fair go*) and dislike aggressive, ostentatious, or proud behavior. At times, this dislike is manifest in the desire to bring down people of power and influence to the common level. While Australians are generally perceived as laid-back, they also value hard

work and have a strong sense of politeness; being prompt is important.

Australians are known for being outgoing and friendly and place a high value on enjoyment. Some particularly appreciate material things that allow them to enjoy life (spacious homes, vacations, cars). Many Australians have a prevailing optimism that things will “be right.” Their sense of humor is often laced with irony, sarcasm, and satire and is frequently self-deprecating.

In recent years, extended drought and fears over climate change have made many Australians increasingly conscious of environmental issues. Water resources management and energy conservation often rank high among people's concerns.

Personal Appearance

Australians generally follow European and North American fashion trends, as well as those created by their own native designers. They tend to dress casually but are not sloppy. Australian businessmen commonly wear suits. In hot weather and tropical regions, an open-neck, short-sleeved shirt may be worn. Women in the workplace wear fairly conservative yet stylish pant suits or blouses and skirts. “Dress-down” days, where jeans are allowed, are increasingly popular, especially among younger employees. People usually dress up to go into the city or for social functions. In the capital cities and on the Gold Coast (on Australia's northeastern coast), it is more common to see people wearing designer fashions on a day-to-day basis.

During winter, sweaters (*jumpers*), leather boots, leather hats, long coats, and other cool-weather clothes are necessary in some (particularly southern) regions. Because skin cancer is a major concern, Australians tend to be careful about sun protection; many people wear hats and sunglasses year-round.

CUSTOMS AND COURTESIES

Greetings

Australians greet friends with a casual *Hi* or *G'day* (Good day) and a handshake. Close female friends and friends of the opposite sex might hug and kiss lightly on the right cheek. More formal greetings involve a simple *Hello, how are you?* From a distance, a wave is considered an acceptable greeting. Friends and peers generally are addressed by first name, while elders or superiors are addressed by their title (*Mr.*, *Mrs.*, *Ms.*, *Miss*) and surname. In the workplace, increased familiarity between a supervisor and employee may result in use of the first name.

Gestures

Rules of basic Western etiquette are strongly adhered to in Australia. When yawning, one covers the mouth and then excuses oneself. Winking at women is typically considered inappropriate. Pointing at someone with the index finger may be perceived as rude. Instead, one may point with an open hand in the person's general direction. It is considered impolite to stand too close to people while conversing. Interrupting a conversation or passing between conversing

individuals is also impolite. Australian men generally maintain a strong sense of personal space.

Visiting

Casual visiting in the home is common in Australia. Close friends and relatives may arrive unannounced, but otherwise visits are prearranged. Visits often take place during the early evening. Arriving unannounced at mealtimes is generally inappropriate. Hosts typically serve tea, coffee, or beer, along with a light snack such as cake or *biscuits* (cookies).

As a whole, Australians enjoy inviting others to dinner. Guests often bring something for the meal (fruit, homemade goods, beer, or a bottle of wine). Hosts greet guests warmly at the door before inviting them to enter the home. After dinner, the company sometimes goes out to a dance club, movie, or sports bar.

One popular reason for getting together is the *barbie* (barbecue). It may be informal, where guests bring their own meat and maybe another item, but it is just as common for hosts to provide all the food. Parties and card games are also popular. Many people also meet friends in local pubs after work and on weekends.

Eating

Australians generally eat three meals a day. The evening meal may be the only meal busy families eat together on weekdays. The term *tea* may refer either to afternoon refreshments or the evening meal, which is also called *dinner*. Table etiquette can vary among ethnic groups. However, most Australians eat in the continental style: the fork remains in the left hand and the knife in the right. It is considered impolite to put elbows on the table or use a toothpick at the table. Individuals do not generally leave the table until everyone has finished.

Dinner guests often receive a plate already served rather than serving themselves from various dishes at the table. However, in some homes the host will place all the food on the table for guests and family to serve themselves or be served from. Guests wait for the host to offer second helpings, rather than ask for them.

At a restaurant, one places utensils together on the plate to indicate that one is finished and wishes to have the dish cleared away. Tipping is becoming more common as more visitors come from overseas. If the service is good, diners generally leave a small tip (usually around 10 percent of the bill).

LIFESTYLE

Family

Structure

The average family has one or two children, although larger families are not uncommon. The concept of the extended family is not strong in Australia, although among Aboriginal Australians and many immigrant groups, it remains very important. Older children living at home are generally expected to contribute toward family expenses. There are an increasing number of single-parent homes, stepfamilies, and families in which both father and mother work outside the

home.

Gender Roles

Women still carry a lot of the responsibility for the day-to-day operation of the family and household, although men are increasingly sharing the workload in terms of household chores and the raising of children. This transformation is more common in urban areas than in the countryside, where it is still more common to see women performing most of the household duties.

About 58 percent of women are in the labor force. It is common to see women employed in all types of work. They generally are considered equal to men, with about the same levels of education, fairly equal wages, and important leadership positions in the private and public sectors. There are many female politicians across the country, including some in leadership positions. In some management roles, however, it is still common to see men being paid more than equally qualified women.

Housing

Exteriors

The typical home is a freestanding single-storey house with a yard. Timber and brick are the most common building materials. Roofs are tiled or made of metal sheeting such as galvanized iron or painted steel. One popular feature is an “outdoor living” area: a covered patio with a barbecue and dining table used for meals in warm weather. In city centers, apartments and townhouses are popular.

Interiors

A living area, dining area, kitchen, bathroom, and multiple bedrooms are found in an average home. New homes often feature an open-plan combination kitchen, dining, and living area.

Ownership

Home ownership is highly valued; 67 percent of Australians own their own homes. Many elderly Australians value their independence and live in their own homes or in communities for senior citizens. These homes may be funded by church, government, or community groups, although some are privately owned.

Dating and Marriage

Dating and Courtship

Dating usually begins by age 15, often in small groups. It is common for teenagers to have boyfriends and girlfriends, and parents increasingly allow them to date on their own. The most popular activities are dancing and going to movies, although young couples also spend their time together with other teens or walking in shopping malls. Concerts and dance clubs with live music are very popular locations to meet people.

Marriage in Society

The average age of first marriage is about 30, as it is increasingly common for people to put off getting married and having children until well into their late thirties. Australians traditionally left home once they became adults, whether they married or not. Although the majority of married couples live independently, an increasing number of younger couples are living with their parents because they

cannot afford to rent or buy a place of their own, or because they are saving money for a down payment.

A growing number of couples choose to live together before or instead of marrying. This arrangement is referred to officially as a de facto marriage. In some cases, parents will subtly suggest that a marriage should take place, but most people are independent in their choice of marriage partner as well as when they get married.

After years of unsuccessful attempts, Australia's Parliament legalized same-sex marriage in 2017. That same year, some 62 percent of Australians favored legalizing same-sex marriage in a nonbinding postal referendum.

Divorce is common in Australia, although many people remarry. It is common to see weddings take place where both people have children from a previous marriage.

Weddings

Prior to a wedding, it is typical for the groom's friends to throw him a party called *buck's night*. Often they go out and visit nightclubs and bars, and a large amount of alcohol is consumed. Women get together in a similar celebration called *hen's night*.

Church weddings take place regularly; however, it is becoming more common for an official ceremony to be held in a park or garden. Many weddings are even held at home in the backyard of the parents of the bride or groom. A *celebrant* (an official who may not be religiously affiliated who performs the marriage ceremony) is always present at non-church weddings to formalize the wedding. Wedding banquets are becoming smaller, with 50 to 100 guests attending. Wedding costs depend on the number of guests and what kinds of food, music, and decorations the couple desires. Traditionally, the bride's parents would pay for the majority of the cost of the wedding, but it is increasingly common to see families share the cost, or for the couple to pay for much of the wedding.

Life Cycle

Birth

Australia offers paid parental leave for one parent (usually the mother) for up to 18 weeks and unpaid parental leave for up to a year. Some companies offer additional benefits. When a woman is expecting a baby, family members and friends usually host a baby shower for her; presents include clothing and other items for the infant and mother. Many couples like to know the gender of the baby before it is born, although there are still some who prefer to wait and find out on the day of the birth.

Children are normally given two names (a first name and a middle name), though in some cases, children are given three names. Children typically take the father's surname, although some are given the mother's surname or a hyphenated combination of both. Close friends and family may come to the hospital to visit the new mother and baby but are careful not to overburden them. Birth celebrations vary from family to family, and while the average person is not a regular churchgoer, many parents still have their babies baptized.

Milestones

Rites of passage for young people include graduating from high school (at age 17 or 18) and obtaining a driver's license

(a restricted license at age 17 or 18, then a full license at 21 in most states). Young people are required to vote and are able to consume alcohol at age 18. Another common milestone is a *debutante ball*, a dance to which high school girls invite a partner and wear a white gown. When a person turns 21, he or she is considered an adult, and friends and family are invited to a large birthday party. These events are sometimes celebrated as formal gatherings in large social halls or informally at people's homes.

Death

Funerals typically consist of a wake, a memorial service, and a procession of cars driving to the cemetery for the burial. Even though Australia is becoming more secular, church funerals are the most common type, and many people still ask a priest or minister to perform a Christian burial service. It is common for family and close friends to offer a few words about the deceased during the funeral. Couples typically choose to be buried side by side in the same plot. Urban cemeteries usually have grounds that are carefully groomed and planted with grass.

It is becoming increasingly popular today for people to choose cremation over burial, and some cemeteries even have special places set aside where ashes may be kept. Some people make a special request to have their ashes scattered in a place that is meaningful to them, such as on a mountain or near the ocean. Among Aboriginal Australians, burial remains more common than cremation.

Diet

Australian cuisine is an evolving blend of European and Asian foods. Popular dishes include steak, roast lamb and lamb chops, sausages (*snags*), french fries (*chips*), seafood, pasta, and meat pies, but stir-fries and other Westernized Asian dishes are common. Dinner may consist of meat, potatoes, vegetables, and salad, followed by dessert (ice cream, fruit salad, pudding) and coffee. As in many countries, however, there is a trend toward eating lighter foods, and salads, seafood, and fresh vegetables are increasing in popularity. Fruits and vegetables are grown year-round. *Take-away* (take-out) and fast-food businesses are popular. Australians often drink domestic wine or beer with their meals.

Recreation

Sports

Physical fitness, exercise, and sportsmanship are important to most Australians. Cricket is the most popular sport. The first official cricket match between Australia and England took place in the Melbourne Cricket Ground (MCG) in 1877, and the MCG continues to be a favorite destination for fans of the Australian-rules football grand finale, which is held yearly on the last Saturday in September.

Many people enjoy rugby (most popular in New South Wales and Queensland), soccer, basketball, cycling, tennis, lawn bowling, golf, and water sports such as surfing, swimming, and kayaking. Australian-rules football, or *footy*, is particularly popular in Victoria. Many girls learn netball, a game similar to basketball, as early as age five and play it throughout school. Auto racing and horse racing are also

popular spectator sports.

The Melbourne Cup horse race is a state holiday in Victoria and one of the nation's most popular sporting events. The Australian Open, held in Melbourne in January, is one of the world's four major tennis tournaments.

Leisure

Overall, Australians love being outdoors, and on weekends it is common to see people utilizing public parks, where family and friends gather to have a barbecue. Often these barbecues are free to use, although some of them are coin operated. A great number of public parks have enclosures for dogs where they can run around without a leash.

Popular outdoor recreational activities include fishing, boating, *bush walking* (hiking), going to the beach, picnicking, and camping. Going to movies is popular, and the Australian film industry is one of the largest and most successful in the world. A number of music festivals take place throughout the year, reflecting Australia's ethnic diversity and joyful approach to life.

Vacation

Many Australians also enjoy travel, both domestic and international. Nearly all salaried workers receive four weeks of paid vacation each year. Many Australians love to travel to the Gold Coast, on Australia's northeastern coast. Turtle-watching, boating, and fishing are popular activities in that region. Snow skiing is popular in the mountains of Tasmania and in southeastern Australia.

The Arts

For thousands of years, Aboriginal art has portrayed *dreamtime* ancestors, who created life and the landscape. Rock art, paintings, dances, and musical stories called *songlines* focus on these creation legends. The Aboriginal *didgeridoo* is a long wooden musical instrument into which the player blows to produce a distinctive resonating sound.

Australian writers and poets have celebrated the nation's frontier spirit. One poem of the Outback, "Waltzing Matilda" by A. B. "Banjo" Paterson, has become an unofficial national anthem. Painters have also used the Outback as their inspiration, portraying the beauty of the unique Australian landscape. The Sydney Opera House, a national symbol, represents modern Australia's devotion to the fine arts. Dance, theater, and the symphony can be found in all of Australia's major cities. A number of Australian performers, from operatic singers to rock bands, have made their mark internationally.

Holidays

Official national holidays include New Year's Day (1 January), Australia (National) Day (26 January), Easter (Friday–Monday), Australian and New Zealand Army Corps (ANZAC) Day (25 April), Queen Elizabeth II's Birthday (second Monday in June), Christmas Day (25 December), and Boxing Day (26 December). Labor Day, bank holidays, and holidays for local horse races or cultural festivals vary from state to state.

ANZAC Day

ANZAC Day honors the armed forces and war dead and marks the day of Australia's first battle in World War I. On

this day, it is common for current service members and veterans to gather at dawn at a public memorial. Later in the day, there are parades of former soldiers who march wearing their war medals. The parades usually end at a public war memorial, where another service is held, during which a moment of silence is observed to remember those who have died in war.

Christmas

Christmas is a significant holiday for Australians. Beginning well before Christmas, people dress up in Santa Claus outfits in shopping malls, where children line up to see Santa and make a wish for a present. On Christmas Eve, each town or city has a public gathering to sing carols. Children may also leave out some food or drink for Santa Claus, who traditionally visits on Christmas Eve.

Christmas is usually celebrated with immediate or extended family. The family gathering is usually held at home, where a large lunch or dinner is prepared and presents are exchanged. The meal often includes roasted meat (usually turkey, chicken, or ham), stuffing, salads, plum pudding, and *pavlova* (meringue topped with whipped cream and fruit), and many families have a barbecue. People often attend church on Christmas Day, although this number has been declining in recent years. Because Christmas occurs in the summer in Australia, it is popular to go swimming in a pool or at the beach.

Boxing Day, the day after Christmas, comes from a British tradition of giving small boxed gifts to service employees or the poor. It is now simply a day to visit friends and relatives.

Other Holidays

Australia Day commemorates the arrival of the first European settlers to Australia. Show Day, which has no specific date, is celebrated in most cities and towns on one day during the year. It is normally held at a showground, or large public arena, and traditionally was an agricultural fair, where farmers would bring in some of their best livestock or where new machinery would be on display. Some agricultural aspects of the show still remain, but many of these have given way to carnival rides and game stalls where players can win prizes.

SOCIETY

Government

Structure

Australia is a federal parliamentary democracy consisting of six federated states, the Australian Capital Territory around Canberra, and the Northern Territory. States have power over all matters, except those reserved to the Commonwealth of Australia in the constitution. The nation remains a member of Britain's Commonwealth of Nations and officially recognizes Queen Elizabeth II as its monarch. The queen is head of state and is represented by a governor-general, who is Australian. The prime minister is head of government.

The prime minister is the leader of the majority party or majority coalition in Parliament. The federal Parliament consists of a 76-seat Senate (with twelve members from each of the country's six states and two each from the two

territories) and a 150-seat House of Representatives. Members of the Senate who represent the states serve six-year terms and are elected through proportional representation. Members of the Senate who represent the territories and members of the House of Representatives serve a maximum of three years per term and are chosen by voters ranking candidates in order of preference.

Political Landscape

Major political parties include the center-left Australian Labor Party (ALP) and the center-right Liberal Party of Australia. Power regularly changes hands between the ALP and the Liberal Party. A few other smaller parties are also represented in Parliament. Political parties often fail to gain a majority of seats in Parliament, so coalitions are needed to gain and maintain power.

Australia's major political parties have struggled to adequately address issues regarding the recognition, treatment, and political representation of the indigenous Aboriginal community. The Indigenous Electoral Participation Program has sought to increase political participation among Aboriginal people. Progress has been slow; however, in 2016, Linda Burney became the first Aboriginal woman to be elected to the House of Representatives.

Australians are politically divided over whether Australia should become a republic with a president as head of state rather than a monarch. A 1999 referendum showed a small majority of Australians preferred to remain a constitutional monarchy, and more recent polls have indicated that support for the monarch has increased.

Government and the People

All citizens age 18 and older are required to vote in federal and state elections. Those who do not vote may be fined, so voter turnout regularly tops 90 percent. Elections are considered free and fair. Australia has one of the lowest levels of corruption in the world. The government respects many freedoms, including religion, speech, press, and assembly, even though some rights are not constitutionally guaranteed.

Economy

Australia has one of the world's largest economies and is a leading economic power in the Asia-Pacific region. In recent decades, the economy has maintained steady growth and a relatively low unemployment rate. Its population enjoys a high standard of living. More than 75 percent of Australians work in the nation's large and diversified services sector, which accounts for about 70 percent of the gross domestic product (GDP).

Mining and agriculture have long been important to Australia's economy. Australia has been nicknamed the "lucky country" because of its vast mineral deposits and other resources. Australia exports many minerals, including iron ore, bauxite, diamonds, coal, silver, gold, and copper. Australia is one of the world's largest exporters of coal. Livestock and sheep production are also important in Australia, which is one of the world's leading exporters of beef and wool.

Australia's mineral and agricultural exports are sensitive to fluctuations in world-market prices, which sometimes restrict

economic growth. The majority of exports go to Asian nations, especially China and Japan. Australia has several free-trade agreements with nations in the Asia-Pacific region. The currency is the Australian dollar (AUD).

Transportation and Communications

Australia is among the highest-ranked nations in the world in number of automobiles per capita; many families own two cars. The transportation system also includes taxis, interstate bus lines, railways, and an extensive airline system. Bus systems run smoothly in metropolitan areas. Melbourne has an extensive *tram* (streetcar) system. Sydney has a ferry system. An overnight ferry service travels between Victoria and Tasmania.

Virtually all Australian adults own a cellular phone. Most homes have an internet connection, usually high-speed broadband. Television broadcasters include two national public networks and three national commercial networks. Access to paid television cable and satellite networks is also common. Many public and commercial radio stations operate. Two national newspapers and numerous local newspapers are published daily.

Education

Structure and Access

Public education is administered by state governments and financed by federal funds. Seven years of primary education are followed by five years of secondary education (six in New South Wales and Victoria). Schooling is compulsory from ages 6 to 15 (16 in Tasmania and South Australia). The School of the Air (correspondence instruction originally supplemented by shortwave radio and now by the internet) reaches children in remote areas. Most students complete their secondary education. Of those who leave school early, many sign up for apprenticeships in the manual trades.

State schools do not limit the number of students attending, but students are expected to attend a school that is in their vicinity. More than one-third of all children attend private schools. Most of these schools have a religious affiliation—Anglican, Catholic, and Lutheran being the most common. Costs of private school vary according to location (tuition is higher in the capital) and the reputation of the school. Fewer people are enrolling in teaching courses, and as a result, the average age of teachers in Australia is quite high. It is especially hard to find teachers to take positions in rural communities. Often, a teacher is assigned to a rural post before being eligible to apply for a spot in a large city.

School Life

Uniforms are required for all students, although they vary greatly in style and formality. At private schools, boys are expected to wear a tie, and both boys and girls must wear a blazer and a hat. In Queensland, all students must have a hat, due primarily to concerns about exposure to the sun. With increased numbers of dual-income and single-parent families, many schools offer a supervised care system, where students are dropped off in the morning as early as 6 a.m. and picked up as late as 6 p.m. There, students can do their homework or take part in organized activities. Many schools offer Japanese, Indonesian, and Chinese, in addition to (or sometimes in

place of) the traditional European offerings of Spanish, French, Italian, and German.

Higher Education

Following graduation from high school, students can choose from a variety of universities, colleges, or vocational schools, all of which can be found in all states. The most common type of vocational school is TAFE (Technical and Further Education), which is a state-sponsored institution found in most urban areas. Generally, the best universities are found in the capital cities of each state, and each has an area of specialization. Some schools, such as James Cook University, are not based in a capital city but still offer strong educational opportunities.

Health

All Australians are entitled to subsidized basic health services under the national system (Medicare), which is funded by an income tax. Many Australians also have private insurance. Low- to middle-income individuals receive a tax rebate if they have private insurance, while high-income individuals pay a small penalty tax if they do not have private insurance. Over half of all hospitals are public. The Royal Flying Doctor Service, a non-profit organization, provides emergency and primary health care in the Outback. Quality of health care is one of the reasons that life expectancy for Australians is among the highest in the world. However, the Aboriginal population experiences higher rates of infant mortality and lower life expectancies than the rest of the population.

AT A GLANCE

Contact Information

Embassy of Australia, 1601 Massachusetts Avenue NW, Washington, DC 20036; phone (202) 797-3000; web site www.usa.embassy.gov.au. Australian Tourist Commission, web site www.australia.com.

Country and Development Data

Capital	Canberra
Population	23,470,145 (rank=55)
Area (sq. mi.)	2,988,901 (rank=6)
Area (sq. km.)	7,741,220
Human Development Index	2 of 188 countries
Gender Inequality Index	24 of 188 countries
GDP (PPP) per capita	\$49,900
Adult Literacy	99%
Infant Mortality	4 per 1,000 births
Life Expectancy	80 (male); 85 (female)
Currency	Australian dollar

Australia country profile

6 September 2018



Australia ranks as one of the best countries to live in the world by international comparisons of wealth, education, health and quality of life. The sixth-largest country by land mass, its population is comparatively small with most people living around the eastern and south-eastern coastlines.

The country's first inhabitants, the Aboriginal people, are believed to have migrated from Asia tens of thousands of years before the arrival of British settlers in 1788. They now make up less than 3% of Australia's 23 million people.

Years of mass immigration after the Second World War heralded sweeping demographic changes, making modern Australia one of the world's most multicultural countries. But migration continues to be a sensitive issue politically.

In shaping its foreign and economic policy, Australia first looked to Europe and the US but in the last 20 years has developed stronger ties with Asia. It has acted as peacekeeper in the region sending missions to Solomon Islands, East Timor and Papua New Guinea.

Although Australia remains part of the Commonwealth, the future role of the monarchy has been a recurring issue in politics. An aging population, pressure on infrastructure and environmental concerns such as climate change are some of the long-term challenges facing the country.

- Read more [country profiles](#) - Profiles by **BBC Monitoring**

FACTS

Commonwealth of Australia

Capital: Canberra

Population 22.9 million

Area 7.7 million sq km (2.9 million sq miles)

Major language English

Major religion Christianity

Life expectancy 80 years (men), 84 years (women)

Currency Australian dollar

UN, World Bank

GETTY IMAGES

LEADERS

Monarch: Queen Elizabeth II, represented by a governor-general

Prime Minister: Scott Morrison



MARTIN OLLMAN/GETTY IMAGES

Treasurer (finance minister) Scott Morrison emerged victorious from a week of governing Liberal Party infighting in August 2018 to succeed Malcolm Turnbull as leader of Australia's main conservative party and prime minister.

The socially-liberal Mr Turnbull steered same-sex marriage among other measures through parliament after ousting his more conservative predecessor Tony Abbott in 2015, but his poor poll ratings spurred an unsuccessful right-wing challenge from Home Affairs Minister Peter Dutton.

The weakened prime minister bowed out a few days later, allowing the socially-conservative but pragmatic Treasurer Morrison time to unite the party ahead of elections in 2019.

As immigration minister under Tony Abbott in 2013-2014, Scott Morrison came to prominence for enforcing the policy of stopping boats run by people-smugglers from docking in Australia.

MEDIA



GETTY IMAGES

Australia's media scene is creatively, technologically and economically advanced. There is a tradition of public broadcasting but privately-owned TV and radio enjoy the lion's share of viewing and listening.

Ownership of print and broadcast media is highly concentrated, with two companies - The Murdoch-owned News Corp and Fairfax Media accounting for some 85 per cent of newspaper sales.

Around 19.5 million Australians are online.

- [Read a full media profile](#)

TIMELINE

Some key dates in Australia's history:

40,000 BC - The first Aborigines arrive from southeast Asia. By 20,000 BC they have spread throughout the mainland and Tasmania.

1770 - Captain James Cook charts the east coast in his ship HM Endeavour and claims it as a British possession, naming it "New South Wales".

1901 - The Commonwealth of Australia comes into being.

1914 - Australia commits hundreds of thousands of troops to the British war effort during World War 1. Their participation in the Gallipoli campaign leads to heavy casualties.



GETTY IMAGES

1948 - Australia launches a scheme for mass immigration from Europe.

2002 - In Bali, 88 Australians are among 202 people killed when bombs go off in two nightclubs.

2008 - Government makes a formal apology for past wrongs committed against the indigenous Aboriginal population.

[Read a full timeline](#)

Country Report

Australia

Generated on April 9th 2019

Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

The Economist Intelligence Unit

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For 60 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide. The Economist Intelligence Unit delivers its information in four ways: through its digital portfolio, where the latest analysis is updated daily; through printed subscription products ranging from newsletters to annual reference works; through research reports; and by organising seminars and presentations. The firm is a member of The Economist Group.

London

The Economist Intelligence Unit
20 Cabot Square
London
E14 4QW
United Kingdom
Tel: +44 (0) 20 7576 8181
Fax: +44 (0) 20 7576 8476
E-mail: eiucustomerservices@eiu.com

New York

The Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: +1 212 541 0500
Fax: +1 212 586 0248
E-mail: eiucustomerservices@eiu.com

Hong Kong

The Economist Intelligence Unit
1301 Cityplaza Four
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: +852 2585 3888
Fax: +852 2802 7638
E-mail: eiucustomerservices@eiu.com

Geneva

The Economist Intelligence Unit
Rue de l'Athénée 32
1206 Geneva
Switzerland
Tel: +41 22 566 24 70
Fax: +41 22 346 93 47
E-mail: eiucustomerservices@eiu.com

This report can be accessed electronically as soon as it is published by visiting store.eiu.com or by contacting a local sales representative.

The whole report may be viewed in PDF format, or can be navigated section-by-section by using the HTML links. In addition, the full archive of previous reports can be accessed in HTML or PDF format, and our search engine can be used to find content of interest quickly. Our automatic alerting service will send a notification via e-mail when new reports become available.

Copyright

© 2019 The Economist Intelligence Unit Limited. All rights reserved. Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of The Economist Intelligence Unit Limited.

All information in this report is verified to the best of the author's and the publisher's ability. However, the Economist Intelligence Unit does not accept responsibility for any loss arising from reliance on it.

ISSN 2047-4253

Symbols for tables

"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

Australia

Summary

2 [Briefing sheet](#)

Outlook for 2019-23

4 [Political stability](#)
4 [Election watch](#)
5 [International relations](#)
6 [Policy trends](#)
6 [Fiscal policy](#)
7 [Monetary policy](#)
7 [International assumptions](#)
8 [Economic growth](#)
8 [Inflation](#)
8 [Exchange rates](#)
9 [External sector](#)
9 [Forecast summary](#)
10 [Quarterly forecasts](#)

Data and charts

11 [Annual data and forecast](#)
12 [Quarterly data](#)
13 [Monthly data](#)
14 [Annual trends charts](#)
15 [Quarterly trends charts](#)
16 [Monthly trends charts](#)
17 [Comparative economic indicators](#)

Summary

17 [Basic data](#)
19 [Political structure](#)

Recent analysis

Politics

21 [Forecast updates](#)
24 [Analysis](#)

Economy

29 [Forecast updates](#)

Briefing sheet

Editor: **Taher Nadeem**

Forecast Closing Date: **March 1, 2019**

Political and economic outlook

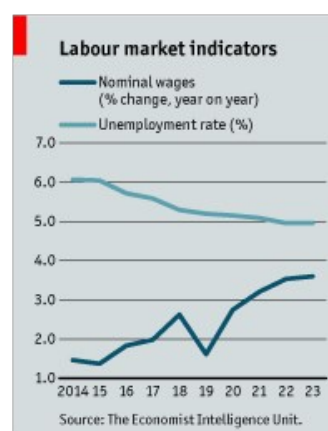
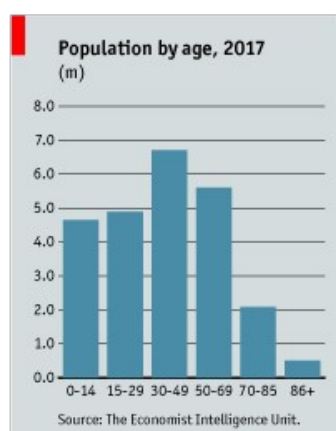
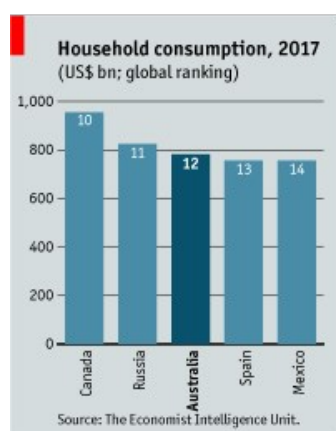
- The risk of political instability will remain high in the initial part of the forecast period. The Economist Intelligence Unit expects the main opposition Labor Party to win the next parliamentary election, which is likely to be held in May 2019.
- In 2019-23 Australia will continue to promote trade liberalisation by negotiating multilateral trade deals such as the proposed Regional Comprehensive Economic Partnership, involving countries in South-east Asia and the Asia-Pacific region.
- The government targets a return to budget surplus in fiscal year 2019/20 (July-June). We expect the government to record a fiscal deficit equivalent to 0.2% of GDP in 2019-20, before returning the fiscal account to surplus in 2021.
- The Reserve Bank of Australia (RBA, the central bank) will keep its policy interest rate, the cash rate, unchanged until 2020. The RBA will start to tighten monetary policy in 2021 and will continue to raise interest rates gradually in 2022-23.
- Real GDP growth will decelerate to an annual average of 2.5% in 2019-20, owing to weaker global economic conditions. Economic expansion will pick up modestly in 2021, helped by a strengthening of domestic and external demand.
- We forecast that the Australian dollar will average A\$1.37:US\$1 in 2019, before appreciating to A\$1.35:US\$1 in 2020. The local currency will continue to strengthen over the remainder of the forecast period as the RBA starts tightening monetary policy in 2021.
- In 2019-23 the current account will remain in deficit, at an average of 2.1% of GDP. The deficit will be narrower in the later years as the outlook for global trade growth improves. However, the large primary income deficit will keep the current account in the red.

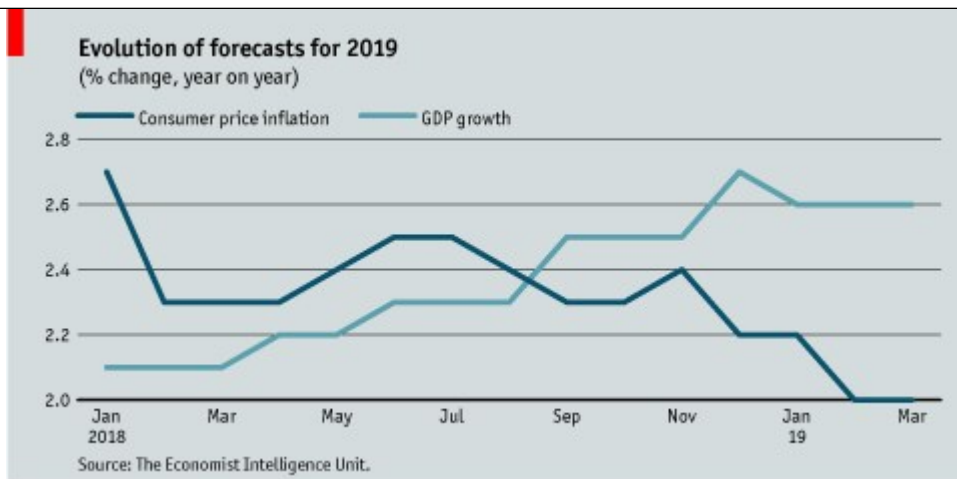
Key indicators

	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
Real GDP growth (%)	3.0	2.6	2.3	2.4	2.5	2.4
Consumer price inflation (av; %)	1.9 ^c	2.0	2.1	2.5	2.4	2.5
Government balance (% of GDP)	-0.3	-0.2	-0.2	0.4	0.5	0.6
Current-account balance (% of GDP)	-2.4	-2.2	-2.4	-2.0	-1.9	-2.0
Money market rate (av; %)	1.5	1.5	1.5	1.6	2.1	2.5
Unemployment rate (av; %)	5.3 ^c	5.2	5.2	5.1	5.0	5.0
Exchange rate A\$:US\$ (av)	1.34 ^c	1.37	1.35	1.30	1.27	1.26

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Actual.

Market opportunities





Key changes since January 21st

- We have revised our fiscal balance forecast and now expect a narrower shortfall averaging the equivalent of 0.2% of GDP in 2019-20, compared with 0.5% previously. The fiscal account will then return to a surplus equivalent to 0.4% of GDP in 2021.
- We have revised our outlook for US monetary policy and now expect the Federal Reserve (Fed, the US central bank) to avoid further policy interest-rate increases in 2019, compared with a forecast of two additional rate rises previously.
- This will contribute to some weakness in the US dollar in 2019. Therefore, we now expect the Australian dollar's exchange rate against its US counterpart to average A\$1.37:US\$1, compared with A\$1.39:US\$1 previously.

The month ahead

- **March 5th—RBA interest-rate decision:** Throughout 2018 the central bank maintained an accommodative monetary policy stance, leaving the policy rate unchanged. We expect the RBA to continue to hold rates in 2019.
- **March 5th—Balance-of-payments data (Q4):** The current-account deficit narrowed in the third quarter of 2018, compared with the second quarter. This data release will indicate whether this contractionary trend has continued into the final quarter of 2018.
- **March 6th—GDP data (Q4):** The national-accounts statistics will give an indication of economic performance in the final quarter of 2018 and whether private consumption growth showed signs of a pick-up, after slowing down slightly in the previous quarter.

Major risks to our forecast

Scenarios, Q4 2018	Probability	Impact	Intensity
Economic activity is disrupted by a cyber-attack	Moderate	High	12
House prices fall sharply	Moderate	High	12
The Liberal-National coalition is pushed out by a vote of no-confidence against the government	Low	Very high	10
Australia is hit by new US trade policies	Moderate	Moderate	9
Tensions between federal-state governments increase over fiscal issues	Moderate	Moderate	9

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: The Economist Intelligence Unit.

Outlook for 2019-23

Political stability

The ruling, centre-right Liberal-National coalition will remain in a weak parliamentary position at least until the next legislative election, which is likely to be held in May. Political instability remains high after a leadership challenge within the Liberal Party in late August 2018 resulted in the then-prime minister, Malcolm Turnbull, stepping down and Scott Morrison taking over as party leader and prime minister. Following a by-election in October 2018 the coalition lost its one-seat majority in the House of Representatives (the lower house of parliament) and it now holds only 74 of the 150 seats. This increases the risk that the coalition could be exposed to a no-confidence motion in the near term (although this is not The Economist Intelligence Unit's core forecast).

The risk of a no-confidence vote against the government heightened in mid-February when Mr Morrison's government became the first administration in decades to lose a significant vote in parliament. The main opposition Labor Party joined crossbench legislators to pass amendments to a government bill that will facilitate the medical evacuation of asylum-seekers detained on Manus Island in Papua New Guinea and those on the Pacific island nation of Nauru. For many months the government had been resisting pressure to allow the evacuation of asylum-seekers facing medical emergencies from offshore processing centres. The government's parliamentary defeat on a key policy issue is a major blow for the coalition ahead of the federal polls.

The government's lack of a majority in parliament also creates the risk of legislative deadlock in the lead-up to the next election. To pass legislation in the Senate (the upper house of parliament), the government has to secure the support of either the Labor Party or a combination of the Greens and crossbenchers. To pass legislation in the lower house, the coalition will remain dependent on the support of Kevin Hogan, a member of parliament (MP) for the Nationals who moved to the crossbench; an independent MP, Cathy McGowan, with whom Mr Turnbull's government had a confidence and supply agreement, which has not been renewed with Mr Morrison's government; or other crossbench MPs.

The Liberal party has faced some scrutiny on the subject of representation and opportunities for women in the party. The issue is likely to gain further prominence ahead of the election, as Kelly O'Dwyer, a senior female leader and cabinet minister in Mr Morrison's government, announced on January 19th that she would quit politics after completing her current term. The recent in-fighting within the party and the absence of some of the more experienced members of the coalition during the 2019 elections will adversely affect its prospects at the polls. We expect Labor to win the next federal ballot, resulting in a change of government.

Election watch

Australia has a short election cycle, with polls held around every three years. The next election to the House of Representatives is likely to be held in May, around the same time a ballot for half of the Senate is due. The next government will face a more tractable Senate. In 2016 a formula was agreed as to which senators would receive terms of three years and which would be given six-year terms, in order to restore the usual pattern of Senate elections following the double-dissolution election in 2016. Most minor-party senators will have to contest their seats again in May 2019. Moreover, a new Senate voting system introduced in 2016 will make it harder for "micro-party" senators to be elected through preference deals with other parties.

International relations

Australia's long-standing security alliance with the US will remain the cornerstone of the country's international relations. We continue to believe that the relationship will be trickier to manage under the current US president, Donald Trump. However, Australia has so far handled this difficult situation well. It is among the few countries to have secured a permanent exemption from Mr Trump's tariffs on steel and aluminium imports into the US—something that important US allies such as the EU and Canada have failed to achieve.

Australia will remain a major player in the Pacific region. It has deep economic ties with New Zealand and provides economic, technical and military aid to several Pacific island nations. The Pacific Agreement on Closer Economic Relations-Plus (PACER-Plus), a trade-for-aid agreement between Australia, New Zealand and 11 Pacific island states, is expected to come into force by 2020. The Pacific islands will continue to be the largest recipient of Australia's foreign aid; in fiscal year 2018/19 (July-June) the region will receive 31% of Australia's A\$4.2bn (US\$3.1bn) foreign-aid budget.

However, Australia's status in the Pacific will become more strongly contested by China as that country's economic footprint in the region becomes more prominent. The Australian government will try to curb China's influence through financial and technical assistance and by supporting infrastructure development. Since the start of 2019, senior government representatives and the top brass of the military and federal police force have made trips to several Pacific island nations. This series of visits reaffirms our view that Australia is seeking to reassert its role in the Pacific island region and will continue to engage closely with these countries.

We expect political relations between Australia and Indonesia to remain prickly over the forecast period. The Indonesian government spoke out strongly in October 2018, when Mr Morrison first indicated that he planned to move the Australian embassy in Israel from Tel Aviv to West Jerusalem. However, its reaction to the announcement in December 2018 that Australia had decided to recognise West Jerusalem—rather than Tel Aviv—as Israel's capital, was muted. This was possibly because the Australian government had toned down its plans and stated that its embassy would remain in Tel Aviv until a two-state Israeli-Palestinian solution is reached. We nonetheless believe that the signing of the Comprehensive Economic Partnership Agreement (CEPA) between the two countries will be delayed at least until mid-2019. Once it comes into effect, the deal will support Australian food exports to Indonesia and will also allow Australian service providers—particularly in the health and education sectors—to operate there. The free-trade agreement (FTA) illustrates Australia's desire to build partnerships with key regional players to act as a bulwark to growing Chinese influence in the region.

Australia will continue to promote global trade liberalisation. It is one of seven (out of 11) signatories that ratified the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which came into force on December 30th 2018. Australia's exports will benefit from improved access to a wider market. These benefits will be felt in the first half of the forecast period. Australia concluded a FTA with Hong Kong in November 2018. The effect on goods trade will be minor, as tariffs are already low, but the FTA will support services trade and financial flows between the two markets. However, the overall impact of the Hong Kong agreement will be marginal for Australia. Of greater importance are negotiations on the proposed Regional Comprehensive Economic Partnership, involving Australia, China, India, Japan, South Korea, New Zealand and members of the Association of South-East Asian Nations (ASEAN), which will continue in 2019-23.

Policy trends

Australia's economy is undergoing structural change as the mining investment boom unwinds, having peaked in 2012. The Liberal-National government has been supporting this transition through corporate tax cuts, FTAs, labour market reform and investment in infrastructure and research and development. The overall policy direction is unlikely to undergo a significant shift under a future Labor government.

The social impact of the rapid increase in house prices in recent years was a policy challenge for the government. However, in 2018 property prices started to decline following a rapid increase in previous years. Prices in the country's main cities either fell or showed signs of weakness, with the largest declines recorded in Sydney and Melbourne. The Australian Prudential Regulation Authority had previously tightened prudential controls on property lending. However, it has lifted restrictions on interest-only residential mortgages from January 1st; lenders were previously prohibited from offering interest-only loans on more than 30% of their new mortgage lending. We believe that house price growth in the property hotspots of Sydney and Melbourne will continue to cool in 2019 in the face of affordability pressures and, in the case of Sydney, by higher property tax surcharges for foreign property investors in the state of New South Wales.

A future Labor government would probably push for higher capital-gains taxes and a wider clampdown on negative gearing, whereby losses on investment property can be used to offset individual tax liabilities. Such measures would have a negative effect on house prices, but would probably be difficult to push through the Senate without significant amendment. The overall direction of policy would not change drastically, but a Labor administration would support greater spending on health and education, rather than additional corporate tax cuts. A Labor government will also be more interventionist than the current administration in terms of protecting the environment and tackling climate change. In particular, Labor has indicated that it is committed to increasing the share of renewables in Australia's energy mix and reducing carbon emissions. The party has also proposed to enact new laws to protect the environment and biodiversity, with regulatory bodies set up to oversee enforcement.

Fiscal policy

The budget for 2018/19 centred on personal income tax cuts, which will be rolled out over seven years. The first phase, which came into force in July 2018, involves a tax offset payable to low- and middle-income individuals at the end of 2018/19, with those on incomes of between A\$48,000 (US\$36,000) and A\$90,000 receiving the maximum A\$530. To address inflation, the upper limit of the 32.5% tax bracket rose from A\$87,000 to A\$90,000 in 2018/19. The second phase, which will come into effect on July 1st 2022, lifts this threshold further, to A\$120,000; it also widens the 19% tax band to A\$18,201-41,000, from A\$18,201-37,000. The final phase will not be implemented until 2024, beyond our forecast period.

According to the Mid-Year Economic and Fiscal Outlook (MYEFO) released in December 2018, the Treasury has revised down its estimated budget shortfall for 2018/19 by more than half, to A\$5.2bn (0.3% of GDP). It then expects a small surplus, equivalent to 0.2% of GDP, in 2019/20, rising to 0.6% in 2020/21. (Our revenue and spending forecasts include the states and are thus not strictly comparable with the Treasury's projections.) The economic forecasts on which these fiscal projections are predicated are more optimistic than ours. Although we expect the fiscal balance to improve over the forecast period, we do not believe that a surplus will be recorded until 2021. We expect the government to post budget deficits equivalent to 0.2% of GDP on average in 2019-20, before returning to a surplus in 2021.

Monetary policy

We expect the Reserve Bank of Australia (RBA, the central bank) to keep its policy interest rate, the cash rate, unchanged in 2019-20. Consumer price inflation will remain benign (close to the lower limit of the RBA's 2-3% target range) in 2019-20, allowing the central bank to maintain its current accommodative stance. The Australian property market is cooling down, and house prices are expected to soften further in 2019. It is likely that the central bank will ease monetary policy in 2019-20, in case there is a sharper than anticipated downturn in the property market. The RBA would, nonetheless, proceed cautiously, as lower interest rates could induce households, which are already highly indebted, to borrow more. This would increase the risks to financial sector stability. However, this is not part of our central forecast. The RBA will start to tighten monetary policy gradually in 2021 and will continue to raise interest rates steadily in 2022-23 as the outlook for the global and Australian economies improves and inflationary pressures re-emerge.

International assumptions

	2018	2019	2020	2021	2022	2023
Economic growth (%)						
US GDP	2.9	2.3	1.5	1.7	2.0	1.8
OECD GDP	2.3	1.8	1.6	1.8	2.0	1.9
World GDP	2.9	2.8	2.6	2.8	2.9	2.8
World trade	4.4	3.3	2.9	3.9	4.1	4.1
Inflation indicators (% unless otherwise indicated)						
US CPI	2.4	2.2	1.4	2.2	2.1	1.8
OECD CPI	2.5	2.3	1.9	2.1	2.2	2.1
Manufactures (measured in US\$)	5.2	3.4	2.6	3.4	3.2	3.0
Oil (Brent; US\$/b)	71.1	66.0	60.5	69.8	75.6	75.0
Non-oil commodities (measured in US\$)	1.8	-1.2	3.9	1.6	1.4	0.8
Financial variables						
US\$ 3-month commercial paper rate (av; %)	2.0	2.6	2.2	2.1	2.5	2.9
¥ 3-month money market rate (av; %)	0.0	0.1	0.1	0.2	0.2	0.3
¥:US\$ (av)	110.4	110.2	109.1	104.9	100.5	96.1
A\$:US\$ (av)	1.34	1.37	1.35	1.30	1.27	1.26

Economic growth

We estimate that real GDP grew by 3% in 2018. In 2019 Australia's real GDP growth rate will decelerate to 2.6% as world trade growth slows. A weaker pace of private consumption growth in 2019 will also serve as a drag on economic expansion. The Australian economy will see a further slowdown in 2020 as economic activity in the US decelerates, tempering global expansion and oil export prices. The US-China trade war could present an opportunity for Australia to step up exports of liquefied natural gas (LNG) to China, which has imposed a 10% tariff on LNG imports from the US, making LNG from Australia more attractive. In the latter part of the forecast period, growth in commodity export volumes will start to ease, reflecting the lack of major new mining investments in recent years. We expect real GDP growth to average 2.4% per year in 2019-23.

Although we expect Labor to win the 2019 election, we assume that government spending growth will be relatively steady in the outlook period, as a Labor government's fiscal policies would be watered down to secure Senate approval. By contrast, we expect household spending to regain momentum in 2020-23 as rising employment and faster wage growth support consumer sentiment, despite an increase in interest rates. This acceleration in consumer demand will also support a recovery in investment expenditure.

Economic growth

%	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
GDP	3.0	2.6	2.3	2.4	2.5	2.4
Private consumption	2.7	2.4	2.5	2.6	2.7	2.6
Government consumption	4.8	3.2	2.6	2.3	2.5	2.7
Gross fixed investment	2.9	2.3	2.0	2.4	2.3	2.2
Exports of goods & services	4.9	4.0	3.8	4.0	3.6	4.1
Imports of goods & services	4.4	3.3	4.3	4.7	4.3	4.9
Domestic demand	3.2	2.4	2.4	2.5	2.6	2.5
Agriculture	1.6	1.2	1.4	1.5	1.6	1.5
Industry	1.0	1.2	1.7	1.9	1.9	1.9
Services	3.7	3.1	2.5	2.6	2.7	2.5

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts.

Inflation

We forecast that consumer price inflation will average 2.3% per year in 2019-23. Inflationary pressures will be muted in 2019-20 partly due to softer global oil prices, which will help to lower energy prices. Falling house prices will also curb overall inflationary pressures via stalling rents. Prices will pick up at a faster pace in the latter part of the forecast period, as both domestic and external demand conditions are expected to improve. However, monetary policy tightening in 2021-23 will ensure that inflation remains within the central bank's target band of 2-3%.

Exchange rates

The Australian dollar will depreciate against its US counterpart in 2019, albeit at a slower pace than previously anticipated. This is because we now expect the US Federal Reserve to adopt a dovish monetary policy stance, which will keep the differentials between domestic interest rates and those in the US steady. We forecast that the value of the Australian dollar (which is viewed by global financial markets as a proxy for the economic performance of China—Australia's largest trading partner) will average A\$1.37:US\$1 in 2019. China's real GDP growth will slow in 2019-23, which is likely to constrain Australia's export growth and weigh on its currency's exchange rate against the US dollar. The expected slowdown in the US economy in 2020, which we believe will prompt the Fed to embark on a policy loosening cycle, will support a modest strengthening of the Australian dollar against the US dollar in that year. We expect the currency to strengthen further in 2021-23 as the RBA gradually tightens monetary policy, which will narrow the gap between domestic interest rates and those in the US.

External sector

Australia's external balance is tied closely to commodity prices, with iron ore, coal and LNG together constituting more than half of total exports in 2017. Given a projected softening of prices for coal and LNG, as well as weaker external demand conditions in 2019-20, we forecast that the trade surplus will narrow in 2019-20 compared with 2018. The primary income account will remain in deficit, reflecting the cost of servicing Australia's high foreign debt, as well as outflows of mining profits to foreign shareholders. Overall, the current account will remain in the red in 2019-23, owing to large deficits on the primary and secondary income accounts. However, the shortfall will narrow gradually, to the equivalent of 2% of GDP in 2022-23.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
Real GDP growth	3.0	2.6	2.3	2.4	2.5	2.4
Industrial production growth	3.0	1.4	1.6	1.9	2.1	2.1
Gross agricultural production growth	1.6	1.2	1.4	1.5	1.6	1.5
Unemployment rate (av)	5.3 ^c	5.2	5.2	5.1	5.0	5.0
Consumer price inflation (av)	1.9 ^c	2.0	2.1	2.5	2.4	2.5
Consumer price inflation (end-period)	1.8 ^c	2.2	2.1	2.7	2.4	2.5
Money market interest rate (av)	1.5	1.5	1.5	1.6	2.1	2.5
General government balance (% of GDP)	-0.3	-0.2	-0.2	0.4	0.5	0.6
Exports of goods fob (US\$ bn)	254.9	260.3	261.9	287.6	310.5	328.2
Imports of goods fob (US\$ bn)	237.1	247.3	257.4	281.0	304.5	323.9
Current-account balance (US\$ bn)	-34.5	-32.1	-36.7	-33.4	-33.9	-37.8
Current-account balance (% of GDP)	-2.4	-2.2	-2.4	-2.0	-1.9	-2.0
External debt (year-end; US\$ bn)	1,754.6	1,968.9	2,119.1	2,236.3	2,359.7	2,470.0
Exchange rate A\$:US\$ (av)	1.337 ^c	1.373	1.351	1.303	1.270	1.258
Exchange rate A\$:US\$ (end-period)	1.419 ^c	1.349	1.326	1.290	1.260	1.250
Exchange rate A\$:¥100 (av)	1.211 ^c	1.246	1.239	1.242	1.264	1.309
Exchange rate A\$:€ (end-period)	1.625 ^c	1.626	1.611	1.580	1.569	1.556

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Actual.

Quarterly forecasts

Quarterly forecasts

	2018				2019				2020			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
GDP												
% change, quarter on quarter	1.0	0.9	0.3	1.1	0.7	0.6	0.5	0.4	0.6	0.6	0.7	0.8
% change, year on year	3.0	3.1	2.8	3.3	2.9	2.6	2.9	2.2	2.2	2.2	2.3	2.7
Private consumption												
% change, quarter on quarter	0.3	0.9	0.3	1.0	0.6	0.5	0.5	0.3	0.7	0.7	0.8	0.9
% change, year on year	2.8	2.9	2.5	2.5	2.7	2.4	2.6	1.9	2.1	2.2	2.6	3.2
Government consumption												
% change, quarter on quarter	1.5	0.9	0.5	3.3	0.1	0.1	0.0	-0.1	1.0	1.0	1.1	1.2
% change, year on year	4.1	3.9	4.8	6.4	5.0	4.1	3.7	0.2	1.1	2.0	3.0	4.3
Gross fixed investment												
% change, quarter on quarter	1.5	0.1	0.1	0.7	0.8	0.7	0.6	0.5	0.4	0.4	0.5	0.6
% change, year on year	4.2	3.5	1.3	2.4	1.7	2.2	2.8	2.6	2.2	1.9	1.8	1.9
Exports of goods & services												
% change, quarter on quarter	4.3	1.2	0.1	-1.1	1.9	1.8	1.7	1.5	0.5	0.5	0.6	0.7
% change, year on year	6.4	4.8	4.1	4.5	2.0	2.6	4.2	7.0	5.6	4.3	3.2	2.4
Imports of goods & services												
% change, quarter on quarter	1.9	0.5	-1.5	2.8	0.8	0.7	0.7	0.5	1.3	1.3	1.4	1.5
% change, year on year	6.1	6.4	1.5	3.6	2.5	2.8	5.1	2.8	3.3	3.9	4.5	5.5
Domestic demand												
% change, quarter on quarter	0.9	0.8	0.0	1.2	0.6	0.4	0.7	0.0	0.8	0.6	1.0	0.6
% change, year on year	3.2	3.8	2.7	2.9	2.6	2.3	3.0	1.8	1.9	2.1	2.4	3.1
Consumer prices												
% change, quarter on quarter	0.4	0.4	0.4	0.5	0.3	0.6	0.7	0.5	0.3	0.6	0.7	0.5
% change, year on year	1.9	2.1	1.9	1.8	1.7	1.9	2.2	2.2	2.2	2.1	2.1	2.1
Producer prices												
% change, quarter on quarter	0.9	2.6	0.9	0.9	1.1	1.1	0.5	0.5	0.3	0.3	0.3	0.3
% change, year on year	3.3	5.2	6.9	5.4	5.5	4.0	3.6	3.2	2.5	1.7	1.5	1.3
Exchange rate A\$:US\$												
Average	1.27	1.32	1.37	1.39	1.38	1.39	1.37	1.35	1.36	1.36	1.36	1.33
End-period	1.30	1.35	1.38	1.42	1.38	1.38	1.36	1.35	1.36	1.36	1.34	1.33
Interest rates (%; av)												
Money market rate	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Long-term bond yield	2.8	2.7	2.6	2.6	2.7	2.9	2.9	2.8	2.6	2.6	2.6	2.7

Data and charts

Annual data and forecast

	2014 ^a	2015 ^a	2016 ^a	2017 ^a	2018 ^b	2019 ^c	2020 ^c
GDP							
Nominal GDP (US\$ bn)	1,457.5	1,234.6	1,267.9	1,386.5	1,421.1	1,439.5	1,516.6
Nominal GDP (A\$ bn)	1,614.6	1,641.0	1,704.3	1,807.7	1,900.1	1,976.3	2,049.2
Real GDP growth (%)	2.6	2.5	2.8	2.4	3.0	2.6	2.3
Expenditure on GDP (% real change)							
Private consumption	2.5	2.4	2.7	2.4	2.7	2.4	2.5
Government consumption	0.3	4.4	4.8	4.0	4.8	3.2	2.6
Gross fixed investment	-1.9	-3.6	-2.3	3.0	2.9	2.3	2.0
Exports of goods & services	6.9	6.5	6.8	3.5	4.9	4.0	3.8
Imports of goods & services	-1.4	1.9	0.1	7.7	4.4	3.3	4.3
Origin of GDP (% real change)							
Agriculture	-1.1	-0.9	-3.1	7.5	1.6	1.2	1.4
Industry	4.0	0.0	0.0	1.3	1.0	1.2	1.7
Services	2.4	3.7	3.5	2.9	3.7	3.1	2.5
Population and income							
Population (m)	23.5	23.8	24.1	24.5	24.8	25.1	25.4
GDP per head (US\$ at PPP)	47,352	46,775	48,677	51,183	53,002	54,606	56,320
Recorded unemployment (av; %)	6.1	6.0	5.7	5.6	5.3 ^a	5.2	5.2
Fiscal indicators (% of GDP)							
General government balance	-1.8	-1.1	-1.5	-0.6	-0.3	-0.2	-0.2
General government debt interest payments	1.0	0.8	0.8	0.9	1.0	1.1	1.1
General government primary balance	-0.8	-0.3	-0.7	0.3	0.7	0.9	1.0
Net public debt	39.6	40.7	42.7	43.4	42.3	41.7	41.1
Prices and financial indicators							
Exchange rate A\$:US\$ (end-period)	1.22	1.37	1.38	1.28	1.42 ^a	1.35	1.33
Exchange rate ¥:A\$ (end-period)	97.95	87.63	84.43	88.07	77.29 ^a	81.42	81.07
Consumer prices (end-period; % change)	1.7	1.7	1.5	1.9	1.8 ^a	2.2	2.1
Producer prices (av; % change)	3.1	0.3	-0.6	3.2	5.2 ^a	4.1	1.7
Stock of money M1 (end-period; % change)	6.5	11.2	6.7	5.5	-0.1 ^a	4.0	4.7
Stock of money M3 (end-period; % change)	7.2	5.9	6.7	4.5	2.4 ^a	3.7	4.0
Lending interest rate (av; %)	6.0	5.6	5.4	5.2	5.1	5.0	5.0
Current account (US\$ bn)							
Trade balance	2.2	-19.0	-5.8	10.5	17.7	13.0	4.5
Goods: exports fob	240.7	188.2	192.9	231.6	254.9	260.3	261.9
Goods: imports fob	-238.5	-207.2	-198.7	-221.1	-237.1	-247.3	-257.4
Services balance	-11.3	-8.8	-4.4	-3.3	-3.7	-4.3	-4.3
Primary income balance	-32.7	-28.8	-30.1	-41.8	-46.5	-38.8	-35.0
Secondary income balance	-1.6	-0.8	-0.8	-1.3	-2.1	-2.0	-1.9
Current-account balance	-43.4	-57.4	-41.2	-35.9	-34.5	-32.1	-36.7
External debt (US\$ bn)							
Debt stock	1,554.5	1,537.6	1,546.6	1,663.0	1,754.6	1,968.9	2,119.1
Debt service paid	351.8 ^b	340.4 ^b	363.1 ^b	395.3 ^b	410.2	430.4	469.8
Principal repayments	319.1 ^b	313.1 ^b	336.8 ^b	366.7 ^b	367.5	377.5	414.2
International reserves (US\$ bn)							
Total international reserves	53.9	45.7	53.6	66.6	53.9 ^a	52.8	53.7

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Source: IMF, International Financial Statistics.

Quarterly data

	2017				2018			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Central government finance (A\$ bn)								
Revenue	104.2	113.7	98.3	114.4	112.6	131.1	107.5	127.3
Expenditure	110.9	114.0	114.9	113.9	113.8	117.7	117.8	120.5
Balance	-6.7	-0.3	-16.7	0.5	-1.2	13.4	-10.4	6.8
Output								
GDP at chained 2012/13 prices (A\$ bn)	442.3	445.7	448.4	450.9	455.6	459.7	460.8	n/a
GDP at chained 2012/13 prices (% change, year on year)	2.2	2.1	2.8	2.4	3.0	3.1	2.8	n/a
Industrial production index (2012/13=100)	99.7	100.9	101.5	101.5	104.4	105.1	104.3	n/a
Industrial production index (% change, year on year)	-0.7	1.1	2.2	1.4	4.7	4.2	2.8	n/a
Employment, wages and prices								
Employment ('000) ^a	12,115	12,229	12,347	12,444	12,484	12,577	12,628	12,713
Employment (% change, year on year)	1.5	2.2	3.3	3.4	3.1	2.8	2.3	2.2
Unemployment rate (% of labour force)	5.8	5.6	5.5	5.5	5.5	5.4	5.2	5.0
Average weekly earnings (A\$) ^{ab}	n/a	1,543	n/a	n/a	n/a	n/a	n/a	n/a
Average weekly earnings (% change, year on year)	n/a	1.8	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (% change, year on year)	2.1	1.9	1.8	1.9	1.9	2.1	1.9	1.8
Producer prices (% change, year on year)	3.5	3.7	2.0	3.5	3.3	5.2	6.9	5.4
Financial indicators								
Exchange rate A\$:US\$ (av)	1.32	1.33	1.27	1.30	1.27	1.32	1.37	1.39
Exchange rate A\$:US\$ (end-period)	1.31	1.30	1.28	1.28	1.30	1.35	1.38	1.42
Lending rate (av; %)	5.3	5.3	5.2	5.2	n/a	n/a	n/a	n/a
Money market rate (av; %)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	n/a
M1 (av; A\$ bn) ^a	341.2	356.5	354.6	360.9	352.3	357.3	357.7	360.3
M1 (% change, year on year) ^a	6.9	7.3	6.6	5.4	3.2	0.2	0.9	-0.2
M3 (av; A\$ bn) ^a	1,986.5	2,029.8	2,050.4	2,051.6	2,060.6	2,068.0	2,094.6	2,101.1
M3 (% change, year on year) ^a	6.7	7.8	6.8	4.5	3.7	1.9	2.2	2.4
All Ordinaries stockmarket index (end-period; Jan 1st 1980=500)	5,904	5,764	5,745	6,167	5,869	6,290	6,326	5,709
Sectoral trends								
Coal exports (A\$ m)	13,539	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Coal exports (% change, year on year)	72.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Wheat exports (A\$ m)	1,961	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Wheat exports (% change, year on year)	39.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign trade (A\$ m)								
Exports fob	74,557	74,757	75,544	76,476	78,255	84,204	88,842	92,679
Imports cif	63,468	69,739	82,278	72,806	70,837	75,240	76,914	81,550
Trade balance	11,089	5,018	-6,734	3,670	7,418	8,964	11,928	11,129
Foreign payments (US\$ m)								
Merchandise trade balance fob-fob	4,791	3,653	2,362	-305	3,269	4,595	5,870	n/a
Services balance	1,539	-1,492	-2,228	-1,108	1,363	-1,856	-1,472	n/a
Primary income balance	10,071	-8,854	-	-	-	-	-	n/a
Current-account balance	-4,342	-7,271	-	-	-7,309	-8,088	-9,241	n/a
Reserves excl gold (end-period)	55,264	58,657	53,379	63,561	55,563	53,259	50,562	51,048

^a Seasonally adjusted. ^b Ordinary time.

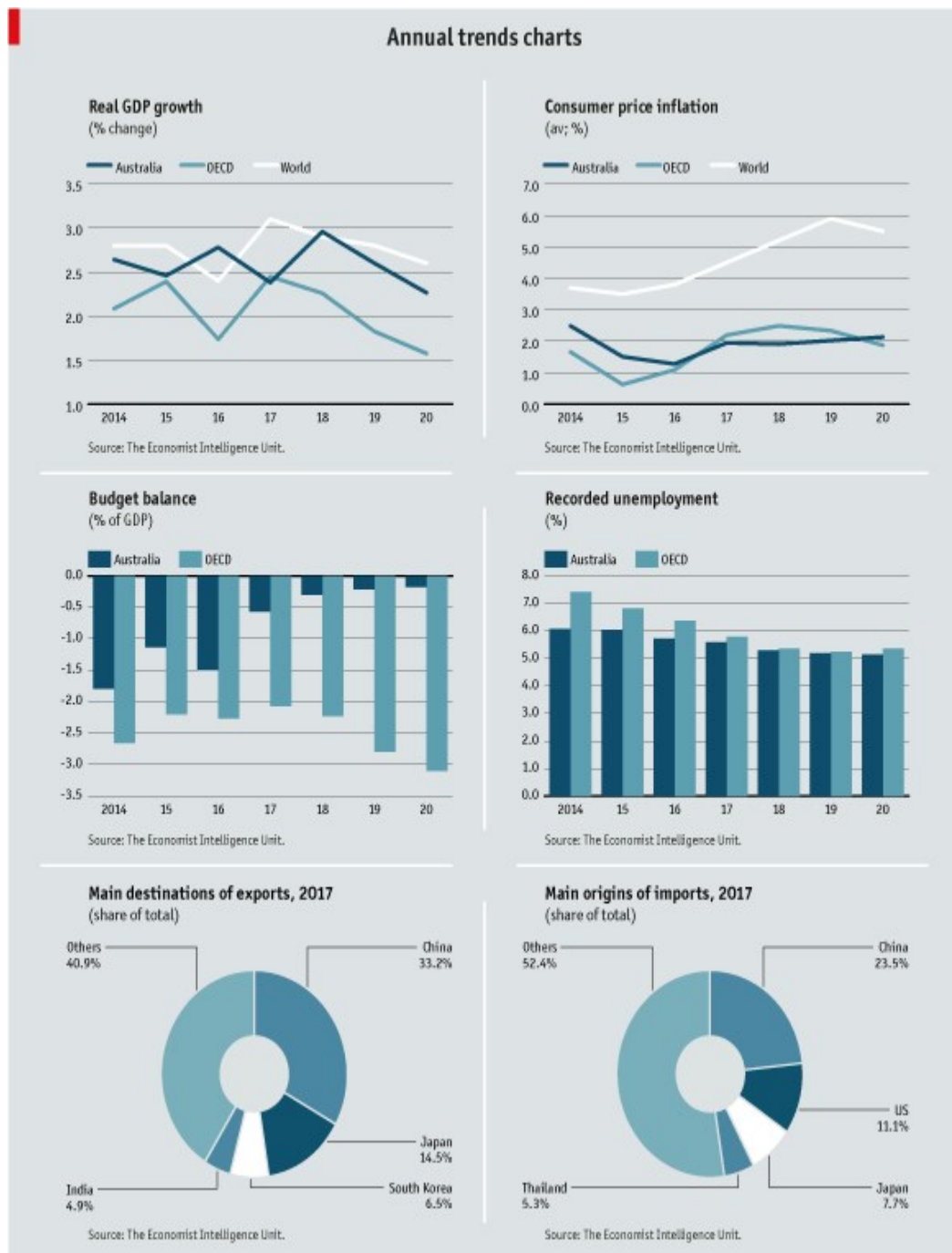
Sources: Australian Bureau of Statistics, Australian Economic Indicators; IMF, International Financial Statistics; Reserve Bank of Australia.

Monthly data

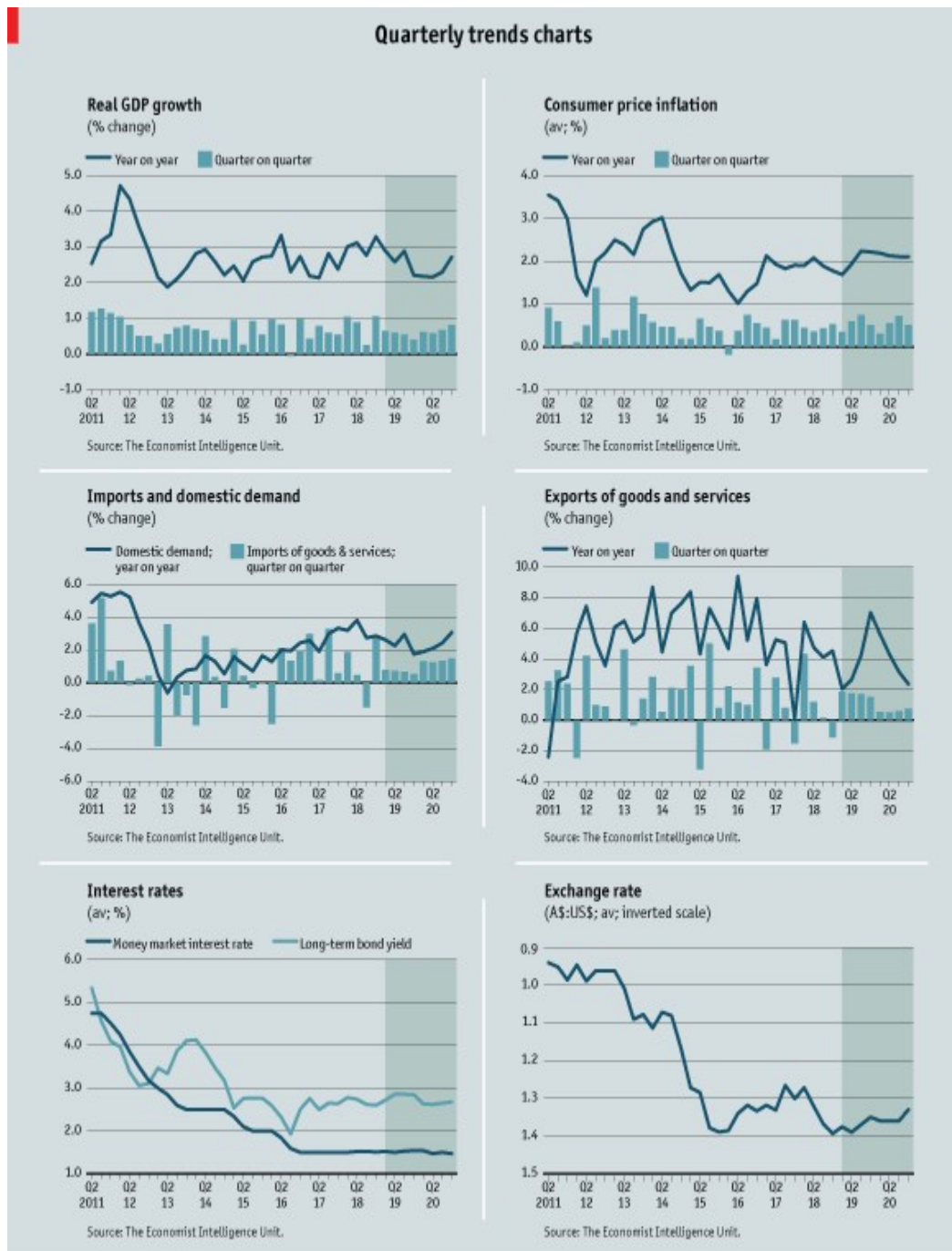
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate A\$:US\$ (av)												
2017	1.340	1.305	1.312	1.327	1.345	1.322	1.281	1.263	1.254	1.284	1.312	1.308
2018	1.257	1.271	1.289	1.301	1.329	1.334	1.351	1.365	1.388	1.406	1.380	1.395
2019	1.398	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate A\$:US\$ (end-period)												
2017	1.319	1.301	1.309	1.338	1.345	1.303	1.252	1.261	1.276	1.304	1.321	1.280
2018	1.239	1.282	1.300	1.326	1.321	1.352	1.344	1.390	1.382	1.410	1.368	1.419
2019	1.373	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Real effective exchange rate (2010=100; CPI-basis)												
2017	96.1	98.3	97.8	96.2	94.2	95.0	97.1	97.4	97.4	96.3	94.4	94.0
2018	95.5	93.9	92.6	92.1	92.1	92.5	92.3	92.0	90.4	89.7	91.7	90.9
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Money supply M1 (av; seasonally adjusted; % change, year on year)												
2017	6.7	6.2	6.9	7.7	7.5	7.3	7.3	8.5	6.6	7.1	7.1	5.4
2018	2.8	3.1	3.2	1.6	1.6	0.2	-0.3	0.4	0.9	0.1	-0.9	-0.2
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Money supply M3 (av; seasonally adjusted; % change, year on year)												
2017	6.9	7.1	6.7	7.5	7.5	7.8	6.9	6.8	6.8	6.6	5.9	4.5
2018	4.3	3.8	3.7	2.5	2.5	1.9	2.0	2.5	2.2	2.1	1.9	2.4
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Unemployment rate (% of labour force)												
2017	5.7	5.8	5.8	5.6	5.5	5.6	5.6	5.5	5.5	5.4	5.4	5.6
2018	5.5	5.5	5.5	5.6	5.4	5.3	5.3	5.3	5.0	5.0	5.1	5.0
2019	5.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2017	2.1	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
2018	2.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)												
2017	5.3	5.3	5.3	5.3	5.3	5.3	5.2	5.2	5.2	5.2	5.2	5.2
2018	5.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
All Ordinaries stockmarket index (end-period; Jan 1st 1980=500)												
2017	5,675	5,761	5,904	5,948	5,761	5,764	5,774	5,776	5,745	5,976	6,057	6,167
2018	6,147	6,117	5,869	6,072	6,124	6,290	6,366	6,428	6,326	5,913	5,749	5,709
2019	5,937	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total exports fob (A\$ m)												
2017	23,677	23,994	26,886	22,966	26,172	25,619	25,116	25,163	25,265	24,550	24,752	27,174
2018	25,213	25,165	27,877	26,130	28,306	29,768	29,339	30,036	29,467	30,548	30,237	31,894
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total imports cif (A\$ m)												
2017	21,482	19,368	22,618	20,242	26,323	23,174	30,106	26,252	25,920	23,932	25,079	23,795
2018	24,337	22,726	23,774	23,405	26,221	25,614	25,180	26,754	24,980	28,980	28,940	23,630
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (A\$ m)												
2017	2,195	4,626	4,268	2,724	-151	2,445	-4,990	-1,089	-655	618	-327	3,379
2018	876	2,439	4,103	2,725	2,085	4,154	4,159	3,282	4,487	1,568	1,297	8,264
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US\$ bn)												
2017	42.0	42.9	55.3	53.3	56.6	58.7	50.3	53.9	53.4	53.8	58.2	63.6
2018	49.6	52.0	55.6	52.0	59.5	53.3	48.7	48.9	50.6	42.7	45.6	51.0
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

Annual trends charts



Quarterly trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

7,682,400 sq km (61% agricultural, 5% forest)

Population

25m (June 2018; Australian Bureau of Statistics estimate)

Main towns

Population in '000 (June 2016, revised; Australian Bureau of Statistics estimate):

Sydney: 5,030

Melbourne: 4,725

Brisbane: 2,360

Perth: 2,022

Adelaide: 1,324

Canberra (capital): 403

Climate

Temperate in the south; subtropical or tropical in the north; hot and dry inland

Weather in Canberra (altitude 560 metres)

Hottest months, January and February, 13-28°C; coldest month, July, 0-11°C (average daily minimum and maximum); driest month, June, 37 mm average rainfall; wettest month, October, 69 mm average rainfall

Language

English

Measures

Metric system

Currency

Australian dollar (A\$); A\$1 = 100 cents. Average exchange rate in 2018: A\$1.34:US\$1

Time

Hours ahead of GMT (summer time in brackets):

New South Wales, Tasmania, Victoria & the Australian Capital Territory: 10 (11)

Queensland: 10

Northern Territory: 9.5

South Australia: 9.5 (10.5)

Western Australia: 8

Fiscal year

July 1st-June 30th. Most Australian statistics are reported on a fiscal-year basis

Public holidays

January 1st (New Year's Day); January 28th (Australia Day); April 19th (Good Friday); April 22nd (Easter Monday); April 25th (Anzac Day); June 10th (Queen's Birthday, except in Western Australia and Queensland); December 25th-26th (Christmas and Boxing Day); plus other days at state level



Political structure

Official name

Commonwealth of Australia

Form of state

Federal democracy

Legal system

Based on the constitution of 1901

National legislature

Bicameral: the 150-member House of Representatives (the lower house) is directly elected by a preferential voting system for a three-year term; the 76 members of the Senate (the upper house) are directly elected by proportional representation in each state and territory for six-year terms, with half the Senate facing election every three years, usually to coincide with elections for the lower house. The Senate may not initiate or amend money bills. All representatives in both houses can face election if certain conditions are met and a “double-dissolution” poll is called

Electoral system

Compulsory universal direct suffrage over the age of 18

National elections

A double-dissolution election for the House of Representatives and all Senate seats was held in July 2016. The next poll for half the state senators must be held by May 18th 2019, and the next election for the House of Representatives and for territory senators must take place by November

2nd 2019

Head of state

Queen Elizabeth II, represented in Australia by a governor-general; Sir Peter Cosgrove was appointed to the post in 2014

State legislatures

Five of the six states have bicameral legislatures; Queensland is unicameral

National government

A cabinet, presided over by the prime minister, is appointed by the governor-general on the basis of party strength in the lower house. The Liberal-National coalition returned to power in the election of July 2016

Main political parties

Liberal Party and National Party (in long-term coalition); Labor Party; the Greens; the Centre Alliance (formerly the Nick Xenophon Team); One Nation

Prime minister: Scott Morrison

Deputy prime minister, minister for infrastructure, transport & regional development: Michael McCormack

Cabinet ministers

Agriculture & water resources: David Littleproud

Attorney-general: Christian Porter

Defence: Christopher Pyne

Education: Daniel Tehan

Energy: Angus Taylor

Environment: Melissa Price

Finance: Mathias Cormann

Foreign affairs: Marise Payne

Health: Greg Hunt

Home affairs: Peter Dutton

Indigenous affairs: Nigel Scullion

Jobs & industrial relations: Kelly O'Dwyer

Resources & northern Australia: Matthew Canavan

Social services & families: Paul Fletcher

Trade, tourism & investment: Mark Coulton

Treasurer: Josh Frydenberg

Central bank governor

Philip Lowe

Recent analysis

Generated on April 9th 2019

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Politics

Forecast updates

Indonesia and Australia ink trade deal

March 5, 2019: International relations

Event

On March 4th Australia and Indonesia signed a Comprehensive Economic Partnership Agreement (CEPA).

Analysis

The inking of the [CEPA](#) paves the way for deeper economic ties between the two neighbours, which have quarrelled in the past specifically about differences in trade policies. The new deal applies 0% excise duty to all Indonesian merchandise exports to Australia, in exchange for significant cuts in tariffs faced by Australian exporters. Moreover, the deal provides a treaty-level framework to challenge non-tariff measures—policies that are used by Indonesia, in particular, to curb imports. Procedures for reviewing non-tariff barriers specified by either party will be formulated one year after the agreement takes effect.

The signing of the CEPA comes in the wake of [diplomatic tensions](#) that remain high between the two countries. In October 2018 Australia's prime minister, Scott Morrison, said that Australia would consider moving its embassy in Israel from Tel Aviv to Jerusalem. The Indonesian foreign minister, Retno Marsudi, strongly denounced this decision, which set back the two countries' diplomatic ties. Indonesia has the world's largest Muslim population and is a vocal supporter of Palestinian claims to statehood.

The CEPA was finalised in August 2018 after nine years of negotiation with technical working groups that met every three months last year. However, the deal will not enter into force until it is ratified by both countries' parliaments, which we expect to be completed later this year. There is an outside risk that Indonesia's parliament could prevaricate, should bilateral relations sour further. Indonesia has [suspended](#) military ties with Australia twice since 2013, and in 2015 Australia withdrew its ambassador to Jakarta after Jokowi authorised the execution of [two Australian nationals](#) convicted of drug smuggling. Nevertheless, this is not part of our central forecast.

Impact on the forecast

The signing of the CEPA was part of our forecast, and so we do not need to alter our narrative. The impact of the trade deal on the economies of Indonesia and Australia will not be reflected until later in the forecast period after the deal has been ratified.

Tensions flare up in the National Party

March 18, 2019: Political stability

Event

Barnaby Joyce, the former deputy prime minister and ex-leader of the National Party (the junior partner in the governing Liberal-National coalition), has been forced to back down from a leadership challenge against his successor, Michael McCormack.

Analysis

The dispute between Mr Joyce and Mr McCormack stems from what the former, along with some other National members of parliament (MPs), see as the latter's reluctance to stand up to the Liberal Party on its energy policy. The coalition partners disagree on the issue of government investment in the development of coal-fired power plants, which has elevated intra-coalition tensions. Mr Joyce intensified the pressure on Mr McCormack by adding that, as "the elected deputy prime minister of Australia", he would have no qualms about standing for the National leadership should the position become vacant. (Mr Joyce resigned in February 2018 following revelations of an extra-marital affair with an advisor.)

Mr Joyce backed calls by National MPs in Queensland for the federal government to subsidise a new coal-fired power station in the state, as part of the coalition's plan to underwrite new competitors in the power-generation market. However, the prime minister, Scott Morrison, has been reluctant to agree to it on the grounds that the Labor state government in Queensland would not approve such a project. Mr Morrison is also mindful that a new coal plant could cost the Liberal Party votes in New South Wales (NSW) and Victoria, where climate change is a sensitive issue.

Bridget McKenzie, the deputy leader of the Nationals, has stated that the party strongly backs Mr McCormack's leadership. Amid similar sentiments from other party members and calls to put an end to the bickering ahead of the NSW state election on March 25th, Mr Joyce has backed down from a possible leadership challenge. While this spat appears to be over for now, friction over energy policy within both the National and the Liberal parties, and between the coalition partners, risks further damaging the coalition's prospects in upcoming polls.

Impact on the forecast

The developments reinforce our view that the main opposition Labor Party will win the next federal election, which is likely to be held in May 2019.

Australia and Singapore strengthen ties

April 1, 2019: International relations

Event

On March 29th foreign affairs, defence and trade ministers from Australia and Singapore met in Sydney for the 11th Singapore-Australia Joint Ministerial Committee meeting.

Analysis

Bilateral ties have broadened and deepened in recent years and the countries are now close partners across a number of fields. The bilateral relationship was elevated to a Comprehensive Strategic Partnership (CSP) in 2015, and an upgraded version of the Singapore-Australia Free-Trade Agreement came into force in December 2017.

Key outcomes from the latest ministerial dialogue included a commitment to explore options for co-operation on tackling terrorism. The joint communiqué made particular reference to preventing the spread of extremist ideologies via the internet, in the light of the [mosque shootings](#) in New Zealand in March. The ministerial gathering also discussed future areas for co-operation under the CSP, including an open skies agreement and a review of the existing framework on the avoidance of double taxation. Ministers also agreed to step up collaboration on digital trade, science and technology, and on food safety and security, in order to boost reciprocal market access in this area.

Both sides remain committed to deepening their defence relationship, partly reflecting shared concern about China's militarisation of some islands in the South China Sea. The ministers agreed that upgrading the existing Memorandum of Understanding (MoU) on military training in Australia to treaty status was a particular priority in 2019. The Singapore Armed Forces have trained in Australia for many years, partly because of the shortage of training space in the city state. Construction of advanced training facilities in the state of Queensland in Australia is scheduled to begin this year. Under the deal, up to 14,000 Singaporean servicemen will be able to train for 18 weeks a year in Queensland.

Impact on the forecast

We remain of the view that economic, diplomatic and defence ties between the two countries will continue to deepen in 2019-23. No changes to our international relations forecasts for either country are required.

Australia looks to mend ties with China

April 1, 2019: International relations

Event

On March 29th the Australian government announced the formation of the National Foundation for Australia-China Relations, aimed at promoting closer integration between the two countries.

Analysis

The foundation will replace the existing Australia-China Council, which had hitherto focused on closer integration in education, art and culture. The new body will have a broader mandate, including areas such as agriculture, health, infrastructure and energy. It will also have greater financial support, with the federal government pledging A\$44m (US\$32m) over the next five years.

On the same day the Australian government also announced the appointment of Graham Fletcher as the next Australian ambassador to China. Mr Fletcher is a senior diplomat who currently serves as first assistant secretary for North Asia at the Department of Foreign Affairs and Trade. He will take up his new role in July, when the incumbent ambassador, Jan Adams, completes her term.

The increased financial commitment directed towards closer diplomatic engagement and the appointment of Mr Fletcher, a seasoned diplomat with substantial experience in China, suggests an attempt by Australian policymakers to repair bilateral relations. Diplomatic ties have grown [increasingly testy](#) in recent months, resulting in pushback from China (Australia's largest export market) on Australian imports, most noticeably coal. Although merchandise trade between the countries remains robust, the threat of further Chinese retaliation suggests that the Australian government is concerned about the potential trajectory of the economic relationship should this political friction continue.



Nevertheless, concern about growing Chinese influence in the Pacific region, as well as Australia's reluctance to break from the US's hardline stance on China, will blunt the extent of these overtures. Outstanding areas of disagreement—such as the Australian government's ban on a Chinese technology firm, Huawei, participating in the development of its fifth-generation (5G) mobile network, as well as looming Chinese anti-dumping duties on Australian barley imports—will remain as sources of friction.

Impact on the forecast

We maintain our view that Australia will continue to attempt a balancing act in its engagement with China. Economic considerations will ensure that bilateral diplomatic ties do not break down completely, while concerns about China's growing footprint in the South Pacific will remain an area of bilateral strain.

Analysis

Striking a balance

March 13, 2019

Recent events have increased the uneasiness in Australia and New Zealand's bilateral relations with China. Both countries will be forced to balance an increasingly difficult diplomatic relationship, amid concerns over rising Chinese influence in domestic and South Pacific affairs, against parallel efforts to preserve and strengthen commercial ties with China. In the first of two articles looking at this topic, we examine what has happened and what is at stake in the relationships. In the second we will look at where things are likely to go from here and what the implications are for businesses in all three countries.

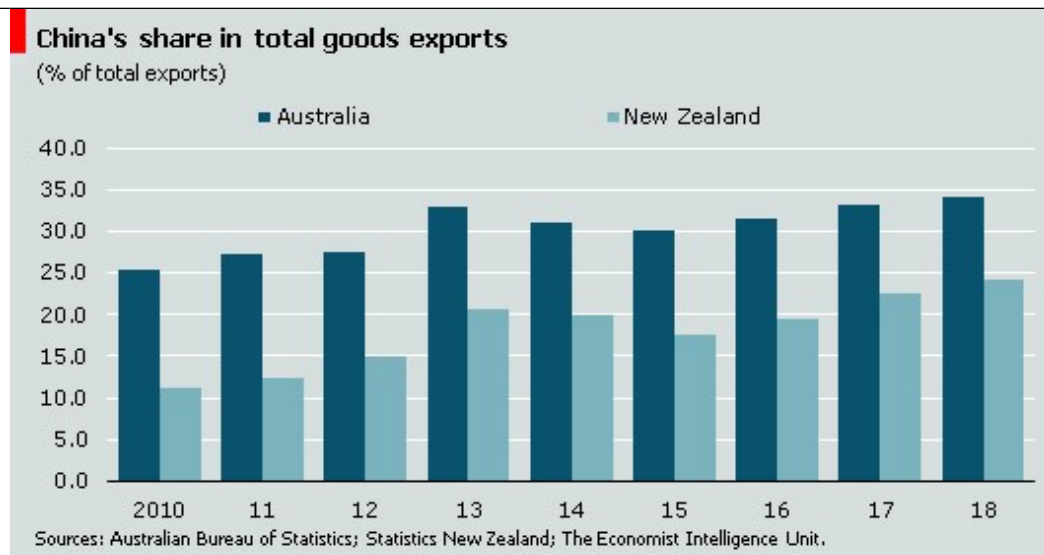
In early February, a commodities and energy information platform, S&P Global Platts, reported that Chinese ports in Dalian, Dandong and Rizhao had begun to impose restrictions on Australian thermal coal (used for electricity generation) and coking coal (used for steelmaking). On February 20th an international news agency, Reuters, reported that Dalian port authorities had banned the import of Australian coking coal across five major ports in China, including in Dalian proper and Beiliang port, which is also in the city, as well as Baoyuquan, Panjin and Dandong, all of which fall under the jurisdiction of the Dalian customs authority.

In the same month China denied permission for an Air New Zealand flight to land in Shanghai (ostensibly owing to an administrative glitch, although some media reports suggest that the airline had referred to Taiwan as a country in its paperwork, prompting this response). Chinese authorities also [postponed](#) a major tourism event in New Zealand that had been planned since 2017. Coupled with the countries' inability to finalise a planned visit to China by New Zealand's prime minister, Jacinda Arden, there are growing concerns that these developments are a sign of fraying political ties.

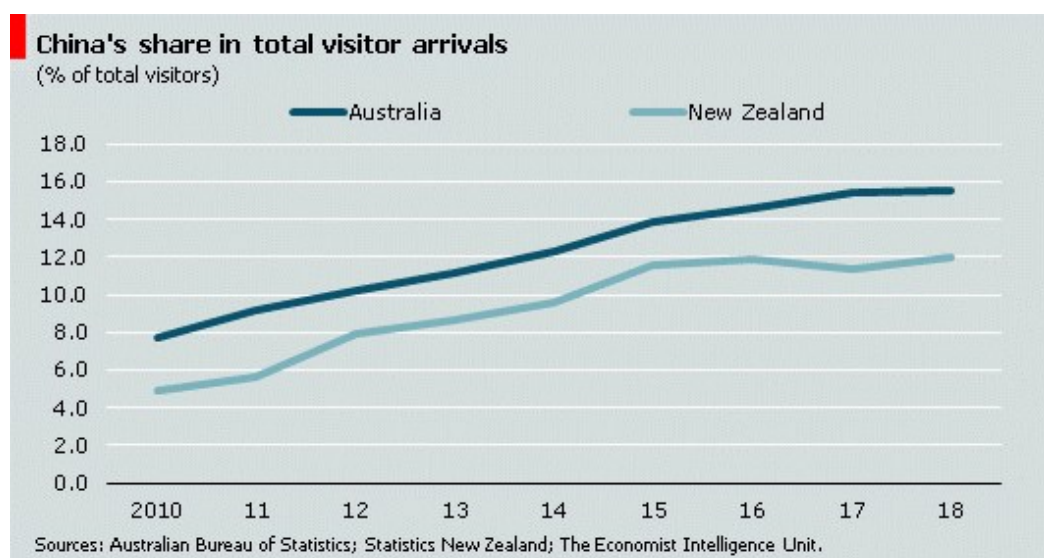
All is not well

Although both [Australia](#) and [New Zealand](#) had already toughened controls on inbound Chinese foreign investment in recent years, it is likely that tensions over cybersecurity, hacking and [political interference](#) have been the driving factors behind the recent disputes. It is possible that China is seeking to use its economic leverage to retaliate against both countries' decisions to [ban Huawei](#), a major Chinese telecommunications and networking equipment company, from supplying apparatus for the development of their fifth-generation (5G) networks. Australia came to this decision in August 2018, followed by New Zealand in November, owing partly to US security concerns. The US has put strong pressure on members of the "Five Eyes" group, an intelligence-sharing alliance between the US, Australia, New Zealand, Canada, the US and the UK, to follow in its footsteps by banning Huawei from the roll-out of 5G network systems. (Canada and the UK are still considering their options on this front).

If China has opted to weaponise trade as a tool for retaliation, this would have the potential to hurt all sides involved. China was the largest destination for Australian exports in 2018, accounting for a third of total merchandise exports, as well as 21% of Australia's total coal exports over the first three quarters of the year (according to the latest data from Australian Bureau of Statistics).



China is similarly New Zealand's largest trade partner, accounting for 24% of that country's total merchandise export shipments in 2018, primarily in the agriculture and commodities sectors. Both nations are also major Chinese tourism destinations, with Chinese visitors accounting for 15% and 12% of total tourism arrivals in Australia and New Zealand respectively in 2018. Spending on education by Chinese citizens is a further important driver of service exports in both countries, with nearly 130,000 and 35,000 Chinese students opting to study in Australia and New Zealand respectively in 2018.



Walking on hot coals

For its part, Australia is China's largest source of imported coal, iron ore and liquefied natural gas (LNG), accounting respectively for 60.3%, 53.5% and 23.1% of those shipments (by US dollar value) in 2018, according to trade data from the UN. However, China is less reliant on imported Australian shipments than Australia is on China's vast market. In volume terms, China's total coal imports accounted for 7.9% of total domestic consumption in 2018, according to Chinese government statistics.

The measures that China has adopted against New Zealand so far are less threatening than the economically disruptive restrictions on Australian coal. New Zealand's exports are concentrated in the dairy, wood and meat industries, but Chinese officials have not imposed significant restrictions or bans on these imports. This may be due in part to New Zealand's slight about-face in regards to Huawei. In late February—shortly after China had cancelled the tourism event—Ms Ardern announced that the country had not yet made a final decision on Huawei's participation in its 5G roll-out, and that any ultimate decision would be conducted independently of any external influence—including that of the US. This has been in contrast to Australia, which

has remained firm in its opposition to Huawei's involvement.

Political tensions set to continue

The diplomatic relationships between Australia and New Zealand on one side and China on the other will remain vulnerable to a number of risks beyond just the issue of Huawei's involvement. Both governments are [pushing back](#) over reported growth in Chinese influence in the domestic politics of both countries. These concerns reached new highs in mid-February following media reports that a "sophisticated state actor" had conducted cyberintrusions against Australia's major political parties. While other countries could technically fit this description, China remains the most likely suspect. It is hard to imagine why any of the other states with the capacity and will to conduct such attacks would target Australia, and the Australian government has previously accused China over similar incidents in 2011, 2013 and 2015. Senior members of the New Zealand government also confirmed in March that they were looking at legislation to curb foreign interference in local politics.

In addition, both Australia and New Zealand have grown increasingly cautious of increased Chinese investment and economic activity in the wider South Pacific region, including China's [Belt and Road Initiative](#), to which Fiji, Micronesia and Samoa signed up in late 2018. As part of efforts to check Chinese presence in the region, Australia has attempted to outbid Huawei in developing digital infrastructure in [Papua New Guinea](#) and the [Solomon Islands](#). In early March New Zealand's foreign minister, Winston Peters, also made his [first official visit](#) to Fiji, in a bid to deepen bilateral ties.

The growing political strains in Australia's and New Zealand's relationship with China will clearly have economic repercussions. In the next piece in this series, we will analyse how these are likely to play out and what the implications for businesses in all three countries will be.

Coalition clings to power in New South Wales

March 26, 2019

The Liberal-National coalition is set to be elected for a third term in the state of New South Wales (NSW), following the state election held on March 23rd. Counting is still under way, but the coalition has 48 confirmed seats in the 93-member Legislative Assembly (the lower house of the state parliament). The victory will hearten the Liberal-National coalition federal government, although relief will be tempered by concern at the rise in support for independents and minor parties, largely at the expense of the National Party. We maintain our view that Labor will form the next federal government after the 2019 election, likely to be held in May.

Preliminary results show that the coalition has secured 48 of the 93 seats in the lower chamber of the NSW parliament, giving it a two-seat majority. The opposition Labor Party has 36 confirmed seats, and the Green Party, independents and the Shooters, Fishers and Farmers Party (SFF) each have three. Four seats are confirmed to have changed hands; the Liberal Party lost one seat to Labor, and the rural-based National Party, the junior partner in the coalition, lost two to SFF and one to Labor.

The strong swing against the Nationals in some key rural seats is likely to fuel tensions between the coalition partners at both state and federal level. In the wake of the NSW election, Barnaby Joyce, the outspoken former leader of the federal National Party, warned that his party needed to better differentiate itself from the Liberals if it was to avoid a similar fate at the federal election. Results for the Legislative Council (the upper house of the state parliament) will not be confirmed for some time. Early indications are that the coalition will win most of the 21 seats (out of 42) that were contested in this election. However, it will still fail to garner a majority in the upper house.

Campaign errors

The election was expected to be tight, with opinion polls showing the coalition and Labor neck and neck. There were fears in the NSW Liberal Party that a backlash from Liberal voters still frustrated by [leadership turmoil](#) in the federal party, which culminated in the ousting of the prime minister, Malcolm Turnbull, in August 2018, would hurt the Liberal vote in the state. Michael Daley, who became the Labor leader in NSW in November 2018 (after his predecessor, Luke Foley, resigned over sexual harassment allegations), appeared to be making inroads on the coalition.

However, Mr Daley's campaign unravelled in the final week, after it was revealed that he had told people at a Labor function in September 2018 that jobs in Sydney were being taken by people from Asia with PhDs. The comments would not have gone down well in constituencies with high ethnic Chinese populations, and were described as offensive by Gladys Berejiklian, the Liberal premier of NSW. Mr Daley subsequently apologised. However, he suffered another setback during the final televised election debate when he was unable to recall how much extra money Labor had pledged to improve education—a key tenet of the party's campaign. Mr Daley had initially stated that he intended to stay on as Labor leader in NSW. However, he announced on March 26th that he would not be contesting the ballot for the party leadership in the state.

Big infrastructure plans

Spending plans unveiled by Labor and the coalition during the election campaign were spread across education, health and infrastructure. The coalition has pledged major upgrades to urban hospitals, while Labor focused on providing more money for regional hospitals. Ms Berejiklian plans a big expansion of transport infrastructure in and around Sydney, to address the strains caused by strong population growth in recent years. Initiatives include A\$6.4bn (US\$4.7bn) over the next four years for Sydney Metro West, a new rail line to connect Parramatta in the city's west with the central business district, construction of which is due to start in 2020. The coalition also pledged A\$14bn in initial funding to build the proposed Western Harbour Tunnel-Beaches Link, a six-lane motorway aimed at reducing traffic congestion in greater Sydney. Labor promised to fast-track Metro West, using funds saved by scrapping the Western Harbour Tunnel-Beaches Link project. Mr Daley also promised to stop the demolition and rebuilding of the 30-year old Sydney Football Stadium, on the grounds that the facility's compliance issues could be addressed through refurbishment.

Focus shifts to federal election

The Liberal-National coalition in government at the federal level will be heartened by the re-election of its state counterpart in NSW, given the (mostly self-inflicted) setbacks it has endured since Scott Morrison replaced Mr Turnbull as prime minister in August 2018. In October 2018 the government lost its majority in the House of Representatives (the lower house of the federal parliament), and in recent weeks several senior figures in the Liberal Party have decided to stand down at the federal election likely to be held in May, including Julie Bishop, the former foreign minister under Mr Turnbull. However, relief will be tempered by concern at the gains made by independents and minor parties at the NSW state election, which were largely at the expense of the National Party. Moreover, divisions persist between the moderate and conservative wings of the Liberal Party, as well as between the coalition partners, on key issues such as climate change and energy policy. This is in stark contrast to the unified front currently presented by Labor.

The coalition will be seeking to build momentum with its pre-election federal budget, due to be handed down on April 2nd. We expect the budget to feature cuts to personal income tax and some big spending plans. However, Labor remains ahead in opinion polls. According to an opinion survey published by Newspoll on March 10th, Labor had an eight-point lead over the coalition on a two-party preferred basis. Mr Morrison continues to enjoy a higher rating as the preferred prime minister than the Labor leader, Bill Shorten, with the backing of 43% of respondents, compared with 36% for Mr Shorten in the latest survey. However, this lead is narrower than that enjoyed by Mr Turnbull in the Newspoll survey before he was toppled. Despite the coalition's strong record on economic management, we maintain our long-held view that Labor will form the next federal government after the election.

Economy

Forecast updates

Economic growth decelerates in Q4

March 7, 2019: Economic growth

Event

According to the Australian Bureau of Statistics, real GDP growth slowed to 2.3% year on year in the fourth quarter of 2018 in seasonally adjusted terms, from 2.7% in the previous quarter. In 2018 overall, the economy grew by 2.8%, compared with 2.4% in 2017.

Analysis

The deceleration in economic expansion in October-December 2018 was driven by a steep slowdown in private consumption growth, which decelerated to 2%, from 2.6% in the third quarter of 2018. High levels of household debt and ongoing cooling in the property market appear to have weighed on consumer spending. However, weakening household spending growth was balanced in part by an even stronger year-on-year expansion of government expenditure in the fourth quarter, ahead of the federal elections, which are likely to be held in May.

Gross fixed capital formation eased to 1.2% year on year in October-December, from 1.8% in the previous quarter. Within this component, private investment growth was almost flat on a year-on-year basis, reflecting subdued sentiment among the business community. In particular, growth in housing construction expenditure weakened in the latest quarter and we expect this trend to persist amid the weak outlook for the [housing market](#).

The latest GDP data reinforce our view that economic growth will moderate in 2019, as the softening in the housing market continues to serve as a drag on private consumption. Weaker external demand will only add to this trend.

Impact on the forecast

The latest data are weaker than we anticipated, and so we will revise down our real GDP growth forecast for 2019, from 2.6% at present. We continue to believe that real GDP growth will be slower in 2019, compared with 2018, owing to weaker domestic demand.

Current-account deficit narrows in Q4

March 7, 2019: External sector

Event

The seasonally adjusted current-account deficit narrowed to A\$7.2bn (US\$5.4bn) in October-December 2018, from A\$10.8bn in the previous quarter, according to the Australian Bureau of Statistics. In 2018 overall, the current-account shortfall was A\$40.7bn, equivalent to 2.2% of GDP, compared with 2.6% of GDP in 2017.

Analysis

The improvement in the current-account deficit during the fourth quarter was mainly driven by an increase in the merchandise trade surplus, which hit a record A\$9.6bn. This meant that the trade surplus in full-year 2018, at A\$26.7bn, was significantly higher than we had anticipated (A\$23.8bn), and that the current-account deficit was consequently smaller than our expectation (A\$45.9bn).

Goods export earnings in the fourth quarter rose by 4% compared with the previous three months, as higher prices more than compensated for a modest fall in volumes. The latter partly reflected lower shipments of rural exports, including cereals, because of drought. Earnings from exports of mineral fuels rose strongly, supported by higher volumes and prices, while exports of metal ores and minerals (mainly iron ore) were up by 7%, as higher prices more than offset a fall in volumes. Meanwhile, the import bill increased by 1.1% quarter-on-quarter, although the volume of imports was flat, which is consistent with slowing domestic demand.

Also contributing to the improvement in the current-account deficit was the primary income account, which recorded a shortfall of A\$15.3bn in October-December—A\$848m (US\$633m) less than in the previous three months. The income deficit had been pushed up in recent quarters by sustained outflows of mining profits to foreign shareholders. Outflows on the primary income account will continue to dwarf inflows of income from overseas investments held by Australians, resulting in a persistent hefty deficit on the primary income account.

Impact on the forecast

Despite the strong fourth-quarter performance, we maintain our forecast that the merchandise trade surplus will narrow to US\$13bn in 2019, owing to generally softer prices for Australian industrial commodity exports and weaker external demand conditions. However, we expect the current-account deficit to remain around 2.2% of GDP in 2019.

Retail sales nearly stall in January

March 11, 2019: Economic growth

Event

According to the Australian Bureau of Statistics, retail sales (seasonally adjusted) rose by 0.1% month on month in value terms in January.

Analysis

Retail sales had a soft start to the year, with the negligible monthly increase recorded in January following a fall of 0.4% in December 2018. Spending on food and "other retailing" (including newspapers and books, pharmaceuticals, cosmetics and toiletries, and other recreational goods) recorded monthly gains, which were largely offset by a steep 2.1% decline in department store sales and a modest fall in spending on clothing and footwear. Year-on-year growth in the value of retail sales has slowed gradually in recent months, from 3.5% in October to 2.7% in January.

Subdued retail sales growth in January was consistent with a fall in consumer confidence readings for the month. The seasonally adjusted Westpac-Melbourne Institute's index of consumer sentiment dipped to 99.6 in January, from 104.4 in December. This was the first time the index of consumer confidence fell below the 100 mark (indicating pessimism) since November 2017.

However, it made a partial recovery, to 103.8, in February, coinciding with a shift in the position of Reserve Bank of Australia (RBA, the central bank) towards keeping the policy rate on hold at its current record low for longer.

We expect that consumer spending growth will moderate overall this year, owing to a diminishing wealth effect as house prices continue to soften and employment growth slows. High levels of household debt and subdued wage growth will also weigh on private consumption.

Impact on the forecast

Our forecast that private consumption growth will decelerate to 2.4% in 2019, from 2.6% in 2018, remains appropriate.

Fall in house prices accelerates in Q4

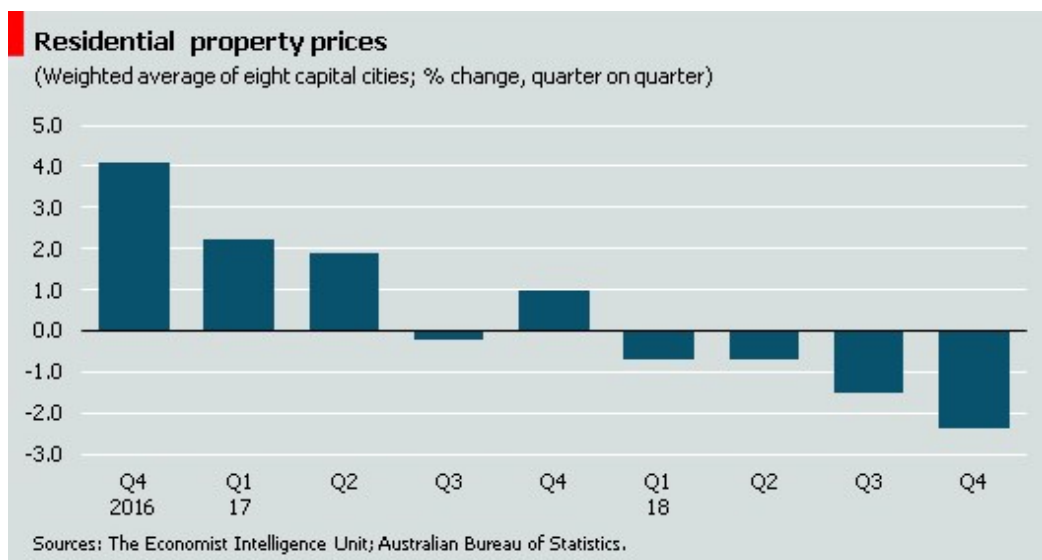
March 21, 2019: Economic growth

Event

According to the Australian Bureau of Statistics, average residential property prices in the capital cities of the six states and two territories declined by 5.1% year on year in October-December 2018, compared with a fall of 1.9% in the previous quarter.

Analysis

The downturn has been led by falling property prices in Australia's two largest cities, Sydney and Melbourne. Residential property prices in Sydney, which peaked in the second quarter of 2017, declined by 7.8% year on year in the final quarter of 2018. Residential property prices in Melbourne, which began to soften in the first quarter of 2018, fell by 6.4% in the fourth quarter. Moreover, the downswing has spread across most of the country. Except for Hobart (in Tasmania) and Adelaide (in South Australia)—which recorded an increase in October-December—house prices declined in all other capital cities, compared with the previous quarter. More recent data from CoreLogic, a property information provider, show that national house prices have fallen by an average of 6% year on year in the first two months of 2019.



Several factors are at play in the ongoing downturn in the housing market, including a significant tightening of credit conditions, a slump in investor activity (particularly in Sydney and Melbourne), affordability constraints and high levels of household debt. Moreover, uncertainty about possible government policy changes affecting the housing market following the general election (likely to be held in May 2019) has also contributed to the cooling. Credit conditions will remain tight amid increased bank caution over lending following the recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

Impact on the forecast

The latest data are consistent with our expectation that residential property prices will continue to soften in 2019, acting as a drag on private consumption growth and the overall economy.

Therefore, our forecast that private consumption growth will decelerate in 2019, compared with 2018, remains appropriate.

RBA minutes highlight policy uncertainty

March 22, 2019: Monetary policy outlook

Event

On March 19th the Reserve Bank of Australia (RBA, the central bank) published the minutes of its latest monetary policy meeting, held on March 5th, during which the main policy rate, the cash rate, was left unchanged at a record low of 1.5% for the 28th meeting in a row.

Analysis

The board noted that, despite slowing growth in output, labour markets in the major advanced economies had remained tight, although this had not translated into a significant pick-up in inflation. The members also discussed the fact that Australia was experiencing a dichotomy between weaker output growth and continued healthy job creation.

National accounts data released by the Australian Bureau of Statistics (ABS) on March 6th showed that real GDP growth in the fourth quarter of 2018 was much weaker than the RBA had anticipated, at [2.3% year on year](#). However, the unemployment rate has continued to ease, to 4.9% in February 2019, the lowest for almost eight years, according to seasonally adjusted data from the ABS. Total employment growth remained in positive territory (on a month-on-month basis) for the seventh consecutive month.

The board acknowledged that the transmission of tighter labour market conditions to inflationary pressures was taking longer than envisaged, but the RBA remains convinced that labour market slack will continue to be absorbed, resulting in a gradual pick-up in wage growth and inflation. In addition, the board maintained that the housing market, which has been undergoing sustained cooling in the past few months, will continue to be a key consideration for the RBA in its decisions on monetary policy.

Impact on the forecast

On balance, we continue to expect the central bank to keep rates unchanged in 2019, although a significant weakening in the labour market and/or a sharper than anticipated downturn in house prices could see the RBA implement a cut of 25 basis points later this year.

Annual migration cap to be cut

March 26, 2019: Economic growth

Event

The annual permanent migration cap will be reduced from 190,000 to 160,000 for the next four years under a new population plan, unveiled by the governing Liberal-National coalition on March 20th.

Analysis

The government argues that the reduction is necessary to alleviate pressure on public infrastructure in major urban areas such as Melbourne, Sydney and south-east Queensland. Expansion of infrastructure and services has failed to keep pace with strong [immigration-led population](#) growth in these areas, resulting in worsening congestion on roads and public transport and added strain on the public health and education systems. Strong immigration has also contributed to subdued wage growth and rapid house-price inflation in the capital cities of the eastern states, although residential property prices have [cooled](#) in the past 12-18 months.

Immigration-led population growth has also been an important driver of domestic demand in recent years, and a sharp reduction in immigration levels risks causing a marked economic slowdown and weaker growth in tax revenue. However, the new annual migration cap of 160,000 is only slightly smaller than the actual intake of 162,417 in fiscal year 2017/18 (July-June). This was the lowest in a decade, and reflected a tightening of vetting procedures.

We therefore expect the overall economic and fiscal impact of the new cap to be relatively modest. To ease business concerns that the change will lead to a shortage of skilled labour, the number of employer-sponsored skilled visa places will be increased from 35,528 in 2017/18 to 39,000 in 2019/20. The leader of the main opposition Labor Party, Bill Shorten, has indicated broad agreement with the lower overall annual cap.

Impact on the forecast

A gradual slowdown in population growth owing to reduced immigration is already factored into our economic growth forecast for 2019-23. Therefore, our projection that real GDP will grow by an average of 2.4% a year remains appropriate.

Central bank leaves main policy rate unchanged

April 3, 2019: Monetary policy outlook

Event

At its latest monetary policy meeting on April 2nd the Reserve Bank of Australia (RBA, the central bank) left its main policy rate, the cash rate, unchanged at 1.5%.

Analysis

The RBA's decision was in line with our expectations. The bank last adjusted the rate in August 2016, when it cut it by 25 basis points. In his accompanying statement, the governor of the RBA, Philip Lowe, maintained that although global economic growth had slowed in recent months, the outlook for the global economy remains fairly decent.

On the domestic front, Mr Lowe assessed that the labour market remains strong, with the unemployment rate declining and employment rising; this has resulted in a modest pick-up in [wage growth](#). However, he acknowledged the contrasting image of the economy presented by the weak [real GDP](#) data for the final quarter of 2018. He attributed the slowdown to subdued household spending stemming from the ongoing cooling in the [housing market](#) and lower farm output as a result of a [drought](#) in several parts of the country.

The Economist Intelligence Unit believes that with [consumer price inflation](#) undershooting the RBA's target range of 2-3%, economic growth starting to lose momentum in the second half of 2018 and the housing market experiencing a downturn, the RBA will maintain its current accommodative monetary policy stance in 2019-20. There is a growing risk that the central bank could ease monetary policy further if economic growth decelerates more sharply than we presently anticipate. However, this is not part of our central forecast.

Impact on the forecast

We continue to expect the central bank to keep the policy rate unchanged throughout 2019 and into 2020. No change to our forecast is required.

Government unveils tax relief measures

April 3, 2019: Fiscal policy outlook

Event

On April 2nd the treasurer, Josh Frydenberg, presented the Liberal-National coalition government's budget statement for fiscal year 2019/20 (July-June) in parliament.

Analysis

The budget is not expected to be enacted in its entirety, given the imminent announcement of a general election, which could be held as early as mid-May. As anticipated, the coalition's last budget before the polls contained a number of populist measures aimed at boosting the government's approval ratings. Some of the measures include tax relief of up to A\$1,080 (US\$790) for single-income families or up to A\$2,160 for dual-income families, starting from July 1st. The corporate tax rate will also be lowered from 27.5% to 25% by 2021/22 for businesses with an annual turnover of less than A\$50m (US\$38m). In addition, the government plans to cut the main rate of income tax from 32.5% to 30% from 2024/25.

Other key announcements include planned investment of A\$100bn (US\$76bn) in transport infrastructure projects over the next ten years. The government aims to upgrade road and rail infrastructure, while also undertaking congestion-easing projects in the country's main urban centres.

Despite an increase in spending from the various measures, the government expects the budget to record a surplus of A\$7.1bn (equivalent to 0.4% of GDP) in 2019/20—a feat that would burnish its fiscal management credentials. The Treasury's projections are based partly on the stronger than anticipated [fiscal position in 2018/19](#) and partly on its [economic growth](#) forecasts, which are much more optimistic than our own. Hence, although we expect the government's fiscal balance to improve in 2019-20, compared with 2018, our forecasts are more conservative than the Treasury's, and we maintain our view that the budget will remain in the red in 2019. The contents of the budget are unlikely to bolster the government's approval ratings ahead of the general election. We maintain our view that the opposition Labor Party will form the next government.

Impact on the forecast

In view of the government's latest estimates of the fiscal balance in 2018/19, we will adjust our forecasts for 2019 to reflect a stronger fiscal position. The revisions are likely to result in a slight narrowing in the budget deficit to the equivalent of 0.1% of GDP, from our current forecast of 0.2%. (Our fiscal forecasts are based on calendar years and are therefore not strictly comparable with the Treasury's projections.)

Retail sales record healthy growth in February

April 5, 2019: Economic growth

Event

According to the Australian Bureau of Statistics, retail sales (seasonally adjusted) rose by 3.2% year on year in value terms in February, compared with an increase of 2.8% in January.

Analysis

Retail sales growth accelerated in February, with higher sales recorded across five of the six retail categories compared with the year-earlier period. The strongest increases were posted by food retailing, at 4.9%, and by "other retailing" (a category that includes newspapers and books, pharmaceuticals, cosmetics and toiletries and other recreational goods), at 3.7%. Spending on clothing and footwear recorded a robust annual increase of 3.4%.

On a month-on-month basis retail sales increased by 0.8%, which was the highest monthly gain in 15 months. Given the weak performance in previous months, we believe that the rate of growth recorded in February is unsustainable and that the rate of increase will moderate in the months ahead.

Measures of consumer confidence—a leading indicator—point to a slowdown in spending. The Westpac-Melbourne Institute's index of consumer sentiment fell to 98.8 in March, from 103.8 in February. (A level below 100 indicates pessimism.) The weak consumer sentiment could be a harbinger of softer retail sales activity in the months ahead. We continue to believe that high levels of household debt, tepid wage growth and a diminishing wealth effect due to a [softer housing market](#) will conspire to dampen consumer spending in 2019.

Impact on the forecast

We maintain our view that private consumption growth will slow in 2019 and will, as a consequence, depress overall GDP growth in that year.

This page intentionally blank



Updated February 26, 2019

Australia: Foreign Policy

Australia's key strategic relationship is with the United States while its largest trade partner is China. This has for many years created a dilemma for Australia that is similar to that which many states in Asia face. While Australian support for the U.S. alliance has traditionally been and remains high, bilateral relations with Australia have experienced difficulties under President Trump. Australia's ties with China have become strained as Australia has sought to limit China's influence in Australia and counter its rising influence in the Southwest Pacific.

Trump and Australia

While a candidate, President Trump made statements that called into question his commitment to long-standing American alliances. In July 2016, Candidate Trump stated "If we cannot be properly reimbursed for the tremendous cost of our military protecting other countries ... then yes, I would be absolutely prepared to tell those countries, 'congratulations, you will be defending yourself.'" This position departed from past U.S. policy and was regarded in Australia as a cause for concern. Trump's decision to withdraw from the Trans-Pacific Partnership (TPP) agreement also exacerbated concerns in Australia over the U.S. commitment to allies and friends in the Asia Pacific region.

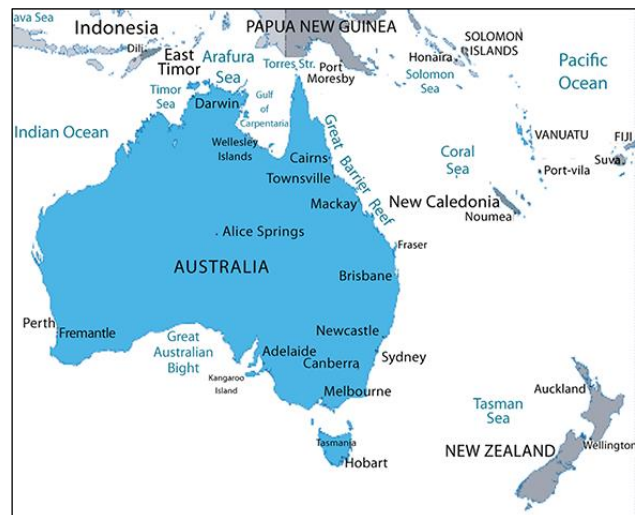
Trump described his first call with former Prime Minister Turnbull, which was one of his first as President, as "the worst call by far" according to media reports. The president reportedly stated his displeasure over a deal concluded by former President Obama and Turnbull under which the United States would receive 1,250 refugees from Australian offshore detention sites. Trump described this deal as "the worst deal ever." President Trump's actions were viewed by some in the press as "injecting new uncertainty in the US-Australia relationship" and reflecting the "transactional view he takes of relationships, even when it comes to diplomatic ties with long-standing allies." The call, when taken in context with earlier statements, Trump's withdrawal from the TPP, and other factors, led some observers in Australia to question Australia's extremely close relationship with the United States.

Subsequent actions, such as the visit to Australia by Vice President Mike Pence and a positive meeting between Trump and Turnbull aboard the retired aircraft carrier *USS Intrepid* for the 75th anniversary of the Battle of the Coral Sea, sought to put the relationship back on track. Nevertheless, in 2018, there was heightened concern in Australia about its relationship with the United States under President Trump's leadership. Polling data indicated that 55% of Australians polled trust the United States to act responsibly in the world, down 6 points from 2017 and down 28 points from 2011, while only 30% of Australians have confidence in Trump's foreign policy. Despite this,

Australian support for the alliance remains strong with 76% saying the U.S. alliance is important to Australia's security.

The Australia-U.S. Strategic Relationship

Australia has been a treaty ally since the signing of the Australia-New Zealand-United States (ANZUS) Treaty in 1951. Australia made significant military contributions to the allied cause in the First and Second World Wars, and the conflicts in Korea, Vietnam, Iraq, and Afghanistan. The Australia-U.S. alliance has endured and grown through several geopolitical shifts since the end of WWII. Australia is also a very close intelligence partner of the United States through the Five Eyes intelligence community, which also includes Canada, New Zealand, and the United Kingdom. Australia has viewed the United States as Australia's most important strategic partner and a key source of stability in the region. The Australia-U.S. Free Trade Agreement entered into force in 2005.



Australia and the United States have had a very strong alliance relationship based in part on shared values and interests and bilateral security ties have remained robust. Increasing numbers of U.S. marines have rotated through the Northern Territory while Canberra and Washington have explored expanded air and naval cooperation and continue large scale military exercises such as *Talisman Saber* and *RIMPAC*. In recent years, the two nations have also strengthened information sharing and interoperability in cyberspace.

Positioned at the intersection of the Pacific and Indian Oceans, Australia's geography fits well with the Trump Administration's Free and Open Indo-Pacific strategy. Australia also continues to work with the United States to address the threat of Islamist militancy. Australia invoked the ANZUS treaty to offer assistance to the United States after the attacks of September 11, 2001, and was one of the first countries to commit troops to U.S. military operations

in Afghanistan and Iraq. Australia continues to have troops deployed in Iraq and Afghanistan.

The Australian government's February 2016 Defence White Paper asserted that Australia seeks to "broaden and deepen our alliance with the United States, including by supporting its critical role in underpinning security in our region." The White Paper called for 12 new submarines and other vessels to be added to the fleet while increasing defense spending to 2% of GDP by 2021. It is projected that Australia will have 72 F-35 Joint Strike Fighter aircraft in service by 2020. Approximately 60% of Australian defense acquisition spending has been on equipment from the United States. The Australia-United States Defense Trade Cooperation Treaty assists Australia's stated goal of attaining high levels of interoperability with United States military forces. While the White Paper assessed major conflict between the United States and China as unlikely, it identified "the East China and South China Seas, the airspace above those seas, and in the rules that govern international behavior, particularly in the cyber and space domains" as potential areas of friction.

Australia's Relations with China

The Australian economy has benefited from strong exports to China. China became Australia's number one export destination in 2009 and in 2017, 33.2% of Australian exports went to China. The China-Australia Free Trade Agreement came into effect in December 2015. As China transitions from export-oriented manufacturing to a more consumption- and service-driven economy, demand for Australian products may increasingly include not only raw materials, such as iron ore, but also agricultural products, food, wine, tourism, education and business services.

A number of issues have caused tensions in Australia's relationship with China. Among these are Chinese political donations in Australia, the sale or lease of farmland and energy and transportation infrastructure to Chinese business interests, and differences over the South China Sea maritime territorial disputes. Chinese donations to Australian political parties have raised concerns over China's influence in Australia. Senator Sam Dastyari of the Labor Party resigned after media scrutiny of his acceptance of Chinese funds. Australian sources also suspect that China may be behind a February 2019 cyberattack of the Australian Parliament and Australia's major political parties. The Northern Territory granted the Chinese company Landbridge Group a 99-year lease for port facilities in Darwin. The port, which was attacked by the Japanese in 1942, is strategically located in the north of Australia and former President Obama reportedly registered his displeasure over the lease. The Australian government blocked the sale of Kidman & Company agricultural enterprises in 2015 and national security concerns were referenced when Australia prevented the A\$10 billion sale of Ausgrid, the New South Wales electricity distributor, to China in 2016. Australians are also concerned that Chinese buyers are putting upward pressure on real estate prices. Australia has expressed concern about expansive Chinese sovereignty claims in the South China Sea, and former Foreign Minister Julie Bishop urged China to abide by the ruling by an arbitral tribunal under the United Nation

Convention on the Law of the Sea (UNCLOS), which ruled largely in favor of the Philippines and against China's behavior and claims in July 2016.

Australia is undertaking a number of measures to counter China's growing influence in Australia. In June 2018, the Australian parliament passed new espionage, foreign interference, and foreign influence laws. In August 2018, Australia blocked Huawei from being involved in Australia's 5G mobile network. In February 2019, Beijing's "former top lobbyist in Australia" Huang Xiangmo had his Australian permanent residency cancelled.

Australia and the South Pacific

Canberra also is taking action to counter China's expanding influence in the South Pacific through its "Pacific Step Up" Policy. Prime Minister Morrison's January 2019 visit to Vanuatu and Fiji; increasing aid and investment from Australia to Pacific island states; and Australia, Papua New Guinea, and the United States' joint development of the Lombrum naval facility on Manus Island demonstrate Australia's growing commitment. Prime Minister Morrison reportedly discussed redevelopment of the Blackrock Peacekeeping and Humanitarian Assistance and Disaster Relief Camp in Fiji and further enhancement of bilateral security cooperation in Vanuatu. The Pacific Islands receive 31% of Australia's foreign assistance budget. Prime Minister Morrison has announced the creation of an Australian Infrastructure Financing Facility for the Pacific as well as additional funding for Australia's export financing agency. Australia, New Zealand, and the United States also held an inaugural Pacific Security Cooperation Dialogue in June 2018 "to discuss a wide range of security issues and identify areas to strengthen cooperation with Pacific Island countries on common regional challenges." In responding to reports of China's reported efforts to establish a presence in Vanuatu, Australian Prime Minister Malcolm Turnbull stated "We would view with great concern the establishment of any foreign military bases in those Pacific island countries." Chinese aid to Pacific island states, as tracked by the Australian Lowy Institute Mapping Foreign Assistance in the Pacific project, increased significantly from 2006 to 2016, with cumulative aid commitments totaling \$1.78 billion over that period.

Australia's Foreign Policy Orientation

Australia's political leadership has generally believed it does not have to choose between the United States and China. This view stems from a longstanding debate in Australia that can be traced to former Labor Prime Minister Paul Keating's [1991-1996] effort to deepen Australia's engagement with Asia. Former Liberal Prime Minister John Howard [1996-2007] subsequently articulated a position that Australia does not have to choose between its history and geography. This conventional wisdom, that Australia does not have to choose, is increasingly being challenged. China appears to be displeased with recent actions by Australia and may be seeking to influence Australia to adopt policies more in line with China's and to create greater distance between Australia and the United States.

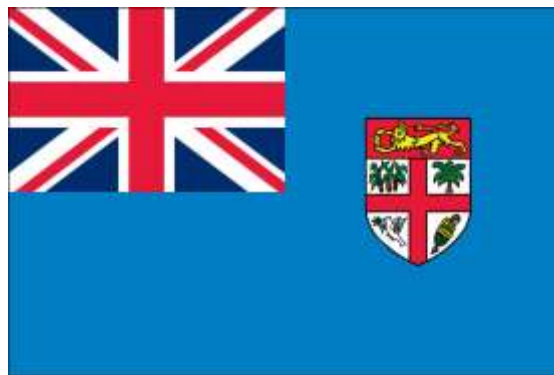
Bruce Vaughn, Specialist in Asian Affairs

IF10491

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.

This page intentionally blank



Singapore

Subject	Page
Chargé d’Affaires Stephanie Syptak-Ramnath.....	135
US Relations with Singapore	137
CultureGram 2019.....	141
BBC Country Profile	149
Economist Intelligence Unit Country Report.....	153

This page intentionally blank



U.S. Embassy in Singapore

Chargé d’Affaires, ad interim

Stephanie Syptak-Ramnath, the Chargé d’Affaires, a.i., at the U.S. Embassy in Singapore, oversees 19 U.S. government agencies in the advancement of our wide-ranging bilateral security, economic, and people-to-people cooperation. Her most recent assignment was as Minister Counselor for Public Diplomacy at the U.S. Embassy in Mexico City, where she managed Public Diplomacy staff across 9 Consulates in implementing U.S. government public outreach efforts that covered the work of 29 USG agencies in Mexico.

Stephanie previously served as Deputy Chief of Mission in Bamako, Mali where she led a team of 300 interagency colleagues in shaping and implementing the U.S. government response to the political, security, and humanitarian crises in the country. A specialist in the field of Public Diplomacy, Stephanie’s other assignments include Senior Deputy Director in the Office of Public Diplomacy for the Bureau of European and Eurasian Affairs; Career Development Officer for mid-level Public Diplomacy officers, Public Affairs Officer in Mali; Assistant Public Affairs Officer in Tunisia; Staff Assistant and Political Officer at the U.S. Mission to the United Nations; and Vice-Consul in Monterrey, Mexico.

Stephanie was a member of the International Women’s Forum Leadership Foundation 2011-2012 Fellows Class, a group of 35 rising women leaders from 14 different nations. As part of the program, she completed executive programs at both Harvard Business School and INSEAD’s Singapore campus.

Prior to joining the Foreign Service, Stephanie was an officer in the U.S. Navy. A graduate of Georgetown University’s School of Foreign Service, Stephanie is married and has two daughters. She speaks French and Spanish.

In November 2015, Stephanie was awarded the Department of State’s Edward R. Murrow Award for Excellence in Public Diplomacy.

This is the official website of the U.S. Embassy in Singapore. External links to other Internet sites should not be construed as an endorsement of the views or privacy policies contained therein.

This page intentionally blank

U.S. Department of State

Diplomacy in Action

U.S. Relations With Singapore

BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS

Fact Sheet

September 13, 2017

More information about Singapore is available on the [Singapore Country Page](http://www.state.gov/p/eap/ci/sn/) (<http://www.state.gov/p/eap/ci/sn/>) and from other Department of State publications and other sources listed at the end of this fact sheet.

U.S.-SINGAPORE RELATIONS

For more than half a century, the United States and Singapore have forged an expansive and enduring relationship based on mutual economic interests, robust security and defense cooperation, and enduring people-to-people ties. Our two countries have worked as close partners in support of a rules-based economic and security order in the Asia-Pacific and have consistently partnered to address global threats and challenges to include terrorism, transnational crime, and the proliferation of weapons of mass destruction. Singapore and the United States are closely linked. More than 30,000 Americans live in Singapore. The Free Trade Agreement between the United States and Singapore supports 215,000 American jobs and the United States enjoys a \$20 billion trade surplus in goods and services annually. There are 4,200 American businesses in Singapore and American businesses invest over \$180 billion dollars in Singapore.

The United States and Singapore work together for greater impact in the region and across the globe. The two countries hold an annual Strategic Partnership Dialogue to strengthen bilateral cooperation and to discuss ways to expand collaboration in new areas. One mechanism that further strengthens our cooperation for the benefit of the Asia-Pacific region is the Third Country Training Program (TCTP). Aimed at providing technical assistance and training to ASEAN member states, TCTP focuses on connectivity, sustainable development, and regional resilience. Since the TCTP program was established, Singapore and the United States have jointly organized 30 workshops and trained over 1,000 ASEAN member government officials in the areas of trade, environment, health, urban planning, and disaster management, among others.

U.S. Assistance to Singapore

The EXBS program has been active in Singapore since 2003 and has provided over \$2 million in technical exchanges and assistance. EXBS' goals in Singapore are to encourage active targeting and enforcement of export controls, full compliance with the four multilateral export control regimes, and cooperation on counter-proliferation prosecution and investigation matters. EXBS assistance for Singapore in 2016 totaled \$250,000.

Bilateral Economic Relations

The United States has a bilateral free trade agreement with Singapore, which entered into force in 2004. Since that time, bilateral trade has increased 62%, reaching \$45 billion in goods trade in 2016. The United States is Singapore's largest foreign investor, with U.S. investment stock totaling \$228 billion in 2016. Singapore is a visa waiver program country, which allows its nationals to travel to the United States for certain business or tourism purposes for stays of 90 days or less without obtaining a visa.

Singapore's Membership in International Organizations

Singapore and the United States belong to a number of the same international organizations, including the United Nations, Asia-Pacific Economic Cooperation forum, ASEAN Regional Forum, International Monetary Fund, World Bank, and World Trade Organization.

Bilateral Representation

The position of U.S. Ambassador to Singapore is vacant; other principal embassy officials are listed in the Department's [Key Officers List \(http://www.state.gov/documents/organization/111812.pdf\)](http://www.state.gov/documents/organization/111812.pdf).

Singapore maintains an [embassy \(http://www.mfa.gov.sg/washington/\)](http://www.mfa.gov.sg/washington/) in the United States at 3501 International Place NW, Washington, DC 20008 (tel. 202-537-3100).

More information about Singapore is available from the Department of State and other sources, some of which are listed here:

[Department of State Singapore Country Page \(http://www.state.gov/p/eap/ci/sn/\)](http://www.state.gov/p/eap/ci/sn/)

[Department of State Key Officers List \(http://www.state.gov/documents/organization/111812.pdf\)](http://www.state.gov/documents/organization/111812.pdf)

[CIA World Factbook Singapore Page \(https://www.cia.gov/library/publications/the-world-factbook/geos/sn.html\)](https://www.cia.gov/library/publications/the-world-factbook/geos/sn.html)

[U.S. Embassy \(https://sg.usembassy.gov/\)](https://sg.usembassy.gov/)

[U.S.-Asia Pacific Comprehensive Energy Partnership \(https://www.state.gov/e/enr/c56576.htm\)](https://www.state.gov/e/enr/c56576.htm)

[History of U.S. Relations With Singapore \(http://history.state.gov/countries\)](http://history.state.gov/countries)

[Human Rights Reports \(http://www.state.gov/j/drl/rls/hrrpt/\)](http://www.state.gov/j/drl/rls/hrrpt/)

[International Religious Freedom Reports \(http://www.state.gov/j/drl/irf/rpt/index.htm\)](http://www.state.gov/j/drl/irf/rpt/index.htm)

[Trafficking in Persons Reports \(http://www.state.gov/j/tip/rls/tiprpt/index.htm\)](http://www.state.gov/j/tip/rls/tiprpt/index.htm)

[Narcotics Control Reports \(http://www.state.gov/j/inl/rls/nrcrpt/index.htm\)](http://www.state.gov/j/inl/rls/nrcrpt/index.htm)

[Investment Climate Statements \(http://www.state.gov/e/eb/rls/othr/ics/index.htm\)](http://www.state.gov/e/eb/rls/othr/ics/index.htm)

[Office of the U.S. Trade Representative Countries Page \(http://www.ustr.gov/countries-regions/countries-z\)](http://www.ustr.gov/countries-regions/countries-z)

[U.S. Census Bureau Foreign Trade Statistics \(http://www.census.gov/foreign-trade/balance/index.html\)](http://www.census.gov/foreign-trade/balance/index.html)

Export.gov International Offices Page (http://export.gov/worldwide_us/index.asp)

Library of Congress Country Studies (<http://lcweb2.loc.gov/frd/cs/>)

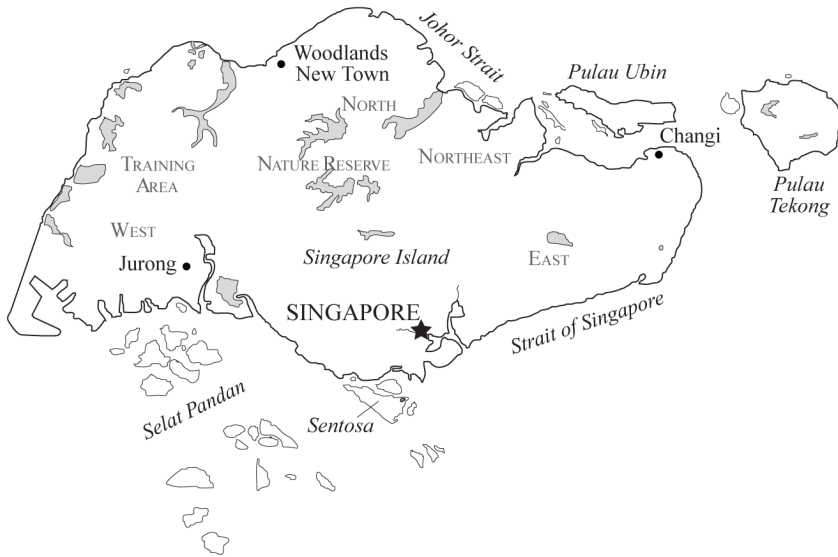
Travel Information (<https://travel.state.gov/content/travel/en.html>)

The Office of Website Management, Bureau of Public Affairs, manages this site as a portal for information from the U.S. State Department.

External links to other Internet sites should not be construed as an endorsement of the views or privacy policies contained therein.

Note: documents in Portable Document Format (PDF) require Adobe Acrobat Reader 5.0 or higher to view, [download Adobe Acrobat Reader](#) (<http://get.adobe.com/reader/>).

This page intentionally blank



Boundary representations are not necessarily authoritative.

BACKGROUND

Land and Climate

Singapore is located off the southern tip of the Malaysian Peninsula, about 85 miles (137 kilometers) north of the equator. The island nation is slightly smaller than the country of Tonga and nearly four times the size of Washington, D.C. The country consists of Singapore Island and more than 60 smaller surrounding islands. The main island makes up about 93 percent of the total area. Part of Singapore occupies land that was reclaimed from the sea through landfill operations. Separating Singapore from Malaysia is the narrow Johor Strait, across which causeway bridges provide road and rail access between Singapore and the peninsula. To the south, across the Strait of Singapore, lie the islands of the Riau Archipelago, which belongs to Indonesia.

Singapore is a city-state; while there are named subsections of the city, there are essentially no rural areas. The terrain is flat. The highest point is on Singapore Island's central plateau, which reaches an elevation of 545 feet (166 meters). Nature reserves on the plateau are home to some 140 species of birds, various small forest animals, and more than 800 plant species. Bukit Timah, the largest reserve, was established in 1883.

Singapore's climate is virtually unchanging. Throughout the year, humidity is high and temperatures range between 75°F (24°C) and 91°F (33°C). Cool breezes at night often provide relief after warm days. Rainfall increases from a low of around 7 inches (17.7 centimeters) in July, the driest month, to nearly 10 inches (25.4 centimeters) per month from

November through January.

History

Early History

Only a tiny fishing village called Temasek existed on the island prior to its establishment as a thriving port of the Srivijayan Empire (based in Sumatra) by the 14th century. According to Malay legend, a visiting Srivijayan prince named the site Singa Pura (Lion City) when he thought he saw a lion (though it was more likely a tiger). Singapore's importance declined after the 14th century as Malacca, on the west coast of the Malaysian Peninsula, became the region's key port.

Colonization and Independence

The British were attracted to Singapore's strategic location and natural deepwater ports in the 19th century. In 1819, Sir Stamford Raffles of the British East India Company established a trading post on the island and obtained it as a possession in 1824. The trade city, created out of a mangrove wetland, soon began to thrive. It attracted thousands of Chinese, Indian, and other Asian migrants.

Japan invaded Singapore during World War II, forcing British forces to retreat in 1942. It held the island until the end of the war in 1945, after which Singapore was returned to Britain and became a British crown colony. Internal self-rule was granted in 1959. The activities of several radical political organizations (most notably the Communists) caused leaders to join the Federation of Malaysia (a union of Singapore, the Federation of Malaya, Sarawak, and Sabah) in 1963. Singapore's inclusion in Malaysia caused domestic political problems, and Singapore declared its independence in 1965.

Elections

Lee Kuan Yew, first named prime minister in 1959, led Singapore for 31 years. He is remembered for stressing practicality over ideology and encouraging strong social values through legislation. Lee resigned in 1990 and was succeeded by Goh Chok Tong. Goh stepped down in August 2004, and Lee Hsien Loong (the eldest son of Lee Kuan Yew) became Singapore's third prime minister.

Prime Minister Lee heads the People's Action Party (PAP), the ruling party since independence. The PAP has been accused of silencing dissent but is credited with shaping Singapore's economy, centered on electronics manufacturing, wholesale and retail trade, and financial services, into one of the most prosperous in Asia.

In 2011, Singapore's Workers' Party won six seats in Parliament, the largest representation of opposition in Parliament ever. Tony Tan, the former deputy prime minister, was also elected president during Singapore's first contested presidential election in 2011. In 2015, the ruling PAP maintained its control of Parliament after winning 83 out of 89 seats.

Recent Events and Trends

- **Air pollution:** In September 2015, air pollution, caused by smoke from fires on Indonesia's islands of Sumatra and Borneo, rose to unhealthy levels in Singapore. Singaporeans were advised to stay indoors and schools were closed until air quality improved. The haze affects Singapore, Indonesia, and Malaysia several times a year when Indonesian farmers burn large areas of forests to clear land for farming.

- **Education rankings:** In November 2016, Singapore ranked number one out of 63 education systems in math and science. Other East Asian nations such as South Korea, Taiwan, and Japan also received high rankings in these subjects. Students from these countries often face social pressure to achieve high scores on exams; in response to this growing trend, the Ministry of Education in Singapore has released advertisements saying that education is about more than high scores.

- **First female president:** In September 2017, Singapore named Halimah Yacob as its first female president. Halimah, who is Malay and a former speaker of Parliament, was named president after being declared the only eligible candidate. Hundreds of Singaporeans protested the uncontested nature of the election.

THE PEOPLE

Population

Singapore is the second most densely populated sovereign country in the world (after Monaco). About 74 percent of the population is Chinese, 13 percent is Malay, and 9 percent is Indian. People of different groups generally enjoy good relations. If individuals share the same religion, their ethnicity does not inhibit intermarriage. Religion sometimes plays a greater role in determining social relations than does race, but there are few serious conflicts between religions or races.

Language

English, Malay, Mandarin Chinese, and Tamil are all official languages. Most Singaporeans are at least bilingual. Malay was declared the national language in 1959 as a gesture to neighboring Malay states. Malays were also the island's original inhabitants. The Chinese speak a number of different Chinese dialects, including Hokkien, Teochew (also called Chaozhou), and Cantonese, but Putonghua (Mandarin) has essentially become standard Chinese. English is the language of administration and is used most widely in science, technology, commerce, and tourism. A colloquial dialect called Singlish combines modified English with elements of Chinese, Malay, and Tamil. Government officials discourage its use but almost everyone uses it occasionally in informal situations.

Religion

Singaporeans enjoy constitutionally guaranteed freedom of worship. Buddhism, Taoism, Confucianism, Islam, Christianity, and Hinduism, as well as a number of smaller religions, are all practiced. Slightly less than half of the people, most of whom are Chinese, are either Buddhist (33 percent) or Taoist (10 percent). Buddhists strive to perform good deeds that offset negative *karma* (the force created by one's actions) and generate merit that will help them progress. Many practice a combination of Confucianism, Taoism, and Buddhism.

Nearly all Malays, who constitute 14 percent of the population, are Muslim. About 18 percent of Singaporeans are Christian, and 5 percent (mostly Indians) are Hindu. Christians generally are either Chinese or Caucasian. Another 18.5 percent of Singaporeans, many of them Chinese, are atheists or agnostics (called "free-thinkers"). Singapore has two Jewish synagogues.

The diverse religions all operate in harmony, with Buddhist and Hindu temples next to Muslim mosques and Christian churches. Singaporeans discuss issues of religion openly. For certain family matters such as marriage, religions are allowed to establish laws for their members.

General Attitudes

Many Singaporeans consider their nation to be unique among modern societies because they hold to traditional Asian values while also prizing modern ideas and progress. A strong work ethic is highly valued, and Singaporeans have a reputation as one of the world's best workforces. Likewise, high moral and ethical values are often stressed in government and business. The government has promoted a national ideology comprised of five "shared values": nation before community and society above self; family as the basic unit of society; community support and respect for the individual; consensus, not conflict; and racial and religious harmony.

Members of the rising generation, having benefited from their parents' success with establishing racial harmony and economic stability, look to the "Five Cs" as lifelong goals: condominium, car, cash, credit card, and country club membership.

Singaporeans tend to believe the nation's attention to a well-ordered society has allowed it to build a highly prosperous modern economy without suffering the social

drawbacks inherent in liberal democracy. Cultural ideals and traditions are often enforced by laws and programs. For example, a single and never-married mother cannot purchase low-cost housing from the government or get public health benefits for her children. Also, financial incentives are given to people who buy apartments near their parents so they can care for them later.

Most Singaporeans value honesty, humility, education, discipline, and self-control. Shaming another person in public, or causing him or her to "lose face," also shames the offending individual and is a breach of social courtesy. Likewise, conformity is stressed because "antisocial" acts shame one's entire family.

Personal Appearance

Most Singaporeans wear lightweight, Western-style clothing. Young people enjoy the latest fashions. The older generation dresses fairly conservatively, while young Singaporeans may wear more revealing clothing during hot weather. Traditional attire is also still worn, particularly for special occasions and religious events, and includes the Indian *sari* (a wraparound skirt worn by women), *salwar kameez* (a knee-length shirt worn over baggy trousers, worn by women), *jippa* (a version of the *salwar kameez* worn by men), *cheongsam* (a Chinese dress), and *kebaya* (a Malay dress).

CUSTOMS AND COURTESIES

Greetings

Greeting customs vary according to age, ethnicity, and situation. Chinese people shake hands, perhaps adding a slight bow for older people. Malays greet with the *salaam*: two people bring right palms together, as if to shake hands, and then slide them apart; each person then touches the palm to his or her heart. Traditional Indians join their palms together in prayer position at chest level, raise them in front of their face, bow slightly, and say *Vanakkam* (Tamil for "Hello"). Typical Chinese greetings include *Ni hao ma?* (How are you?), *Whei* (Hello), or the Cantonese *Neih sihkjo faan meih a?* (Have you eaten yet?). Malays greet each other with *Apa khabar?* (How are you?) or the Arabic phrase, used by Muslims, *Assalaam 'alaikum* (May peace be upon you). English greetings are employed between different ethnic groups.

Friends and relatives address each other by given (or personal) names, but titles and family names are used in formal settings. "Auntie" and "Uncle" are used as honorific terms when addressing the older generation. Chinese names begin with the family name, followed by a two-character given name. So a single woman named Lee Hwi Chern is properly addressed by her full name or as *Miss Lee*. Many Chinese (especially Christians) adopt Western names, which come first. So Catherine Tan Leng Yan is *Miss Tan* but *Catherine* to her friends. Malays have no surnames but instead use a given name followed by the father's given name. These are separated by *bin* (son of) or *binti* (daughter of)—for example, Daud bin Hakim (addressed as *Mr. Daud*) or Salmah binti Jufri (*Miss Salmah*). Indians may have the same

basic name structure as Malays, or their given name may be followed by a family clan name: Prabu Naidu is addressed as *Mr. Naidu*.

Gestures

In formal situations, Singaporeans cross legs at the knee; they do not rest an ankle on the knee. It is impolite to allow the bottom of the foot to point at a person or to use the foot to move objects. Many older Singaporeans consider it bad luck to shake one's leg while sitting. Touching another person's head is impolite. Finger gestures, such as pointing, are considered rude. One beckons by waving all fingers of the right hand with the palm facing down. Public displays of affection are rare but are becoming more common among the younger generation.

Visiting

Visiting relatives is important in maintaining family relations. Married children regularly visit their parents and join them for a weekend meal (Saturday for one set of parents, Sunday for the other). Friends also enjoy getting together. Calling in advance is usually necessary. Hosts nearly always offer their guests something to drink; it is impolite not to. Chinese typically serve tea or juice; Malays, juice or coffee; Indians, tea or coffee. On special holidays, hosts arrange a number of refreshments on the coffee table for all guests to enjoy.

Invited guests are expected to be punctual. If a host or guest gives a gift, the recipient opens it later, not in the giver's presence. Most families require that shoes be removed before one enters the home. Singaporeans also remove shoes when entering temples, shrines, or mosques.

Eating

The family tries to eat dinner together each day, but work schedules often interfere. At the very least, they eat lunch together on Saturday. Most families sit around a table to eat, but Malays and Indians may sit on a floor mat for traditional meals or festive occasions. Diners wash and dry their hands before the meal.

Diners typically have individual bowls (or plates, or even a banana leaf) of rice. Each person takes small portions of meats and vegetables from the serving dishes placed in the center of the table or mat. One does not put a full meal in the bowl at the beginning but takes small amounts from the various dishes throughout the meal. Chinese use chopsticks for rice. Malays and Indians may eat with the fingers of the right hand or with utensils. All groups use spoons and forks for some types of food. When guests are present, hosts offer second and third helpings. It is polite to accept seconds but to leave a little food behind (on the serving dishes, not in one's own bowl) to show one has been well fed. Otherwise, the hosts may feel that they have not made enough food or that the guests are greedy.

Singaporeans dine out often, especially if both spouses are employed. In restaurants, a service charge is included in the bill and tipping is uncommon. Muslims do not eat pork and require that all other meat be *halal* (selected, prepared, and cooked according to certain customs). Hindus and Buddhists do not eat beef, and many are vegetarian. Many restaurants

are geared to meet these needs.

LIFESTYLE

Family

Structure

Singaporean society is centered on the family. Families are generally small, with one or two children, although the Malay population is more likely to have larger families, generally of at least two or three children. More women are getting advanced education and starting careers, often delaying marriage and children. The government has established social organizations to encourage young people to get married. The government also offers financial incentives to couples to have more children. Despite these efforts, Singapore's population growth rate remains one of the lowest in the world.

Parents and Children

Filial piety (respect for parents and ancestors), loyalty, and cooperation are instilled in people from their youth. Most people feel a moral obligation to take their elderly parents in to live with them, and extended families of three generations sometimes live together in one house. When both parents work, grandparents and nannies usually help with child care. Older generations tend to have more conservative parenting styles; for example, they are generally more strict regarding dating ages and curfews, especially for female children. There are often generation gaps between family members of different ages; the younger generations of parents tend to have more liberal attitudes toward parenting, which some older generations perceive as an erosion of traditional values.

Most children are expected to enter the workforce after graduation from college (generally in their early to mid-twenties) and to set aside a portion of their income for their parents for a monthly allowance (either as support money for their care or spending money for their leisure). Alternatively, some children purchase insurance policies for their parents to secure their long-term care. Children generally live with their parents until marriage, partly due to high property costs.

Gender Roles

Gender roles are less rigidly defined than in past generations. For some families, the father is the main provider and the mother maintains the household and rears the children. While in the past women were responsible for the majority of childrearing tasks and household chores, a growing number of men share these responsibilities. Educated career women usually continue to work after marriage in order to maintain the couple's standard of living, and some women choose to return to work after having a child.

Men and women in Singapore have equal political, employment, and educational rights. Some areas of the workforce are dominated by women (such as education, clerical, administrative, sales, and customer service positions). Women also hold high-ranking positions in government and the private sector. Working women are given four weeks of maternity leave before giving birth, with an additional twelve weeks after the delivery. At least part of the leave is paid, depending on the citizenship and employment

status of the mother. Mothers can also take leave time throughout the year for child care. Fathers are entitled to paternity leave, though generally for a shorter duration.

Housing

Because of the nation's high population density, over 80 percent of Singaporeans live in public housing called Housing and Development Board (HDB) *flats* (apartments). Because so many people apply for this type of housing, there is often a long wait, sometimes lasting several years, to receive new housing. *Flats* are regulated with regard to the ethnic makeup of their tenants to avoid the buildup of ethnic enclaves and to ensure a diversified community. The HDB also places income, citizenship, and other restrictions on Singaporeans who wish to purchase a *flat*. *Flats* are leased for 99 years and are therefore considered "owned."

The average HDB *flat* is located in a high-rise tower, is about 970 square feet (90 square meters) in size, and consists of a living room, kitchen, three bedrooms, and two bathrooms. A building usually has a shared space on the first floor called a *void deck*, where residents can hold social events. HDB estates, as they are known, are clusters of buildings surrounding a shopping area. The remaining 20 percent of the population lives in private accommodations, such as semi-detached houses, bungalows, and condominiums.

Dating and Marriage

Dating and Courtship

In Singapore, young people of all backgrounds freely socialize and interact with members of the opposite sex. Young people start dating around age 15 or 16, particularly if they attend coeducational schools. Youth go to movies, malls, the beach, night clubs, and parties, both to date and to meet potential dates. While the mindset of the youth has become more liberal with regard to dating (more casual dating at younger ages), there is some concern over the erosion of traditional Asian values such as abstinence before marriage and interest in and adherence to traditional customs. In general, parents do not interfere in their children's choice of partners, but parents do tend to discourage dating at very early ages and prefer their children to complete their education.

Marriage in Society

The average age of marriage has been increasing in recent years. Women tend to marry in their late twenties and men in their early thirties. While in the past Singaporeans rarely married outside their ethnic group, an influx of foreigners has made marriages between Singaporeans and foreigners increasingly common. Among the Muslim-majority Malays, religion is an important factor in partner selection. Muslims generally only date other Muslims, and a non-Muslim wishing to marry a Muslim must first convert to Islam. Certain Christian denominations have similar requirements.

Civil marriages are also an option. Polygamy is legal but rare and is generally only practiced among Muslims. Same-sex marriages are not legal and civil partnerships are not recognized in Singapore. Couples may choose to cohabit before marriage, but doing so does not bring any of

the legal rights associated with marriage, such as being eligible to purchase government housing. Once a couple has registered with the Registry of Marriage, they are legally married.

Weddings

Wedding celebrations and ceremonial traditions vary based on religion and personal choice. Christians tend to hold wedding ceremonies in churches, while Hindus and Muslims hold their ceremonies at community halls, a parent's home, or the *void decks* (communal areas on the ground floor) of their apartment building. Traditional Hindu marriages are held in temples or community halls, generally last two hours, and are followed by a vegetarian meal. Among the Chinese, a groom might visit the bride's family's home for a traditional tea ceremony on the wedding day to ask permission to take her away.

After the ceremony, Chinese couples take photos and then go to an evening celebration held at a restaurant or hotel, where a banquet is served. Most guests bring *ang pow* (red envelopes containing money), which are used to offset the cost of the celebrations.

Divorce

The importance of family is heavily stressed in society, and divorce carries something of a stigma with it. While divorce is increasingly common among young couples, it is much less common among older couples, who may choose to “save face” rather than take on the judgment that comes with divorce. Today, younger women are more educated and more assertive of their rights and so are usually unafraid of pursuing divorce cases or of “losing face.”

Life Cycle

Birth

After giving birth, a woman is usually confined to the home for at least a month, during which time her mother or mother-in-law looks after her and the baby. The woman is given a tonic of stewed pig feet with ginger (for its traditional medicinal values) while she recovers. A baby shower is held after the first month of the child's life. At the shower, guests are offered a buffet including cakes and hard-boiled eggs that have been dyed red as a symbol of good luck. Guests bring *ang pow* (red envelopes containing money, a gift that symbolizes blessings and good wishes) or other gifts for the child.

Chinese children are considered age one at birth. Chinese parents tend to give their children two names, one Chinese and one Western. The Western name is placed in front of the family surname, which is followed by the Chinese given name (for example, female pop singer Stephanie Sun Yan Zi). Among Malays and Indians, names tend to be traditional and often come from family or religious sources.

Milestones

Singaporeans are legally considered adults at 21, when they gain the right to vote. However, many privileges are granted at 18, when youth are able to drive and drink alcohol. Generally, no special celebrations mark the twenty-first birthday, though some wealthy families might purchase a car or allow young people to move out. For Muslim boys, circumcision is a significant event that marks the transition

into puberty. Generally, this ceremony is conducted between the ages of 7 and 12.

Death

At a typical Chinese funeral, family members stay with the body until it is buried or cremated. In some Chinese families, the oldest son washes the body and places a silver coin between the teeth of the deceased to bless the soul with wealth and abundance in the afterlife. Chinese funerals are lengthy and expensive ceremonies, typically lasting three to seven days. Funerals are held in the *void deck* (communal areas on the ground floor of an apartment building) or the family's apartment, where guests are invited to pay their last respects.

A Buddhist or Taoist priest is hired to perform the funerary rituals, including prayers for the deceased's spirit. Music is played loudly by mourners on the *laba* (Chinese trumpet) and cymbals. Candles are lit so that the person's spirit can watch the funeral proceedings. Paper offerings are burned to ensure the deceased is comfortable in the afterlife. The burned offerings represent items the deceased might want in the afterlife (including cars, cell phones, mansions, and servants). The mourning period might continue for one hundred days, subtracting one day for each of the deceased's sons. After the mourning period, immediate family members pay respects to the deceased on the anniversary of the death with offerings of food and flowers. Buddhists also honor and remember their ancestors during the Qing Ming festival in April.

When a Muslim dies, the body is washed by immediate family members and dressed in white clothing. Muslims bury their dead shortly after death. Muslims are not buried in coffins but are placed on their right side in the ground, facing Mecca, Saudi Arabia. Buddhists and Hindus cremate their dead shortly after the funeral. Among Christian sects, both cremation and burial are practiced. The government advocates cremation due to the shortage of land for burials.

For 49 days after death, Buddhist family members make offerings and perform acts of service to gain merit on behalf of their deceased relative. The merits of the service lessen the deceased's punishment or increase their reward in the afterlife. Common acts of service include making donations to the poor or distributing religious books.

Diet

Singapore's diverse cultural makeup is expressed in the variety of local cuisines, including Chinese, Malay, and Indian. Rice is a staple for every group; noodles and potatoes are common as well. Rice is most commonly eaten with meat and vegetables. Muslims do not eat pork, and Hindus and Buddhists do not eat beef. Most groups eat chicken, fish, and seafood, though many Indians are vegetarian. Singaporeans enjoy spicy food; garlic and ginger are common spices.

Breakfast often consists of *roti prata* (an Indian flatbread), eggs, or porridge. Lunch commonly includes Chinese noodle dishes. *Satay* (meat on skewers), *roti prata*, fried *kway tiao* (black noodles normally served with small saltwater clams), *hokkein* noodles (noodles with seafood), *Hainanese* chicken rice (boiled chicken and rice prepared in chicken stock), curries, and *bah kut teh* (pork rib soup) are common dishes

for both lunch and dinner.

Popular foods for snack time and teatime are *poh piah* (spring rolls filled with shredded turnip, bamboo shoots, shrimp, and pork), Chinese *bao* (steamed buns), cookies, and tropical fruits like mangoes and pineapples. *Dim sum*, part of the traditional Chinese tea service, includes pork and shrimp dumplings and egg tarts.

Most cafés serve Western foods, like sandwiches, pizza, and pasta. Western fast-food restaurants are especially popular among the youth. *Kopitiams* (coffee shops), hawker centers (collections of take-out food stalls, common at bus and train stops), and food courts provide a wide variety of international food that is more affordable than restaurant fare.

Local desserts include *ice kacang* (shaved ice flavored with ingredients like red bean and gelatin), *chendol* (a coconut-based dessert), *grass jelly* (a black gelatin), *tao suan* (split bean soup topped with fried dough), red and green bean soup (beans cooked in water with sugar), and *kway* (bite-sized desserts that can be either savory or sweet). Western desserts like cake, ice cream, and pudding are also popular.

Traditional holiday meals include rice dumplings and mooncakes (eaten during the Mooncake Festival). Western-style holiday foods are enjoyed during holidays like Easter (chocolate Easter eggs) and Christmas (turkey).

Chinese tea, coffee, canned drinks, and fruit juices are among the most popular beverages. Working-class people frequent Western-style coffee shops, which are also popular destinations to spend time with friends. Youth enjoy Taiwanese-style bubble tea.

Recreation

Sports

Sports have become somewhat more popular in Singapore recently through the promotions of the Singapore Sports Council. Soccer is the most popular sport, and people enjoy watching local and international matches. Since the inclusion of Singapore in the Formula One race circuit in 2007, a growing number of Singaporeans enjoy watching motor sport racing. Other popular sports include swimming, water polo, rugby, tennis, badminton, basketball, and netball. Golf is a popular sport among the wealthy. Schoolchildren have access to numerous facilities to play sports. The general public also has access to sports facilities through community centers around the country.

Traditional sports include table tennis and *sepak takraw*, which is like volleyball but is played with a rattan ball using only the legs and feet. Older people prefer *taijiquan* (also called *tai chi*, a form of Chinese exercise), and youth enjoy martial arts like *tae kwon do*.

Leisure

Weekends are usually reserved for family bonding, and couples spend quality time with their children relaxing indoors or engaging in outdoor activities. Most Singaporeans enjoy concerts, music festivals, and film festivals. Gambling is popular, particularly the lottery and horse races. People also enjoy gambling in two recently opened casinos. Many people, especially the ethnic Chinese, enjoy playing *mahjong*, a game of four players played with small tiles at a square table. Some people with a high level of income and leisure time may have

memberships at country clubs.

Vacations

Because of their country's location, Singaporeans can easily visit nearby countries. More people are now taking advantage of low-cost international airline carriers, and destinations like Thailand, Malaysia, and Indonesia are popular during holiday seasons. An increasing number of Singaporeans are able to afford trips to destinations outside of Asia, such as the United States and Europe.

The Arts

The arts mirror the country's ethnic diversity and modern Western culture. Singaporean architecture is a unique blend of colonial-style buildings, Chinese shop houses, Malay stilt houses, Indian bungalows, and modern skyscrapers, each adapting architectural forms of the others.

The government's National Arts Council and large private corporations are the principal sponsors of the arts. In popular classical Indian dances, such as the *Bharata Natyam*, each hand movement is a form of sign language telling a story. People also attend traditional Chinese operas and Asian and U.S. films.

Holidays

Public holidays include International New Year (1 January), Chinese New Year (set by the Chinese lunar calendar), Easter (including Good Friday), Vesak Day (celebrating the birth, enlightenment, and nirvana of Buddha and held during the fifth lunar month), Labor Day (1 May), and Singapore National Day (9 August). Various Chinese celebrations are held throughout the year; other holidays are associated with a specific religion. The small Christian minority celebrates Christmas. People of different ethnic and religious groups celebrate one another's holidays; these holidays are often viewed as opportunities to promote understanding and harmony between the different groups in Singapore.

Chinese New Year

Chinese New Year is the largest celebration of the year and begins on the first day of the new moon of the lunar calendar (generally within the first two months of the Gregorian calendar). This holiday also marks the beginning of spring and celebrates new beginnings. Public celebrations last for three days, and most shops are closed for the first two days. During these days off, most Chinese celebrate by visiting family and friends.

People emphasize wealth, prosperity, and health in greetings such as "May prosperity be with you always." People wear new clothes, which are often red—an auspicious color. Homes are decorated with red Chinese banners with Chinese characters for prosperity and abundance inscribed on them. Married Chinese people give *ang pow* (red envelopes containing money) to their children and single friends. Guests are offered *bakkwa* (barbecued pork slices), pineapple tarts, *love letters* (a type of crispy rolled wafer), and fortune cookies. People also exchange mandarin oranges.

On New Year's Eve, families gather for a dinner, which often includes a *steamboat* (a central, heated pot of broth that sliced meat, vegetables, and dumplings are cooked in, similar to fondue), shark fin soup, and abalone. In recent years,

traditional New Year celebrations have diminished in popularity as a growing number of people travel abroad during this time.

Hari Raya Puasa

Among the Muslim population, *Hari Raya Aidilfitri* (also called *Eid al-Fitr*), or *Hari Raya Puasa* ("Day of Celebrating the End of Fasting" in Malay), is the most prominent holiday. The holiday is celebrated according to a lunar calendar, beginning on the first day of the tenth month, and celebrates the end of *Ramadan*, a month-long period when Muslims fast from sunrise to sunset. The holiday lasts for three days and signifies a time of forgiveness and strengthening of bonds.

People visit family members, beginning with their parents, and friends to ask for forgiveness for wrongdoings committed in the last year. On the first day of *Hari Raya Puasa*, people attend the mosque for a morning prayer service. People dress in new clothes and decorate their houses in preparation for feasts, which normally consist of Malay specialties such as *beef rendang* (a spicy beef dish), *ketupat* (rice cakes wrapped in coconut leaves), and *lontong* (rice cakes in coconut gravy). For dessert, people serve cookies, cakes, and pineapple tarts. During *Hari Raya Puasa*, Muslims also remember the deceased, often visiting cemeteries at this time. Non-Muslims are welcome to join in *Hari Raya Puasa* as an expression of friendship and goodwill.

Deepavali

The most important holiday for Hindus is *Deepavali* (also known as *Diwali*), or the Festival of Lights, which celebrates the triumph of good over evil. The date of *Deepavali* is set by the Hindu lunisolar calendar (set according to both lunar and solar cycles), which changes yearly according to the Gregorian calendar but generally falls between late October and mid-November. Hindus light oil lamps, which are believed to guide the spirits of deceased ancestors who have returned to earth. Thousands of lights decorate stores and homes during this holiday. The temples of Serangoon and Little India are decorated with bright colors, lights, and garlands of flowers.

After a traditional oil bath in the morning, Hindus dress in new clothes and gather in temples to receive special blessings. Traditional foods, like rice cakes and curry, and snacks are eaten. In Hinduism, lime is a symbol of protection against evil forces and is featured in various meals and decorations during *Deepavali*.

SOCIETY

Government

Singapore is a parliamentary republic. The president is head of state, but the prime minister exercises executive authority and is head of government with his cabinet. Parliament has 101 members, 89 of whom are elected to five-year terms. The president appoints nine of the remaining members of parliament, and the rest are from parties that came closest to winning seats. Parliament is dominated by the center-right People's Action Party (PAP). Small opposition parties exist but have little power. The voting age is 21; all citizens are required to vote. Singapore is a member of the Association of

Southeast Asian Nations (ASEAN).

Economy

Although Singapore is the smallest country in Southeast Asia, its entrepreneurial economy is one of the most successful. Most people have access to economic prosperity. Malays have lagged in economic growth in the past and so receive government assistance to help improve the balance. Economic growth historically has been high since independence, though at times dependence on certain sectors and exports has left the economy vulnerable to regional and world economic downturns, such as the 2008 global economic crisis.

Manufacturing has replaced petroleum refining as Singapore's largest industrial activity. Electronics dominate the manufacturing industry. Many large companies in Singapore are foreign owned. The government supports the growth of small and medium businesses. Wholesale and retail trade, financial services, and business services are other important economic sectors. Much trade consists of receiving exports from other countries and then re-exporting them. Agriculture plays a minimal role in the economy, as land is almost completely urbanized. Most food is imported. Tourism is actively promoted. The currency is the Singapore dollar (SGD).

Transportation and Communications

Singapore is served by international airlines and is linked to Malaysia by road and rail. All roads are paved and well maintained. Car ownership is expensive, due in part to high taxes on cars to discourage their use. Certain roads also charge fees during peak traffic hours. Taxis are a common mode of transport. The Mass Rapid Transit (MRT) subway serves most areas.

The communications system is modern and extensive. Most people have access to the internet either through cellular phones or computers. Virtually all Singaporeans have at least one cellular phone. The government operates radio and television facilities. While freedom of speech is guaranteed by the constitution, media is regulated. Most newspapers are privately owned, but some are partially government owned.

Education

Structure

School is compulsory from age six to age eleven. Although children officially begin schooling at age six, most children are enrolled in preschools and kindergartens starting around age three. Traditionally, Muslims send their children to religious school at age five, where they begin to learn to read the *Qur'an* (Muslim holy book).

The academic year for primary and secondary schools is divided into two semesters: one that runs from January to June, and one that lasts from July to December. There is a week-long break in mid-March, a month-long break during June, and a six-week vacation during November and December.

Access

Education is very important in Singapore, and the literacy rate is high. It is a criminal offence for a parent to fail to enroll their child in school. Public educational facilities are under

the jurisdiction of the Ministry of Education. The Ministry of Education also plays a supervisory and advisory role over private schools. Education is subsidized by the government, and enrollment rates are high.

School Life

For the first four years of primary school, students study mathematics, English, physical education, social studies, music, and the student's mother tongue (Chinese, Malay, or Tamil). The language of instruction is English. Science is introduced at age nine. Between ages 10 and 12, students begin preparing for the Primary School Leaving Examination (PSLE), an exit exam that places students into secondary schools based on their aptitude. The pass rate for the PSLE is generally over 90 percent. Children who fail stay in elementary school and retake the test the following year.

Based on their PSLE results, students are assigned to secondary schools and academic tracks, which include several tracks designed for varying levels of academic aptitude and a track for students who pursue a technical education. Exceptional children (the top 1 percent of students) are accepted into the Integrated Program. Completion of the Integrated Program allows students to go directly to junior college, bypassing the university qualification exams taken in the last year of secondary school.

Students generally regard their teachers as authority figures and show them respect. A disciplinary master or mistress handles cases of misconduct in class. Schools tend to use traditional methods of textbook-based instruction. Emphasis on memorization and theoretical knowledge is declining in favor of analysis, critical thinking, and collaborative group work. Schools are equipped with technology and often incorporate technology-driven educational methods.

Schooling in Singapore is considered academically demanding. In addition to their academic workload, Singaporean students also participate in compulsory co-curriculum activities, which include sports, civic groups (such as the National Cadet Corps, Red Cross Youth, and Boys and Girls Brigades), and other groups (such as drama clubs, debate teams, and choirs). To relieve the pressure of high performance on exams and to engender creativity, schools have reduced the traditional academic workload. However, academic competition remains intense, and many parents hire tutors for their children.

Higher Education

Most Singaporeans graduate from secondary school, and a high percentage continue their studies in vocational schools or pre-university programs. There are several post-secondary institutions in Singapore; the most popular programs are polytechnics and junior colleges. Students also strive to gain admission into one of the six public universities. Some students may choose to study at a private university or go abroad. Getting at least some post-secondary education is almost a necessity in Singaporean society, and many people continue their education to the graduate level. Parents who can afford to do so send their children to continue their studies in Australia, the United States, or the United Kingdom.

Health

Singapore's health facilities and services are excellent and are subsidized by the government. Employees under age 50 contribute 20 percent of their wages to the Central Provident Fund (CPF), matched by a similar amount from employers. One's account can be used to pay for medical services, housing, and even investments. A high standard of health is attributed to good housing, modern sanitation, and a general concern for sound hygienic practices. Singapore is often referred to as the cleanest city in Asia.

AT A GLANCE

Contact Information

Embassy of the Republic of Singapore, 3501 International Place NW, Washington, DC 20008; phone (202) 537-3100; web site www.mfa.gov.sg/washington. Singapore Tourism Board, phone (212) 302-4861; web site www.yoursingapore.com.

Country and Development Data

Capital	Singapore
Population	5,995,991 (rank=110)
Area (sq. mi.)	269 (rank=177)
Area (sq. km.)	697
Human Development Index	5 of 188 countries
Gender Inequality Index	11 of 188 countries
GDP (PPP) per capita	\$90,500
Adult Literacy	99% (male); 95% (female)
Infant Mortality	2 per 1,000 births
Life Expectancy	83 (male); 88 (female)
Currency	Singapore dollar

CultureGrams™

ProQuest
 789 East Eisenhower Parkway
 Ann Arbor, Michigan 48106 USA
 Toll Free: 1.800.521.3042
 Fax: 1.800.864.0019
www.culturegrams.com

© 2019 ProQuest LLC and Brigham Young University. It is against the law to copy, reprint, store, or transmit any part of this publication in any form by any means without strict written permission from ProQuest.

Singapore country profile

20 July 2018



Singapore is a wealthy city state in south-east Asia. Once a British colonial trading post, today it is a thriving global financial hub and described as one of Asia's economic "tigers". It is also renowned for its conservatism and strict local laws and the country prides itself on its stability and security.

Chinese account for more than 75% of Singapore's multi-racial population, with Malays and Indians making up much of the remainder.

Densely-populated, most of its people live in public-housing tower blocks. Its trade-driven economy is heavily supported by foreign workers. In 2013, the government forecast that by 2030, immigrants will makeup more than 50% of the population.

The People's Action Party has dominated politics since the country declared independence from Malaysia in 1965. Issues such as the rising cost of living, immigration and income inequality are major challenges facing the government.

- [See more country profiles](#) - Profiles compiled by **BBC Monitoring**

KEY FACTS

Republic of Singapore

Capital: Singapore

Population 5.3 million

Area 660 sq km (255 sq miles)

Major languages English, Malay, Mandarin, Tamil

Major religions Taoism, Buddhism, Islam, Christianity, Hinduism

Life expectancy 79 years (men), 84 years (women)

Currency Singapore dollar

UN, World Bank

Getty Images

LEADERS

President: Halimah Yacob



GETTY IMAGES

Halimah Yacob was sworn in as Singapore's first female president in 2017. As a member of the Muslim Malay minority, she is also the country's first Malay leader in 47 years.

She became the sole contender when the two other prospective candidates failed to meet eligibility requirements. It's the first time the presidency has been reserved for a particular ethnic group, as authorities seek to foster harmony in a multicultural society dominated by ethnic Chinese.

She was the Speaker of parliament before taking up the largely ceremonial post of president.

Presidential candidates run as individuals because Singapore's head of state is supposed to be non-partisan.

Prime minister: Lee Hsien Loong



GETTY IMAGES

The eldest son of Singapore's founding father Lee Kuan Yew, Lee Hsien Loong has been in office since August 2004. A former army officer and Cambridge-educated mathematician, he followed his father into politics in 1984 at the age of 32.

As prime minister, Mr Lee has launched policies to build a competitive economy, introducing new programmes to upgrade the education system, investing in research and development and transforming the city-state.

Mr Lee has been involved in a very public feud with his siblings over their father's will.

MEDIA

As the media hub for south-east Asia, Singapore is a strategic centre for the region's English-speaking audience.

Its tightly-controlled media environment means self-censorship among journalists is common. There are also curbs on online content.

- [Read full media profile](#)

TIMELINE

Some key dates in Singapore's history:



GETTY IMAGES

- 1819** - Sir Thomas Stamford Raffles establishes Singapore as a trading post for the British East India Company.
 - 1942** - Singapore falls to Japan during Second World War. The island is renamed Syonan-to or "Light of the South Island" in Japanese.
 - 1945-46** - Japanese forces surrender. Singapore becomes a British colony.
 - 1959** - Singapore holds first general election.
 - 1963** - Singapore joins the Federation of Malaya, Sabah (North Borneo) and Sarawak in the Federation of Malaysia.
 - 1965** - Declares independence from the Federation of Malaysia.
 - 1990** - Singapore's founding father Prime Minister Lee Kuan Yew stands down after 31 years.
 - 1993** - Singapore holds its first presidential election.
- **[Read full timeline](#)**

Country Report

Singapore

Generated on April 9th 2019

Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

The Economist Intelligence Unit

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For 60 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide. The Economist Intelligence Unit delivers its information in four ways: through its digital portfolio, where the latest analysis is updated daily; through printed subscription products ranging from newsletters to annual reference works; through research reports; and by organising seminars and presentations. The firm is a member of The Economist Group.

London

The Economist Intelligence Unit
20 Cabot Square
London
E14 4QW
United Kingdom
Tel: +44 (0) 20 7576 8181
Fax: +44 (0) 20 7576 8476
E-mail: eiucustomerservices@eiu.com

New York

The Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: +1 212 541 0500
Fax: +1 212 586 0248
E-mail: eiucustomerservices@eiu.com

Hong Kong

The Economist Intelligence Unit
1301 Cityplaza Four
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: +852 2585 3888
Fax: +852 2802 7638
E-mail: eiucustomerservices@eiu.com

Geneva

The Economist Intelligence Unit
Rue de l'Athénée 32
1206 Geneva
Switzerland
Tel: +41 22 566 24 70
Fax: +41 22 346 93 47
E-mail: eiucustomerservices@eiu.com

This report can be accessed electronically as soon as it is published by visiting store.eiu.com or by contacting a local sales representative.

The whole report may be viewed in PDF format, or can be navigated section-by-section by using the HTML links. In addition, the full archive of previous reports can be accessed in HTML or PDF format, and our search engine can be used to find content of interest quickly. Our automatic alerting service will send a notification via e-mail when new reports become available.

Copyright

© 2019 The Economist Intelligence Unit Limited. All rights reserved. Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of The Economist Intelligence Unit Limited.

All information in this report is verified to the best of the author's and the publisher's ability. However, the Economist Intelligence Unit does not accept responsibility for any loss arising from reliance on it.

ISSN 2047-5780

Symbols for tables

"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

Singapore

Summary

- 2 [Briefing sheet](#)

Outlook for 2019-23

- 4 [Political stability](#)
- 4 [Election watch](#)
- 5 [International relations](#)
- 6 [Policy trends](#)
- 6 [Fiscal policy](#)
- 7 [Monetary policy](#)
- 7 [International assumptions](#)
- 8 [Economic growth](#)
- 8 [Inflation](#)
- 9 [Exchange rates](#)
- 9 [External sector](#)
- 9 [Forecast summary](#)
- 10 [Quarterly forecasts](#)

Data and charts

- 11 [Annual data and forecast](#)
- 12 [Quarterly data](#)
- 12 [Monthly data](#)
- 14 [Annual trends charts](#)
- 15 [Quarterly trends charts](#)
- 16 [Monthly trends charts](#)
- 17 [Comparative economic indicators](#)

Summary

- 17 [Basic data](#)
- 18 [Political structure](#)

Recent analysis

Politics

- 21 [Forecast updates](#)
- 24 [Analysis](#)

Economy

- 26 [Forecast updates](#)

Briefing sheet

Editor: **Shreyans Bhaskar**

Forecast Closing Date: **February 20, 2019**

Political and economic outlook

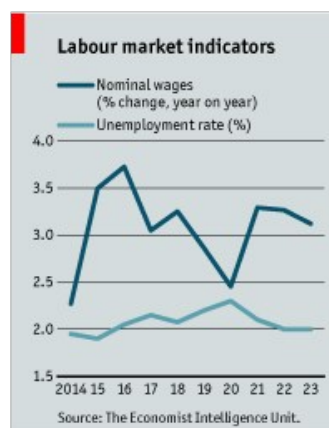
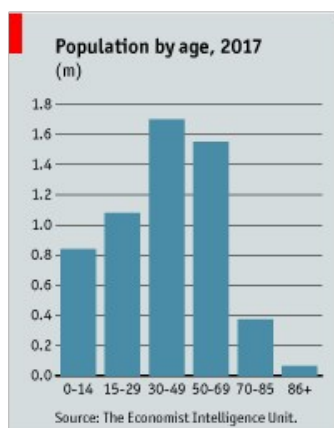
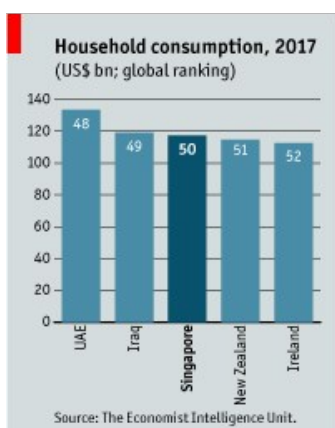
- Singapore will remain politically stable under the continued leadership of the People's Action Party (PAP) in 2019-23. The Economist Intelligence Unit expects the prime minister, Lee Hsien Loong, to hand over power to the finance minister, Heng Swee Keat, in 2020.
- No realistic challenges to the PAP's grip on power will emerge over 2019-23. The PAP will once again win a comfortable majority in parliament in the 2021 election. However, a new party, the Progress Singapore Party, may win one or two seats.
- The government will maintain an expansionary fiscal stance in 2019-23 in order to meet increasing welfare demands from voters. Nevertheless, the budget balance is expected to move back into a surplus in 2023, led by strong revenue collections.
- There will be a marked slowdown in GDP growth in 2019-20, owing to an easing in demand for consumer electronics, and the effects of the US-China trade war, but from 2021 world trade will recover, allowing the pace of Singapore's economic expansion to pick up
- Consumer price inflation will remain weak in 2019-20, held down by falling oil and food prices and weak household demand. Annual inflation will pick up thereafter, but remain in a range close to 1%.
- The current-account surplus will decline from the equivalent of 17.7% of GDP in 2018 to 14.5% of GDP in 2023. Merchandise trade will record a strong surplus, but the services balance will remain in deficit, placing a dampener on the overall current account.

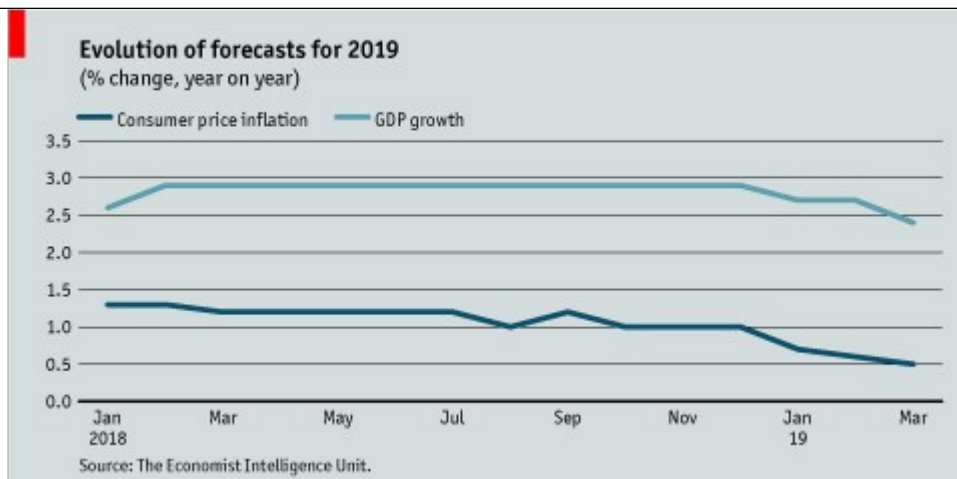
Key indicators

	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
Real GDP growth (%)	3.2	2.4	2.2	3.0	3.3	3.1
Consumer price inflation (av; %)	0.4	0.5	0.7	1.1	1.1	1.0
Government balance (% of GDP)	0.4 ^c	-0.6	-0.5	-0.3	0.0	0.1
Current-account balance (% of GDP)	17.7	16.5	14.3	14.9	14.3	14.5
Money market rate (av; %)	1.3	1.7	1.3	1.5	1.7	1.9
Unemployment rate (%)	2.1	2.2	2.3	2.1	2.0	2.0
Exchange rate S\$:US\$ (av)	1.35	1.34	1.33	1.31	1.29	1.28

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates.

Market opportunities





Key changes since January 30th

- Following the release of the government's spending plans for fiscal year 2019/20 (April-March), we have revised up our forecast for the budget deficit, and now expect it to reach the equivalent of 0.6% of GDP in 2019/20, compared with 0.3% previously.
- As a result of the dimmer growth prospects, we now expect the Monetary Authority of Singapore (MAS, the central bank) to target zero appreciation in the nominal effective exchange rate (NEER) from April 2019 onwards (previously October 2019).
- We have revised down our growth forecast for 2019-20, in the light of new evidence that the ongoing economic slowdown is sharper than expected. We expect real GDP to grow by 2.3% a year on average in 2019-20, compared with 2.7% previously.
- In line with our revised monetary policy view that the MAS will target zero appreciation in the NEER in 2019, we now expect the domestic currency to average S\$1.34:US\$1 in 2019, compared with S\$1.33:US\$1 previously.

The month ahead

- **March 4th—Purchasing Managers' Index (February 2019):** This high-frequency indicator is expected to show that business sentiment in the key electronics manufacturing sector remained muted in February.
- **March 18th—Non-oil domestic exports data (February 2019):** We expect the weakness in exports seen in recent months to broadly persist throughout 2019. We expect export growth to average a tepid 0.6% in 2019.

Major risks to our forecast

Scenarios, Q4 2018	Probability	Impact	Intensity
China's economy suffers a sharp slowdown	Moderate	Very high	15
Singapore's growth is severely hit by trade headwinds	Moderate	Very high	15
Cyber-attacks pose challenges for business	Moderate	Moderate	9
The government fails to contain racial tensions, upsetting social stability	Low	High	8
The government raises taxation rates faster than announced in 2018	Low	High	8

Note: Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: The Economist Intelligence Unit.

Outlook for 2019-23

Political stability

Singapore will continue to enjoy a stable political environment in 2019-23 under the stewardship of the People's Action Party (PAP), which has been in power since 1959. The Economist Intelligence Unit expects the PAP to be re-elected with a comfortable majority at the next parliamentary election, which must be held by January 2021.

The prime minister, Lee Hsien Loong, has repeatedly expressed his desire to step down from office before the 2021 election, owing in part to recurring health problems. This will form part of a broader transition within the PAP to a new generation of leaders, which will gather pace in 2019. The finance minister, Heng Swee Keat, has emerged as the leading candidate to succeed Mr Lee since his elevation to the post of first assistant general secretary of the PAP in November 2018. His role as finance minister and former post as education minister give him important policymaking and administrative experience. He has also served as the managing director of the Monetary Authority of Singapore (MAS, the central bank). The industry and trade minister, Chan Chun Sing, and the education minister, Ong Ye Kung, are two other high-profile members of the next generation of upcoming PAP leaders.

Overall, factionalism within the PAP remains discreet and has little impact on the party's broader vision. Decision-making within the party is generally driven by consensus among senior members. Moreover, Singapore's strong institutions will ensure that the transfer of power to a new leader poses limited political risk.

Individuals expressing strong anti-government views online are vulnerable to lawsuits. The law also requires protesters to seek permission in advance of organising any demonstrations, which in effect limits freedom of speech. However, restrictions such as these are unlikely to result in a sharp public backlash. The PAP's popularity is underpinned by successful technocratic management of the economy and the party's attention to voter concern on sensitive issues such as immigration, high housing costs and gaps in the social safety net.

Some risks to political stability emanate from the country's ethnic diversity. The government has taken steps to increase representation for ethnic Indians and Malays. In the 2017 election for the (largely symbolic) presidency, the office was reserved for a member of the Malay community. Similarly, several key ministers, including one of the two deputy prime ministers, belong to the Indian community. However, the Malay community in particular continues to lag behind on some socio-economic indicators. The issue does not lend itself to easy resolution, but the fact that Singapore is much more prosperous than Malaysia provides a broader context within which ethnic tensions will remain manageable.

Election watch

We expect the PAP to remain in power following the 2021 legislative election. We do not believe that preparations for a leadership succession in advance of the poll will have a major impact on the outcome of the election. The PAP remains generally popular and will continue to use the advantages of incumbency to hamper efforts by other political parties to increase their share of the vote. Nevertheless, the new Progress Singapore Party, which was formed in January 2019 by Tan Cheng Bock (who came close to winning the presidential election in 2011), may make some inroads into support for the PAP. We believe that the party stands a good chance of winning one or two parliamentary seats. The next presidential election is due in 2023. As all major ethnic groups have held the presidency within the last five terms, this election will be open to candidates from any ethnic group.

International relations

The core principle of Singapore's international relations has been defined by the minister of foreign affairs, Vivian Balakrishnan, as being “a friend to all, but an enemy of none”. Singapore's relations are calibrated with a view to fostering the country's role as a trade, financial services and transport hub, by seeking improved economic ties globally. The city state will forge ahead with its open-trade agenda, which includes pursuing free-trade agreements (FTAs) with several countries in 2019-23. We expect an FTA with the EU to come into force in 2019. The country will also benefit from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a free-trade and investment deal involving 11 countries, including Singapore. The city state will continue to pursue talks on the Regional Comprehensive Economic Partnership (RCEP), which envisages an FTA among 16 countries, including China and the ten members of the Association of South-East Asian Nations (ASEAN). However, negotiations on the RCEP are unlikely to conclude before 2020 at the earliest.

Singapore will endeavour to maintain good relations with its neighbouring countries in 2019-23. Malaysia and Singapore have regularly engaged in tussles over minor disputes since Singapore's expulsion from the Malaysia federation in 1965, and since 2018 some territorial disputes have been reignited, in addition to differences over a now-deferred high-speed railway project between the two countries. These, however, are rarely allowed to impede broader economic integration between the countries, as both co-operate bilaterally and under the aegis of the Association of South-East Asian Nations (ASEAN). As such, despite the tendency for Malaysia and Singapore to engage in low-level disputes over territory, the broad economic interdependence between the two countries will prevent any escalation of tensions.

Relations between China and Singapore have recovered after a sharp deterioration in 2016 (partly linked to the city state's support of a ruling that year by the Permanent Court of Arbitration in The Hague that went against China's territorial claims in the South China Sea). The countries are set to boost their commercial ties through the Chongqing Connectivity Initiative, a bilateral government-led project to develop commercial links between Singapore and western China. Ties between Singapore and China will continue to improve in 2019-23, but underlying strains in the relationship will remain.

Policy trends

The government will continue to promote economic growth by increasing public investment and focusing on economic diversification. The emphasis on diversification is being done by a series of 23 Industry Transformation Maps, which have set out development goals for specific economic sectors. These are geared towards job creation. In addition, there will be greater emphasis on innovation-driven businesses, particularly small and medium-sized enterprises (SMEs), through schemes such as the SMEs Go Digital initiative. The government will also prioritise the development of skills and improvements in the business environment to attract more foreign direct investment. We believe that these policy measures will address some of the challenges facing the Singaporean economy and will sustain annual GDP growth at 2-3% on average over the next ten years.

The government will continue to advance popular social policies designed to respond to voters' concerns in the areas of housing, healthcare, immigration and transport. Low fertility rates and a rapidly ageing population have led to shortages in the labour force. However, there is widespread apprehension that a larger immigrant population might place additional burdens on social spending and infrastructure. In February 2019 the finance minister, Mr Heng, announced that the maximum permitted ceiling for foreign workers in the services sector will be reduced to 35% by January 2021, from 40% presently.

The government has recently shifted its focus towards healthcare, especially because the rise in healthcare costs has significantly outpaced headline inflation in the past two years. In the budget for fiscal year 2019/20 (April-March), the government announced a health package for the Merdaka generation (those born in the 1950s), which entails special subsidies for various types of illnesses. Such measures to improve access to healthcare will continue, and in 2020 the government will introduce a revamped disability insurance scheme.

Concerns about the housing market led the MAS to increase stamp duty on property transactions and to introduce tighter restrictions on mortgage loan-to-value ratios in July 2018. The conservative approach adopted by the central bank suggests that house prices will be closely monitored and influenced through macro-prudential measures over the next five years.

Fiscal policy

The government will maintain a fairly expansionary fiscal stance in the next five years, with an emphasis on supporting growth as well as an increased focus on welfare funding. Schemes such as the scale-up SG programme, which focuses on supporting innovation in the economy, are examples of the government's strong interventionist approach in the economy, aimed at supporting businesses.

Nevertheless, even with strong growth in spending, we do not envisage substantial fiscal slippage in 2019/20-23/24. Revenue growth will continue to increase in the next five years, and particularly gather pace in 2021/22-23/24, when the economy stages a recovery after two years of sluggishness. Additionally, tax revenue will be further boosted towards the end of the forecast period, as the government intends to raise the goods and services tax (GST) rate to 9%, from 7% at present, sometime between 2021 and 2025. However, we have not incorporated this into our forecast, as the exact year of the tax increase has not been specified.

We expect the budget deficit to average the equivalent of 0.6% in 2019/20-20/21. In tandem with a recovery in growth prospects, we anticipate the budget shortfall to narrow in 2021/22, and in 2023/24, the fiscal balance will record a marginal surplus.

Monetary policy

Given Singapore's reliance on the external sector, the MAS's monetary policy is oriented towards exchange-rate management. The underlying goal is to achieve medium-term price stability and thus ensure sustainable economic growth. The MAS uses the nominal effective exchange rate (NEER) as its main monetary policy lever. This is managed through the adjustment of the NEER against a trade-weighted basket of currencies, against which the NEER is allowed to fluctuate within an undisclosed policy band.

We believe that in 2019 the central bank will halt its tightening stance and target zero appreciation in the NEER. This is expected to be driven by weaker economic growth, owing to a cyclical downturn in global consumer electronics demand, as well as the adverse effects of the US-China trade war, which we expect to resume later in 2019. In 2020 growth will slow further, led by an economic downturn in the US; the MAS will therefore retain its policy of zero appreciation in the NEER in that year. With the global economic outlook brightening again in 2021-23, the MAS will again shift its policy to one targeting a modest appreciation of the NEER against a trade-weighted basket of currencies during that period.

International assumptions

	2018	2019	2020	2021	2022	2023
Economic growth (%)						
US GDP	2.9	2.3	1.5	1.7	2.0	1.8
OECD GDP	2.3	1.8	1.6	1.8	2.0	1.9
EU28 GDP	1.9	1.5	1.6	1.8	1.9	1.8
World GDP	2.9	2.8	2.6	2.8	2.9	2.8
World trade	4.4	3.3	2.9	3.9	4.1	4.1
Inflation indicators (% unless otherwise indicated)						
US CPI	2.4	2.2	1.4	2.2	2.1	1.8
OECD CPI	2.5	2.3	1.9	2.1	2.2	2.1
EU28 CPI	1.9	1.7	1.7	1.9	2.0	1.9
Manufactures (measured in US\$)	5.2	3.4	2.6	3.4	3.2	3.0
Oil (Brent; US\$/b)	71.1	66.0	60.5	69.8	75.6	75.0
Non-oil commodities (measured in US\$)	1.8	-1.2	3.9	1.6	1.4	0.8
Financial variables						
US\$ 3-month commercial paper rate (av; %)	2.0	2.6	2.2	2.1	2.5	2.9
¥ 3-month Gensaki rate (av; %)	0.0	0.1	0.1	0.2	0.2	0.3
¥:US\$ (av)	110.4	110.2	109.1	104.9	100.5	96.1
US\$:€ (av)	1.18	1.16	1.22	1.21	1.24	1.24
S\$:US\$ (av)	1.35	1.34	1.33	1.31	1.29	1.28

Economic growth

The Singaporean economy is tightly integrated into the global economy, most notably via the country's exports of electronic components to countries such as China. The ongoing cyclical downturn in global demand for electronics demand is therefore taking its toll on Singapore's growth prospects. In addition, the US-China trade war will also have an adverse effect on the Singaporean economy, by reducing external demand growth. Over the longer term however, this could benefit Singapore by encouraging a shift in the destination of export manufacturing from China to South-east Asia.

Weak economic sentiment and renewed restrictions on residential property markets will weigh on investment activity in 2019-20, before stronger momentum in investment activity in 2021-23, as business sentiment revives. We expect gross fixed investment to contract by 0.8% in 2019, before showing slight growth of 0.4% in 2020. In contrast, there will be a marked recovery in fixed investment in 2021-23, growing by 2.6% a year on average in those years. This recovery will be led by an uptick in manufacturing and transport infrastructure spending. Meanwhile, higher social spending will underpin government consumption growth of 4% a year on average during the forecast period. Private consumption will falter somewhat in 2019-20, as consumers adopt a cautious stance in light of weaker economic prospects. However, we expect a strong recovery in this component of GDP in 2021-23. Overall, we expect real GDP to grow by 2.3% a year on average in 2019-20, before jumping to 3.1% on average in 2021-23.

In factor-cost terms, the services sector will remain the largest contributor to GDP in 2019-23, and will grow by an average of 2.9% a year over the period, led by vibrant activity in financial services, tourism and logistics. Meanwhile, the industrial sector will trail behind overall GDP and expand by an annual average of 2.4%, as Singapore's key electronics manufacturing sector faces external headwinds in the initial part of the forecast period, as well as increasing competition from competitors with lower labour costs throughout the period.

Economic growth

%	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
GDP	3.2	2.4	2.2	3.0	3.3	3.1
Private consumption	2.4	1.1	1.2	2.8	2.9	2.9
Government consumption	3.6	4.1	4.2	4.1	3.8	3.9
Gross fixed investment	-3.4	-0.8	0.4	1.8	2.8	3.1
Exports of goods & services	5.2	2.0	1.8	4.7	4.6	5.0
Imports of goods & services	4.5	1.9	1.2	4.2	4.7	5.2
Domestic demand	1.1	-0.4	0.2	2.7	3.3	2.5
Industry	5.0	1.9	1.8	2.5	2.9	2.8
Services	3.0	2.6	2.3	3.2	3.4	3.2

^a Actual. ^b Economist Intelligence Unit forecasts.

Inflation

We expect the pace of decline in property prices to ease slightly in 2019. This will provide some support to overall consumer prices this year. However, we also expect a cooling in core inflation (which strips out accommodation costs and private transport costs). This reflects the prospects for lower global oil prices and falling international prices for food—an important factor for a net food importer such as Singapore. On balance, we expect consumer prices to rise by 0.5% in 2019, only marginally higher than the 0.4% recorded in 2018.

More broadly, consumer prices will rise by an average of 0.9% a year in 2019-23. We anticipate the introduction of some policy measures that may lead to a rise in the cost of living. These would include higher licence fees on car ownership, as well as the introduction of a carbon tax from 2019. Nevertheless, despite some recovery, accommodation prices will generally remain weak, weighing down overall prices.

Exchange rates

Singapore operates a managed exchange-rate regime, with a rolling peg against a trade-weighted basket of currencies. Movement against the US dollar results from the MAS's efforts to tighten or loosen policy, and also reflects shifts in the non-US dollar elements of the exchange-rate basket.

We expect the Singapore dollar to average S\$1.34:US\$1 in 2019, from S\$1.35:US\$1 in 2018, reflecting the tighter policy stance adopted by the MAS in 2018. We expect the Singapore dollar to strengthen only slightly further, to S\$1.33:US\$1, in 2020, as the MAS targets zero NEER appreciation while the Federal Reserve (the US central bank) adopts a slightly accommodative stance to counter the impact of a slowdown in that year. As economic conditions improve again from 2021, the MAS will target a slight appreciation of the NEER, and so we expect the Singapore dollar to appreciate further against its US counterpart, reaching S\$1.28:US\$1 on average in 2023.

External sector

We expect slow growth in Singapore's exports in 2019-20, owing to several factors, such as weaker global trade growth (as a result of disruptions caused by the US-China trade war), and a cyclical downturn in the demand for electronics goods (Singapore is a significant manufacturer of electronics components and consumer electronics). However, we expect export growth to recover in 2021-23 as global conditions improve. In addition, benefits from the CPTPP will start to have a positive effect on Singapore's external sector from the early 2020s, as will an FTA with the EU, which is expected to be ratified in 2019.

Despite a slowdown in export growth in the early part of the forecast period, Singapore will retain a substantial merchandise trade surplus throughout 2019-23. Deficits on the services trade and primary income accounts will play a role in reducing the overall current-account surplus. The secondary income account will also remain in deficit as foreign workers in Singapore remit earnings abroad. Nevertheless, the strength of the goods trade surplus will keep the overall current account in the black, averaging the equivalent of 14.9% of GDP in 2019-23.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
Real GDP growth	3.2	2.4	2.2	3.0	3.3	3.1
Manufacturing production growth	7.2	2.9	2.8	7.0	6.3	5.7
Gross fixed investment growth	-3.4	-0.8	0.4	1.8	2.8	3.1
Unemployment rate (av)	2.1	2.2	2.3	2.1	2.0	2.0
Consumer price inflation (av)	0.4	0.5	0.7	1.1	1.1	1.0
Consumer price inflation (end-period)	0.5	0.7	0.9	1.1	1.1	1.0
Money market rate	1.3	1.7	1.3	1.5	1.7	1.9
Government balance (% of GDP)	0.4 ^c	-0.6	-0.5	-0.3	0.0	0.1
Exports of goods fob (US\$ bn) ^d	450.8	456.7	463.9	491.8	515.5	539.6
Imports of goods fob (US\$ bn) ^d	353.3	366.1	379.9	400.6	424.3	455.3
Current-account balance (US\$ bn)	63.9	62.1	57.9	63.5	66.0	71.5
Current-account balance (% of GDP)	17.7	16.5	14.3	14.9	14.3	14.5
External debt (end-period; US\$ bn)	591.7 ^c	598.0	605.2	620.4	642.0	653.1
Exchange rate S\$:US\$ (av)	1.35	1.34	1.33	1.31	1.29	1.28
Exchange rate S\$:US\$ (end-period)	1.36	1.32	1.32	1.30	1.28	1.27
Exchange rate S\$:¥100 (av)	1.22	1.22	1.22	1.25	1.28	1.33
Exchange rate S\$:€ (av)	1.59	1.55	1.62	1.58	1.59	1.59

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates. ^d Local-currency data converted to US dollars.

Quarterly forecasts

Quarterly forecasts

	2018				2019				2020			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
GDP												
% change, quarter on quarter	-1.3	1.0	0.5	1.8	-0.7	0.3	1.5	1.1	-2.6	2.4	2.3	0.6
% change, year on year	4.7	4.2	2.4	1.9	2.6	1.8	2.9	2.3	0.3	2.5	3.3	2.8
Private consumption												
% change, quarter on quarter	-6.8	1.0	0.4	7.1	-	-	-	-	-	-	-	-
% change, year on year	3.4	2.7	2.7	1.1	-	-	-	-	-	-	-	-
Government consumption												
% change, quarter on quarter	24.0	-31.7	13.4	5.0	-	-	-	-	-	-	-	-
% change, year on year	8.4	1.9	2.3	0.7	-	-	-	-	-	-	-	-
Gross fixed investment												
% change, quarter on quarter	-13.6	7.8	-8.3	13.5	-	-	-	-	-	-	-	-
% change, year on year	-1.8	-2.0	-7.0	-3.1	-	-	-	-	-	-	-	-
Exports of goods & services												
% change, quarter on quarter	-3.0	4.8	1.4	-0.1	-	-	-	-	-	-	-	-
% change, year on year	5.2	7.0	5.6	3.0	-	-	-	-	-	-	-	-
Imports of goods & services												
% change, quarter on quarter	-6.1	4.5	1.6	2.2	-	-	-	-	-	-	-	-
% change, year on year	4.5	6.3	5.5	1.9	-	-	-	-	-	-	-	-
Domestic demand												
% change, quarter on quarter	-8.1	-1.2	0.3	8.0	-	-	-	-	-	-	-	-
% change, year on year	2.8	1.9	1.5	-1.6	-	-	-	-	-	-	-	-
Consumer prices												
% change, quarter on quarter	0.2	0.0	0.4	0.0	0.0	0.3	0.2	0.3	0.0	0.2	0.3	0.1
% change, year on year	0.2	0.3	0.7	0.5	0.3	0.6	0.5	0.8	0.9	0.7	0.8	0.6
Producer prices												
% change, quarter on quarter	1.1	4.1	5.2	-4.6	-0.3	3.0	-0.2	0.9	1.0	-0.6	1.6	1.3
% change, year on year	-0.3	7.6	13.0	5.6	4.2	3.0	-2.3	3.4	4.7	1.1	2.8	3.3
Exchange rate S\$:US\$												
Average	1.32	1.33	1.37	1.37	1.36	1.34	1.34	1.33	1.32	1.32	1.33	1.33
End-period	1.31	1.37	1.37	1.36	1.35	1.34	1.33	1.34	1.32	1.33	1.33	1.33
Interest rates (%; av)												
Money market rate	0.7	1.3	1.3	1.7	1.7	1.8	1.6	1.9	1.4	1.3	1.4	1.3
Long-term bond yield	2.3	2.5	2.5	2.0	2.2	2.5	2.6	2.5	2.8	2.8	2.7	2.7

Data and charts

Annual data and forecast

	2014 ^a	2015 ^a	2016 ^a	2017 ^a	2018 ^a	2019 ^b	2020 ^b
GDP							
Nominal GDP (US\$ bn)	313.3	306.3	316.6	336.7	361.1	376.6	404.1
Nominal GDP (S\$ bn)	396.9	421.0	437.3	464.9	487.1	504.5	536.2
Real GDP growth (%)	4.1	2.5	2.8	3.9	3.2	2.4	2.2
Expenditure on GDP (% real change)							
Private consumption	3.6	5.0	2.2	3.2	2.4	1.1	1.2
Government consumption	0.1	7.8	4.3	4.2	3.6	4.1	4.2
Gross fixed investment	6.5	1.5	0.9	5.3	-3.4	-0.8	0.4
Exports of goods & services	3.1	5.0	0.8	5.4	5.2	2.0	1.8
Imports of goods & services	3.0	3.6	0.6	7.0	4.5	1.9	1.2
Origin of GDP (% real change)							
Industry	3.7	-2.7	2.7	5.6	5.0	1.9	1.8
Services	4.6	4.0	2.4	3.3	3.0	2.6	2.3
Population and income							
Population (m)	5.5	5.5	5.6	5.6	5.6	5.7	5.7
GDP per head (US\$ at PPP)	85,695	87,658	91,062	97,610	102,198	105,921	109,870
Recorded unemployment (av; %)	2.0	1.9	2.1	2.2	2.1	2.2	2.3
Fiscal indicators (% of GDP)							
General government revenue	15.1	15.1	15.5	15.1	17.0 ^c	15.9	16.6
General government expenditure	13.8	14.5	16.7	15.4	16.6 ^c	16.5	17.1
General government balance	1.3	0.6	-1.1	-0.3	0.4 ^c	-0.6	-0.5
Net public debt	97.6	100.1	105.9	108.0	112.2	113.9	112.4
Prices and financial indicators							
Exchange rate S\$:US\$ (end-period)	1.32	1.41	1.45	1.34	1.36	1.32	1.32
Exchange rate ¥:S\$ (end-period)	90.71	85.06	80.74	84.31	80.38	83.04	81.25
Consumer prices (end-period; % change)	-0.1	-0.6	0.2	0.4	0.5	0.7	0.9
Producer prices (av; % change)	-3.4	-15.3	-6.9	7.1	6.4	2.0	3.0
Stock of money M1 (end-period; % change)	3.6	0.1	7.7	6.3	0.9 ^c	5.5	6.0
Stock of money M2 (end-period; % change)	3.3	1.5	8.0	3.2	3.2 ^c	4.6	5.0
Lending interest rate (av; %)	5.4	5.4	5.4	5.3	5.3	5.3	5.3
Current account (US\$ m)							
Trade balance ^d	86,035	90,771	86,442	91,097	97,573	90,574	83,914
Goods: exports fob ^d	440,994	385,423	364,485	399,942	450,827	456,675	463,852
Goods: imports fob ^d	354,959	-294,652	-278,043	-308,845	-353,254	-366,102	-379,938
Services balance ^d	-12,299	-7,420	-2,903	-8,867	-2,941	-631	-2,168
Primary income balance ^d	-10,774	-20,835	-21,895	-22,768	-24,521	-21,426	-17,033
Secondary income balance ^d	-6,932	-10,487	-6,102	-5,549	-6,202	-6,430	-6,859
Current-account balance	56,030	52,029	55,542	53,913	63,910	62,086	57,854
External debt (US\$ m)							
Debt stock	493,515	496,030	546,495	566,079	591,678 ^c	598,045	605,175
Debt service paid	40,723 ^c	45,472 ^c	54,230 ^c	59,381 ^c	60,345 ^c	61,093	62,577
Principal repayments	39,884 ^c	45,067 ^c	53,791 ^c	58,376 ^c	57,842 ^c	57,596	57,943
Interest	839 ^c	405 ^c	439 ^c	1,005 ^c	2,504 ^c	3,497	4,634
International reserves (US\$ m)							
Total international reserves	256,855	247,746	246,576	279,902	287,678	293,431	296,366

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates. ^d Local-currency data converted to US dollars.

Source: IMF, International Financial Statistics.

Quarterly data

	2017				2018			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
General government finance (S\$ m)								
Revenue	16,596	18,956	19,390	15,283	22,187	20,098	19,544	n/a
Expenditure	22,985	15,222	15,450	17,978	24,907	13,897	n/a	n/a
Balance	-6,388	3,734	3,940	-2,695	-2,720	6,202	n/a	n/a
Output								
GDP at 2005 prices (S\$ m)	104,236	105,729	108,112	110,563	109,084	110,139	110,653	112,615
GDP at 2005 prices (% change, year on year)	3.8	3.1	5.1	3.7	4.7	4.2	2.4	1.9
Manufacturing index (2007=100)	107.0	112.2	121.0	117.8	117.7	124.1	125.2	123.9
Manufacturing index (% change, year on year)	8.4	8.6	19.3	5.8	10.1	10.6	3.5	5.1
Employment, wages and prices								
Employment change per quarter ('000)	-6.8	-7.3	-2.3	12.7	3.7	6.5	n/a	n/a
Residents unemployment rate (seasonally adjusted; % of labour force)	3.2	3.1	3.1	3.0	2.8	2.9	n/a	n/a
Average nominal wages, industry (S\$ per month)	5,586	4,939	4,795	5,596	5,808	5,119	4,962	n/a
Consumer prices (2014=100)	99.5	99.4	99.4	99.6	99.8	99.8	100.1	100.1
Consumer prices (% change, year on year)	0.6	0.8	0.4	0.5	0.2	0.3	0.7	0.5
Wholesale prices (2010=100)	88.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Wholesale prices (% change, year on year)	13.4	6.7	5.6	2.9	-0.3	7.6	13.0	5.6
Financial indicators								
Exchange rate S\$:US\$ (av)	1.42	1.39	1.36	1.35	1.32	1.33	1.37	1.37
Exchange rate S\$:US\$ (end-period)	1.40	1.38	1.36	1.34	1.31	1.37	1.37	1.36
Deposit rate (av; %)	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Lending rate (av; %)	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
M1 (end-period; S\$ m)	173,952	178,203	182,005	183,699	188,156	186,127	184,258	184,489
M1 (% change, year on year)	8.9	10.8	9.2	6.3	8.2	4.4	1.2	0.4
M2 (end-period; S\$ m)	573,038	573,653	577,880	580,067	588,586	588,564	597,705	602,433
M2 (% change, year on year)	7.5	7.3	5.4	3.2	2.7	2.6	3.4	3.9
Singapore Straits Times Index (end-period; Aug 31st 1989=1,356)	3,175.1	3,226.5	3,219.9	3,402.9	3,428.0	3,268.7	3,257.1	3,068.8
Singapore Straits Times Index (% change, year on year)	11.8	13.6	12.2	18.1	8.0	1.3	1.2	-9.8
Sectoral trends (% change, year on year)								
Electronics production	33.8	36.9	40.6	25.1	18.8	12.6	n/a	n/a
Chemicals production	2.9	4.4	5.4	12.0	10.1	7.4	n/a	n/a
Pharmaceuticals production	-13.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign trade (S\$ bn)								
Exports fob	125.8	126.7	128.3	134.2	128.7	138.5	n/a	n/a
Imports cif	109.8	110.1	111.3	120.9	112.8	122.3	n/a	n/a
Trade balance	16.1	16.6	17.0	13.3	15.8	16.2	n/a	n/a
Balance of payments (S\$ m)								
Merchandise trade balance fob-fob	31,038	31,618	32,741	30,401	30,433	34,562	34,226	32,390
Services balance	-2,930	-2,746	-2,790	-3,779	-483	-967	-404	-2,113
Primary income balance	-7,182	-8,157	-7,473	-8,629	-8,168	-7,536	-7,028	-10,343
Net transfer payments	-1,792	-1,999	-1,952	-1,920	-1,941	-2,177	-2,109	-2,138
Current-account balance	19,135	18,717	20,526	16,072	19,842	23,881	24,686	17,796
Reserves excl gold (US\$ m; end-period)	259,426	266,093	275,200	279,690	286,940	287,833	291,115	287,466

Sources: Department of Statistics; IMF, International Financial Statistics; Ministry of Manpower; Ministry of Trade and Industry, Economic Survey of Singapore.

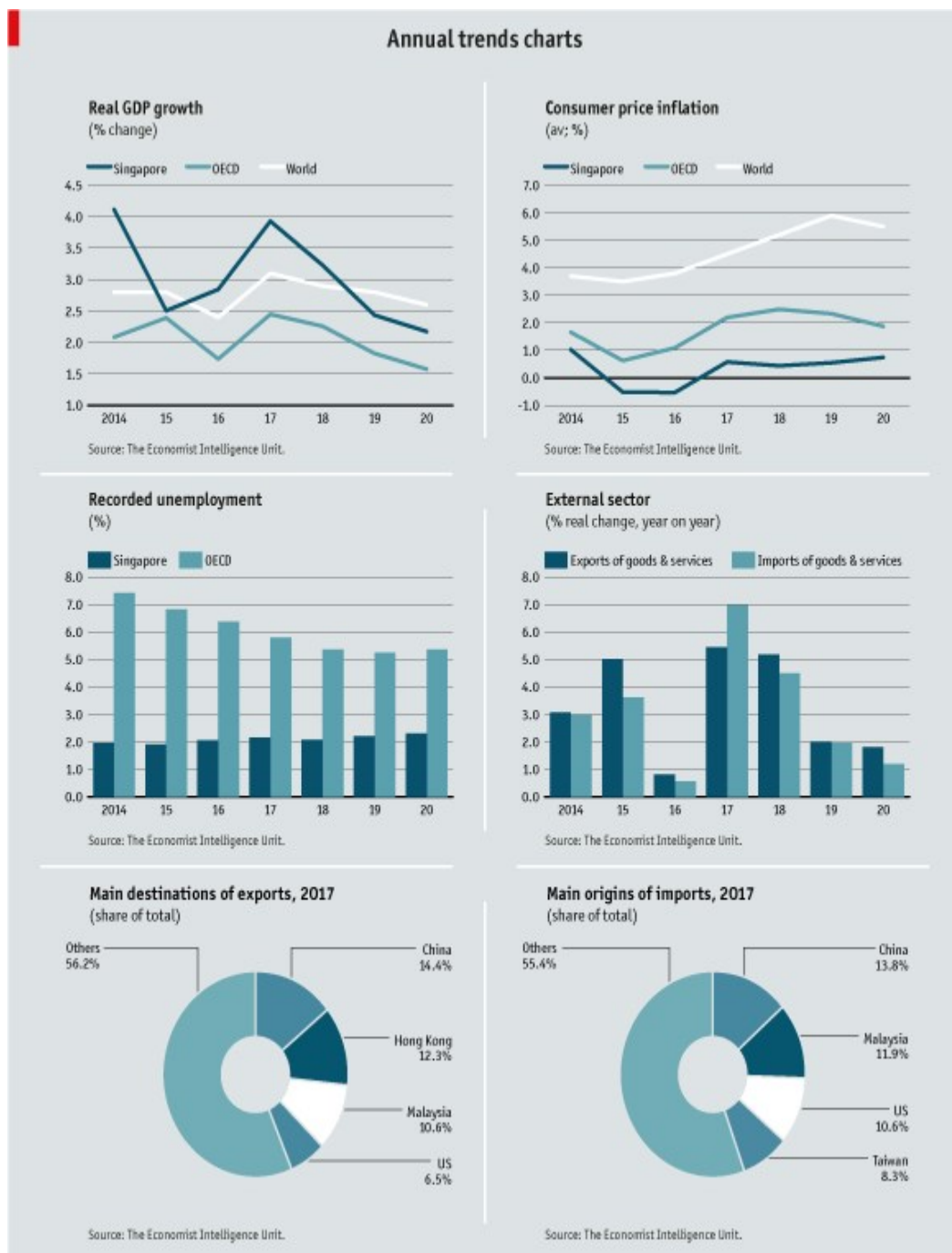
Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate S\$:US\$ (av)												

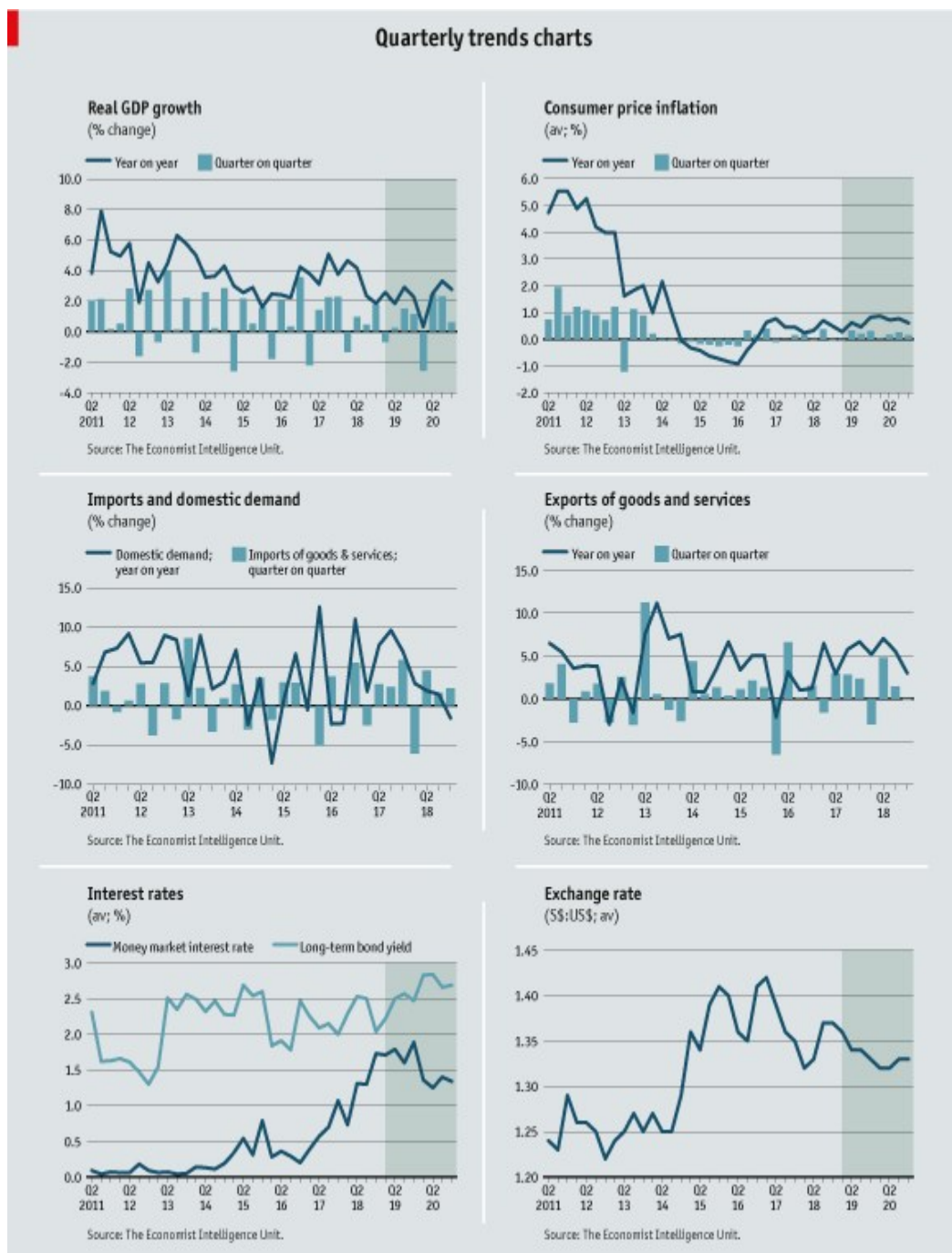
2017	1.429	1.415	1.406	1.398	1.395	1.384	1.372	1.361	1.350	1.360	1.356	1.347
2018	1.322	1.320	1.315	1.315	1.339	1.347	1.363	1.369	1.372	1.379	1.376	1.370
2019	1.356	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate S\$:US\$ (end-period)												
2017	1.420	1.404	1.398	1.396	1.385	1.377	1.358	1.358	1.358	1.361	1.348	1.337
2018	1.309	1.326	1.312	1.324	1.338	1.365	1.362	1.368	1.367	1.387	1.371	1.365
2019	1.347	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Real effective exchange rate (CPI basis; 2009=100)												
2017	108.59	108.68	109.12	109.00	108.63	108.56	109.11	108.58	108.57	108.50	108.64	108.37
2018	108.01	107.64	107.56	107.69	107.65	107.84	108.14	108.27	108.10	108.18	108.10	107.95
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Money supply M1 (% change, year on year)												
2017	8.9	8.4	8.9	9.0	8.2	10.8	10.9	9.9	9.2	8.8	7.3	6.3
2018	6.7	8.2	8.2	8.8	6.6	4.4	3.4	n/a	n/a	n/a	n/a	n/a
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Money supply M2 (% change, year on year)												
2017	8.4	8.1	7.5	7.0	7.2	7.3	6.7	6.0	5.4	4.6	3.2	3.2
2018	3.4	3.6	2.7	3.2	2.8	2.6	2.6	n/a	n/a	n/a	n/a	n/a
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Manufacturing production (% change, year on year)												
2017	4.0	10.1	11.2	6.7	5.0	13.8	23.3	20.5	14.6	15.3	6.1	-2.4
2018	18.3	5.2	6.8	10.8	13.1	8.3	6.7	3.5	0.4	5.2	7.6	2.7
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2017	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
2018	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)												
2017	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
2018	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Singapore Straits Times Index (end-period; Aug 31st 1989=1,356)												
2017	3,047	3,097	3,175	3,175	3,211	3,226	3,330	3,277	3,220	3,374	3,434	3,403
2018	3,534	3,518	3,428	3,614	3,428	3,269	3,320	3,213	3,257	3,019	3,118	3,069
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2017	0.6	0.7	0.7	0.4	1.4	0.5	0.6	0.4	0.4	0.4	0.6	0.4
2018	0.0	0.5	0.2	0.1	0.4	0.6	0.6	0.7	0.7	0.7	0.3	0.5
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Wholesale prices (av; % change, year on year)												
2017	14.2	15.4	10.8	11.2	5.5	3.4	5.1	6.2	5.5	3.6	5.2	0.2
2018	0.2	-1.5	0.6	2.6	8.6	11.8	13.7	12.9	12.2	12.7	5.0	-0.8
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total exports fob (\$\$ bn)												
2017	40.4	39.3	46.1	40.4	43.9	42.3	42.6	44.5	41.2	43.7	45.9	44.6
2018	44.1	38.9	45.6	44.5	48.4	45.7	48.3	50.4	45.9	51.7	48.7	43.5
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total imports cif (\$\$ bn)												
2017	36.7	33.0	40.0	34.5	39.1	36.4	36.9	38.7	35.7	39.3	41.5	40.1
2018	38.5	34.6	39.7	38.4	42.9	41.1	45.0	43.8	41.4	47.1	45.1	42.6
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (\$\$ bn)												
2017	3.7	6.3	6.1	5.9	4.8	5.9	5.8	5.8	5.4	4.4	4.4	4.5
2018	5.6	4.3	5.9	6.1	5.5	4.6	3.3	6.6	4.4	4.5	3.6	0.9
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US\$ bn)												
2017	252.5	253.1	259.4	260.5	264.3	266.1	269.5	272.9	275.2	275.8	279.4	279.7
2018	282.2	282.6	286.9	287.5	287.7	287.8	289.0	289.3	291.1	290.1	289.3	287.5
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics Haver Analytics; Department of Statistics.

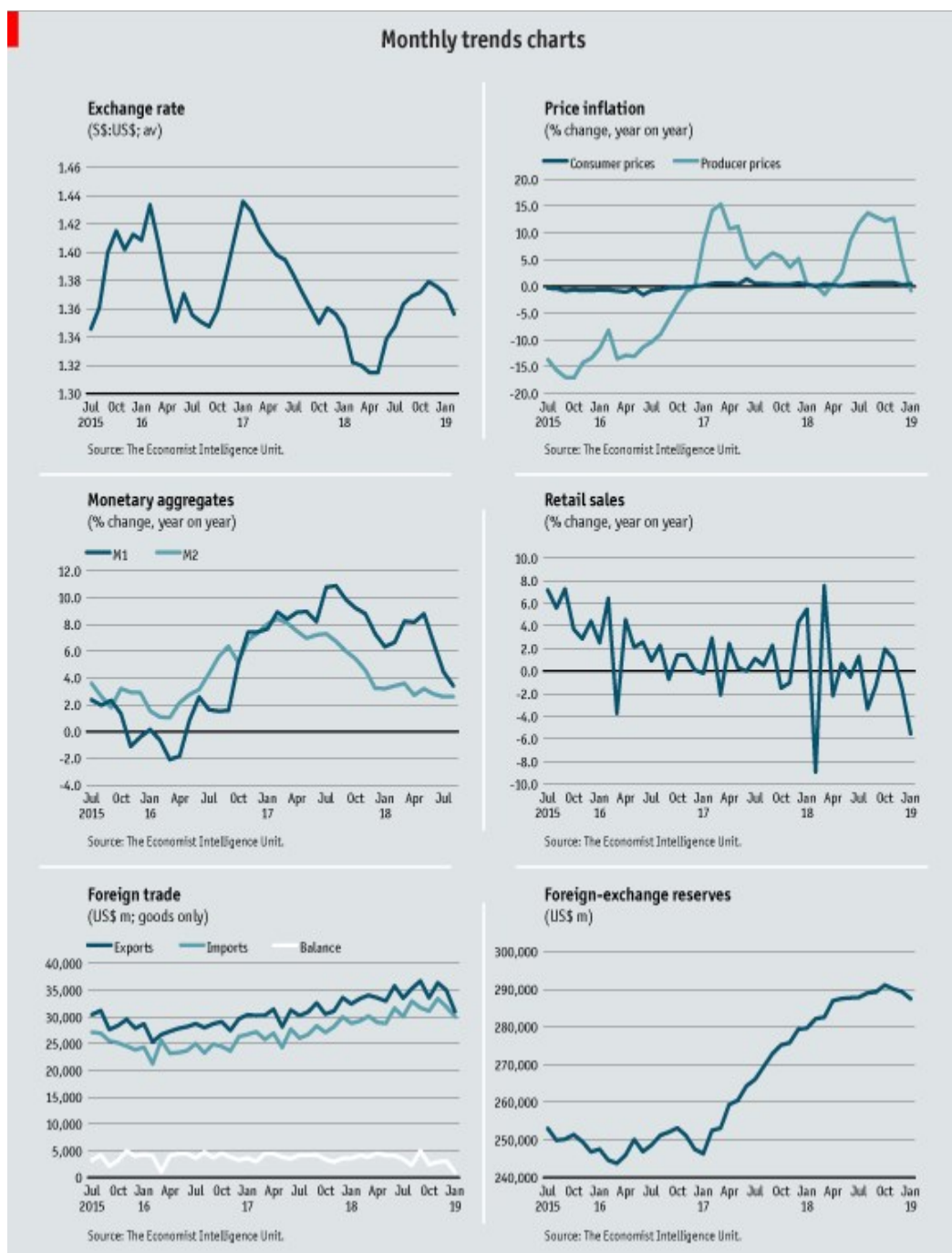
Annual trends charts



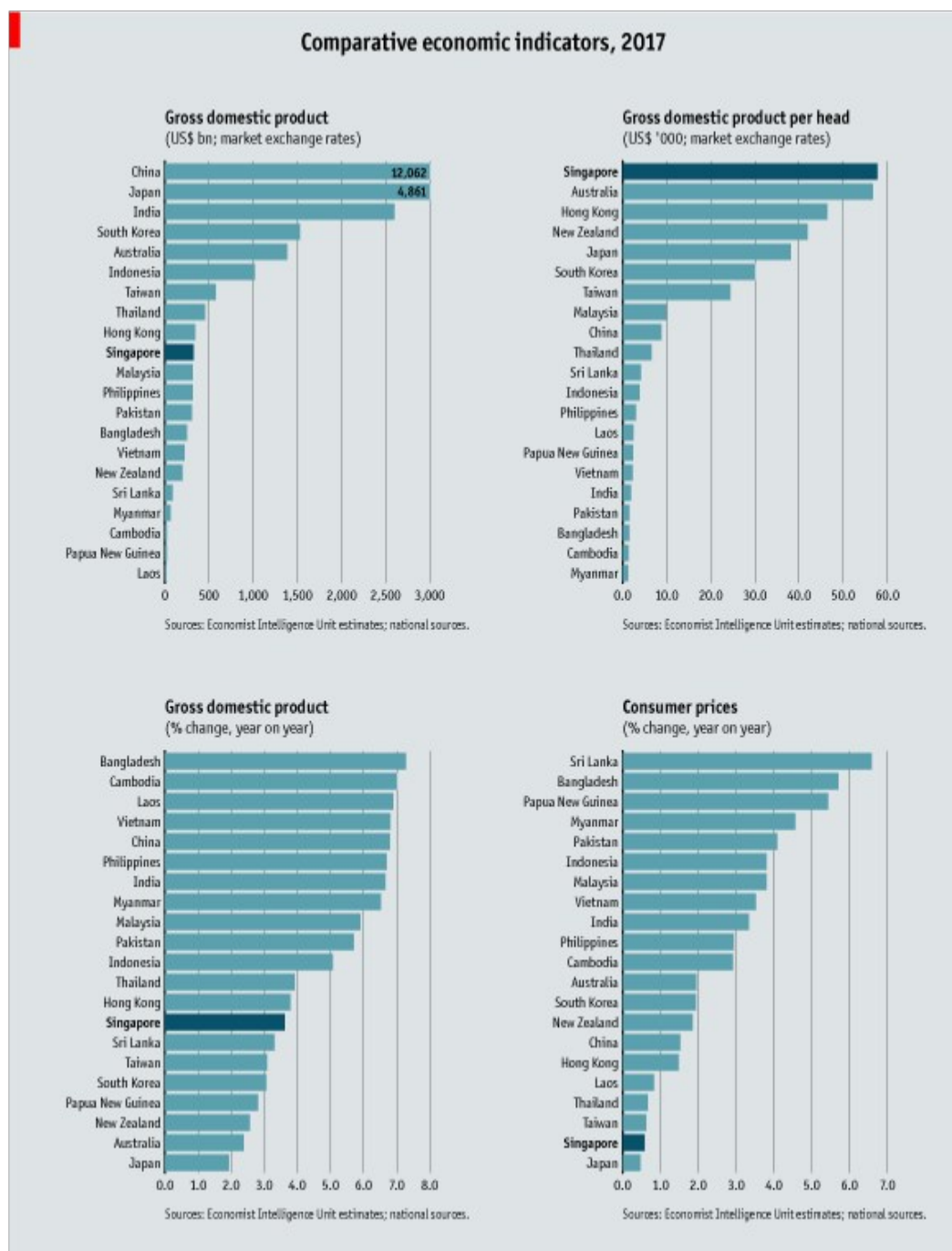
Quarterly trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

710.2 sq km (including smaller islands)

Population

5.64m (4m excluding foreigners on temporary work visas; mid-2018; Department of Statistics)

Climate

Tropical

Weather (altitude 10 metres)

Hottest month, May, 24-32°C (average daily minimum and maximum); coldest month, January, 23-30°C; driest month, July, 70 mm average rainfall; wettest month, December, 244 mm average rainfall

Languages

English, Chinese, Malay and Tamil

Measures

The metric system

Currency

Singapore dollar (S\$); S\$1 = 100 cents. Average exchange rates in 2018: S\$1.35:US\$1, S\$1.22:¥100

Fiscal year

April-March

Time

8 hours ahead of GMT

Public holidays

January 1st (New Year's); February 5th-6th (Chinese New Year); April 19th (Good Friday); May 1st (Labour Day); May 19th (Vesak Day); June 5th (Hari Raya Puasa); August 9th (National Day); August 11th (Hari Raya Haji); October 27th (Deepavali); December 25th (Christmas Day)



Political structure

Official name

Republic of Singapore

Form of state

Parliamentary democracy

The executive

The prime minister and the cabinet are appointed by the president and responsible to parliament

Head of state

The president, Halimah Yacob, was elected for a six-year term in September 2017

National legislature

Unicameral parliament, which sits for five-year terms. Since the September 2015 general election the legislature has had 89 elected members: 13 members of parliament (MPs) are directly elected from single-member constituencies, and 76 are elected in teams of 4-6 to represent the 15 group-representation constituencies (GRCs). At least one member of any group standing for a GRC must be of non-Chinese ethnicity. Nine nominated MPs and up to nine non-constituency MPs also sit in parliament but have only limited voting rights

Legal system

Courts of first instance ultimately lead, on appeal, to the Supreme Court, members of which are appointed by the president

National elections

The most recent parliamentary election took place in September 2015, and a presidential election was held in September 2017. The next parliamentary election must take place by January 2021

National government

The ruling People's Action Party (PAP) won 69.9% of the vote (or 83 seats in parliament) in the September 2015 election

Main political organisations

Government: PAP

Opposition: Workers' Party (WP), Singapore People's Party (SPP), Singapore Democratic Alliance (SDA), Singapore Democratic Party (SDP), Democratic Progressive Party (DPP), Reform Party (RP)

Main members of cabinet

Prime minister: Lee Hsien Loong

Deputy prime ministers:

Teo Chee Hean

Tharman Shanmugaratnam

Key ministers

Communications & information: S Iswaran

Culture, community & youth: Grace Fu Hai Yen

Defence: Ng Eng Hen

Education: Ong Ye Kung

Environment & water resources: Masagos Zulkifli

Finance: Heng Swee Keat

Foreign affairs: Vivian Balakrishnan

Health: Gan Kim Yong

Home affairs & law: K Shanmugam

Industry & trade: Chan Chun Sing

Manpower: Josephine Teo

National development: Lawrence Wong

Prime Minister's Office:

Ng Chee Meng

Indranee Rajah

Social & family development: Desmond Lee

Transport: Khaw Boon Wan

Chairman of the Monetary Authority of Singapore

Tharman Shanmugaratnam

Recent analysis

Generated on April 9th 2019

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Politics

Forecast updates

Japan enhances trade ties with ASEAN

March 8, 2019: International relations

Event

Japan and the member states of the Association of South-East Asian Nations (ASEAN) are set to benefit from a revised ASEAN-Japan Comprehensive Economic Partnership (AJCEP) accord in the next 12 months.

Analysis

Japan's government announced on February 26th that it would sign the new reciprocal protocol to the AJCEP and would seek approval from parliament in the third quarter of this year. The Japan-ASEAN accord was originally inked in 2008 and has since been complemented by an overlapping layer of bilateral agreements with ASEAN states.

With this revised AJCEP, Japan has staked out a more ambitious trade relationship with ASEAN states. The original accord in 2008 was a lower-threshold trade deal and focussed mainly on trade in goods. In the new pact, Japan hopes to have a more comprehensive economic partnership with all ten ASEAN states in areas such as market access, investment procedures and dispute settlement. There had been concerns in Japan that the previous agreement was lacking in these regards.

Another area of growth for Japan through these revisions is its economic relationship with Myanmar, which has been gradually opening its market and is regarded by many as Asia's last frontier economy. The revised accord will relax restrictions on foreign capital into sectors such as construction, education, communications, finance and shipping; overseas companies operating in Myanmar will be able to expand their stakes. The partnership deal will come into force after Japan and the members of ASEAN secure approval from their respective legislatures. We believe that this could be completed in the next 12 months.

The AJCEP should give greater impetus to ASEAN's efforts to conclude negotiations on the Regional Comprehensive Economic Partnership (RCEP), a mega-regional trade accord between ASEAN and six other countries with which it already has bilateral agreements. However, ASEAN's efforts to harmonise existing trade accords are being hobbled by lengthy negotiations with India. We maintain our view that [RCEP](#) negotiators will miss their year-end deadline and that the accord is unlikely to come into force before 2020.

Impact on the forecast

The revised AJCEP will help to deepen economic co-operation between Japan and ASEAN. Our expectation that Japan will continue to secure and deepen trade links with its Asian neighbours remains appropriate.

Another minor dispute between Singapore and Malaysia

March 13, 2019: International relations

Event

On March 12th Malaysia's foreign minister, Saifuddin Abdullah, suggested that his government could have recourse to international arbitration if Singapore does not agree to renegotiate its 1962 Water Agreement with the country.

Analysis

Since the Pakatan Harapan coalition (under Mahathir Mohamad) won a surprise election victory in Malaysia in May 2018, relations between Singapore and Malaysia have deteriorated. This is partly related to Malaysian domestic politics, as Dr Mahathir seeks to be seen as standing up for Malaysian interests. A number of minor disputes have emerged, initially over maritime and air boundaries and now over a bilateral water agreement. This runs some risk of a perceptible deterioration in the otherwise solidly co-operative relationship between the two countries.

The 1962 water agreement allows Singapore to draw water from the Johor River in Malaysia until 2061. The agreement appears broadly beneficial to Malaysia, as Singapore sells some of the treated water back to the country at below-cost price. Singapore has also been willing to supply more than the agreed volume of treated water to the Malaysian state of Johor. However, the Malaysian government has stated that it has in fact been subsidising Singapore's water supply, and it is seeking to renegotiate the price at which raw water is sold to Singapore. It currently looks unlikely that Singapore will allow the existing agreement to be unpicked. Malaysia, for its part, is unlikely to rush to arbitration, giving Johor's dependence on treated water from Singapore.

Impact on the forecast

Our forecast already allows for the pattern of niggling disputes over minor matters in the Singapore-Malaysia relationship. We believe that minor issues will continue to arise but will not be permitted to spiral out of control. Broad bilateral political and economic co-operation will continue.

Singapore and Malaysia strike truce on port limits

March 18, 2019: International relations

Event

On March 14th Singapore's foreign affairs minister, Vivian Balakrishnan, and Malaysia's foreign minister, Saifuddin Abdullah, met in Putrajaya, Malaysia. The meeting resulted in a bilateral agreement to suspend provisionally both countries' overlapping port limit claims in waters off Singapore.

Analysis

A dispute over port limits in the waters off Tuas, in the west of Singapore, arose in [October 2018](#) when Malaysia declared a unilateral expansion of the limits of its Johor Baharu port. Although the two countries have a relationship characterised by minor disputes, the port limits disagreement came as a surprise to Singapore's government, as it had not previously been aware of a bilateral issue in this area. In December 2018 Singapore rejected Malaysia's claims, and expanded its own port limits to encompass the full extent of the territorial waters that it claims in the area. In February 2019 a [collision](#) in the waters between a Greek ship and a Malaysian government vessel led to a temporary escalation in tensions between the two countries.

Both countries have also agreed to apply port limits that existed prior to October 2018. Vessels from both countries operating in the area will be subject to international law. This is a positive step in the bilateral relationship, but the issue is likely to take months to resolve. A joint committee has been established and will enter into delimitation negotiations, which are likely to be lengthy. The two parties stated that they might have recourse to an international arbitration procedure if they are unable to agree their maritime boundaries. However, given the close nature of the ties between the two countries, the prospect of the dispute unravelling into an international arbitration process remains unlikely.

Impact on the forecast

The decision to suspend port limit claims temporarily and enter into negotiations reinforces our forecast that bilateral ties will remain on an even keel in 2019-23. Broad bilateral political and economic co-operation will continue in the next five years.

Australia and Singapore strengthen ties

April 1, 2019: International relations

Event

On March 29th foreign affairs, defence and trade ministers from Australia and Singapore met in Sydney for the 11th Singapore-Australia Joint Ministerial Committee meeting.

Analysis

Bilateral ties have broadened and deepened in recent years and the countries are now close partners across a number of fields. The bilateral relationship was elevated to a Comprehensive Strategic Partnership (CSP) in 2015, and an upgraded version of the Singapore-Australia Free-Trade Agreement came into force in December 2017.

Key outcomes from the latest ministerial dialogue included a commitment to explore options for co-operation on tackling terrorism. The joint communiqué made particular reference to preventing the spread of extremist ideologies via the internet, in the light of the [mosque shootings](#) in New Zealand in March. The ministerial gathering also discussed future areas for co-operation under the CSP, including an open skies agreement and a review of the existing framework on the avoidance of double taxation. Ministers also agreed to step up collaboration on digital trade, science and technology, and on food safety and security, in order to boost reciprocal market access in this area.

Both sides remain committed to deepening their defence relationship, partly reflecting shared concern about China's militarisation of some islands in the South China Sea. The ministers agreed that upgrading the existing Memorandum of Understanding (MoU) on military training in Australia to treaty status was a particular priority in 2019. The Singapore Armed Forces have trained in Australia for many years, partly because of the shortage of training space in the city state. Construction of advanced training facilities in the state of Queensland in Australia is scheduled to begin this year. Under the deal, up to 14,000 Singaporean servicemen will be able to train for 18 weeks a year in Queensland.

Impact on the forecast

We remain of the view that economic, diplomatic and defence ties between the two countries will continue to deepen in 2019-23. No changes to our international relations forecasts for either country are required.

Analysis

Early election in Singapore: a possibility?

March 28, 2019

The expansionary budget for fiscal year 2019/20 (April-March) has given rise to speculation that the ruling government will bring the upcoming election forward. They are currently scheduled to be held by January 2021, and we expect them to be brought forward to late 2019. The ruling People's Action Party (PAP) will secure another term in office in the election, and we expect the finance minister, Heng Swee Keat, to be appointed deputy prime minister immediately after the election. Mr Heng is expected to succeed Lee Hsien Loong as prime minister in 2020.

In November 2018 the PAP accelerated a much-delayed [transition process](#) by announcing a new central executive committee (CEC), dominated by younger leaders from the so-called fourth generation, or 4G. This was followed by the appointment of Mr Heng as the first assistant secretary-general of the PAP, signalling that he would be the next leader of the party, as well as the successor to the serving prime minister, Mr Lee.

Speeding up the clock?

In November 2018 Mr Lee also hinted at the possibility of an early election. A possible, key reason for the PAP to call an early election would be to provide a fresh start to Mr Heng and other

politicians of his generation. The party would gain a victory under the more experienced Mr Lee, who would hand over power to Mr Heng in 2020.

Holding the polls early would be prudent also because of an ongoing [economic slowdown](#), owing to a cyclical trough in global demand for consumer electronics (the export of electronic components and finished goods is critical to Singapore's economy), as well as generally slower global trade growth this year. The economy will remain weak in 2020 as slower growth in the US economy further derails global trade. The PAP leadership is likely to recognise the political risks that slower economic growth could pose to its election performance, and this gives it an incentive to hold the polls earlier. Indeed, despite the impending economic downturn, Mr Heng chose to prioritise key voter issues such as healthcare in the 2019/20 budget. This resulted in an expansionary tilt, further suggesting that an early election is in prospect.

We expect Mr Lee to make further populist announcements in his speech at the [National Day rally](#), which takes place in August every year. We expect the election to be announced after the rally; the polls are likely to be held in the last quarter of 2019.

What happens during and after the election?

We expect the PAP to secure yet another victory in the election. The PAP has governed Singapore since it gained independence from Malaysia in 1965, and is credited with having managed the economy in a way that has enabled Singapore to become one of the world's wealthiest economies (in GDP-per-head terms). In addition, the PAP will continue to draw legitimacy from the fact that its governance style has been largely attuned to voter concerns, especially on populist issues such as immigration and the quality of civic infrastructure.

More broadly, the PAP remains entrenched in office, with its robust networks at all levels across Singapore's constituencies, compounded by its strong curbs on opposition forces. Furthermore, restrictions on freedom of assembly and speech (the country is ranked 66 out of 167 countries in the latest edition of our Democracy Index) ensure that the party's hold over power will persist in the next five years.

Since the last election (held in 2015), opposition parties have indicated their intention to work together at the next polls. This was signalled at a meeting in 2018 between the Workers' Party (WP, which holds six of the 89 seats in parliament), the Singapore Democratic Party (SDP) and a party floated by Tan Cheng Bock, a former PAP member of parliament. Despite the growing co-ordination, however, the opposition does not stand a chance of winning enough seats in parliament to pose a risk to the PAP's dominance (such as securing more than one-third of all seats in parliament, blocking the PAP's ability to unilaterally amend the constitution).

As a result, with the PAP continuing to dominate, we do not expect any adverse impact on political stability. We expect the party to use this opportunity to further cement the succession process within the party and the government. This will come in the form of Mr Heng being appointed deputy prime minister in the immediate aftermath of the election, and then succeeding Mr Lee as prime minister in 2020. Singapore's strong institutions ensure that governance is not personality-oriented, and so a transfer of power to the new leader will therefore pose little or no political risk.

Economy

Forecast updates

PMI reading weakened further in February

March 6, 2019: Economic growth

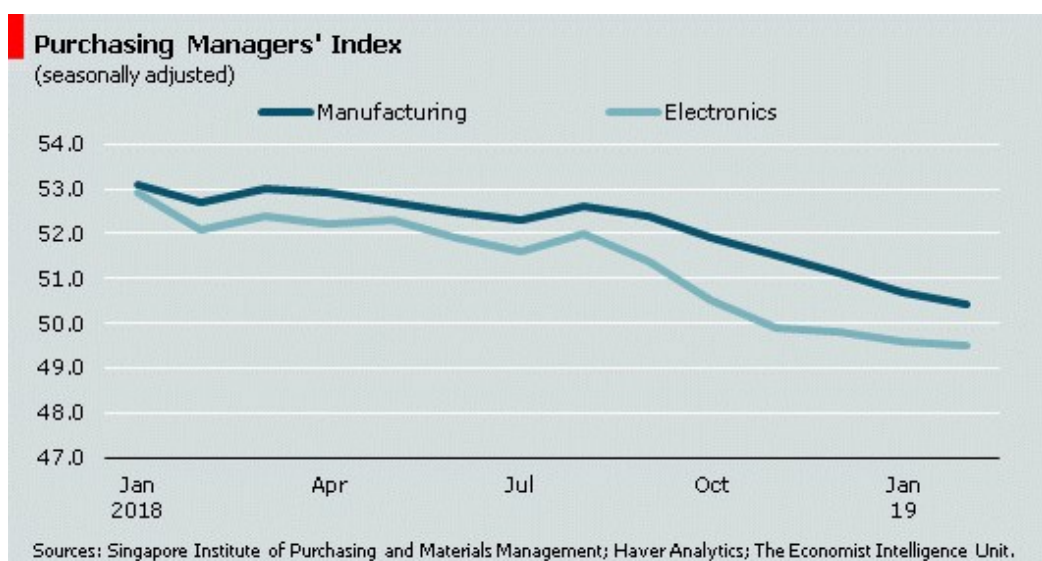
Event

According to data released on March 4th by the Singapore Institute of Purchasing and Materials Management, the reading on the seasonally adjusted purchasing managers' index (PMI, a barometer of sentiment in the manufacturing sector) slid to 50.4 in February, from 50.7 in January. A reading above 50 indicates an expansion.

Analysis

The latest PMI reading supports our [view](#) that Singapore's manufacturing sector will see a sharp growth slowdown in 2019. Several factors are behind this, including a cyclical slowdown in global consumer electronics demand.

This has had consequences for the manufacturing of electronics components—particularly semiconductor devices—and finished consumer electronics, which constitute key pillars of Singapore's manufacturing base. Indeed, the PMI sub-index reading for the electronics sector remained in contractionary territory in February, at 49.5, owing to falling demand and sluggish business sentiment among electronics component manufacturers.



Slower [regional growth](#), particularly in China, has added to demand-side headwinds. Singaporean exporters, particularly those in the electronics and machinery manufacturing industries, also remain vulnerable to falling demand caused by the ongoing US-China trade war. Although prospects for a deal now look [stronger](#) than before, economic frictions are likely to persist, maintaining the strain on regional supply chains. As a result of these factors, we expect global trade growth to slow in 2019, which will keep Singapore's manufacturing sector under pressure this year. Conversely, businesses will receive support from the government as it continues with an [expansionary](#) fiscal policy. Nevertheless, this will not be enough to offset weaker external demand.

Impact on the forecast

We continue to expect industrial production growth to slow sharply to 2.9% in 2019, from 7.2% in 2018.

Singapore launches plans to reduce food imports

March 12, 2019: Policy trends

Event

In a speech to parliament, the minister for environment and water resources, Masagos Zulkifli, announced that the government has set a target of producing 30% of the country's nutritional requirements domestically by 2030, up from less than 10% at present.

Analysis

Given its small size and dense population, Singapore is a net importer of foodstuffs, which in turn exposes the city state to volatility in global food prices. Indeed, one of the reasons Singapore's monetary policy is oriented around exchange rates is to maintain price stability, given its high imports. This push to increase domestic food supply is further supported by growing challenges to global food supply, such as the impact of climate change.

From April 1st 2019, the Singapore Food Agency (SFA) will become operational. The SFA will regulate on food safety standards and manage food security, and is expected to be at the forefront of the government's plans to bolster food security. Slowing population growth and already very high levels of GDP per capita in Singapore mean that demand for food is unlikely to grow significantly over the next decade. Moreover, the city state is a global leader in scientific research (and is ranked first on our technological readiness rankings). Therefore, it should not face any technological hurdles in its quest to increase the domestic supply of food resources. The constraint of limited land availability will, however, continue to weigh on efforts to increase food supply.

Impact on the forecast

The government's efforts to increase domestic food production will have only a longer term effect, and do not warrant a change to our inflation forecasts. We retain our view that consumer prices will rise by an average of 0.9% a year in 2019-23.

Sales spike in January in anticipation of Chinese New Year

March 13, 2019: Economic growth

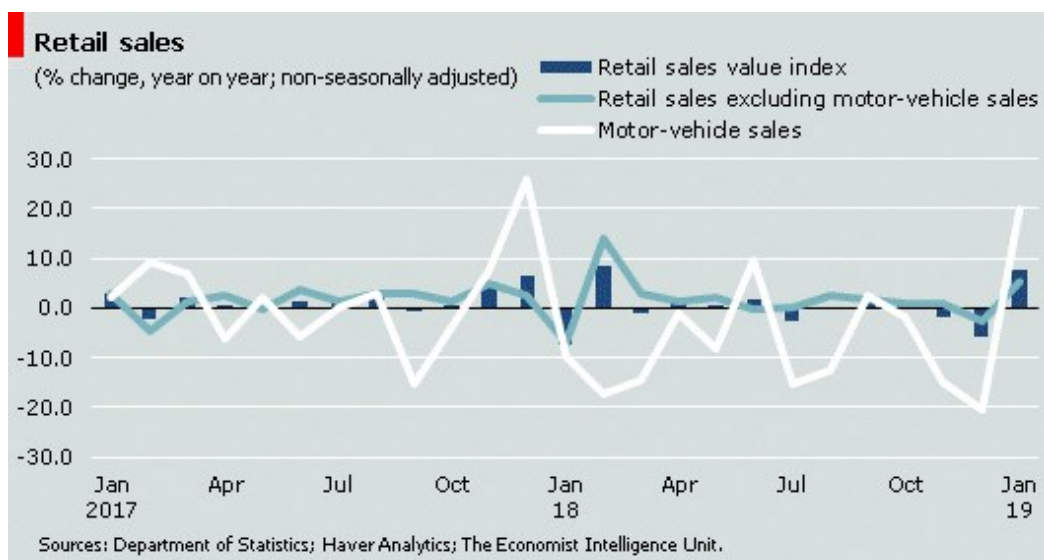
Event

On March 12th the Department of Statistics published retail sales data showing that the value of retail sales was up by 7.6% year on year in January.

Analysis

In recent months, retail sales in Singapore have been sluggish in line with a slowdown in consumer spending. The January performance was partly connected to the Chinese New Year in early February, as purchasing was supported in the run-up to the festival. Consequently, the January data alone are not indicative of wider trends.

Retail sales were supported by a 20% year-on-year rise in spending on motor vehicles. This is a volatile element in sales, as the number of vehicles on the road is controlled via a licensing system in Singapore. The rise in such sales is also likely to have been connected to the Singapore Motorshow in January, which led to a spike in sales. Excluding motor vehicle sales, however, total retail sales were still up by 5.3% year on year. Meanwhile, the food and beverages services index reported a 5.9% year-on-year rise in sales, with the key market segment, restaurant sales, up by 7.5%.



We expect overall domestic consumer demand to slow in 2019, which will preclude strong growth in retail sales. In addition, slowing economic growth in key regional markets, such as China, will also have an impact on retail sales. China is the largest source of tourists to the city state; therefore, slower tourist arrivals will have some dampening effect on retail sales.

Impact on the forecast

We maintain our forecast that private consumption spending growth (which is only loosely illustrated by retail sales) will slow to 1.1% in 2019, from 2.4% in 2018.

Exports spiked in February

March 19, 2019: External sector

Event

On March 18th Enterprise Singapore published external trade data, which showed that non-oil domestic exports (NODX) were up by 4.9% year on year (non-seasonally adjusted) in February.

Analysis

The rise in exports in February comes after three consecutive months of contraction, and is partly owing to growth from a low base in the same month of 2018, a result of distortions caused by the timing of the Chinese New Year festival. Overall, the key electronics sector continued to underperform; electronics NODX were down by 8% year on year in February, albeit easing from a 15.9% decline in January. The outlook for the electronics sector will remain muted in 2019, owing to a cyclical slowdown in global demand for consumer electronics.

Offsetting the dip in electronics exports, however, was the 9.4% rise in non-electronics exports, reversing the 7.9% fall in January. The fact that non-monetary gold shipments were up by more than 250% reflects Singapore's role as a gold trading hub, but also suggests that the pace of the rise in non-electronics trade is not sustainable over the full year.

We expect that despite some signs of a thaw in US-China trade tensions, underlying frictions between the two biggest economies will persist. We expect a [limited trade deal](#) between the two countries; however, it is likely to be a shallow agreement, which only temporarily resolves tensions in that relationship.

Impact on the forecast

We continue to forecast that external trade growth will slow in 2019 in line with weaker global trade growth and cyclical headwinds in the electronics sector. Our forecast for 0.6% growth in exports in 2019 remains appropriate.

Core inflation continued to moderate in February

March 25, 2019: Inflation

Event

On March 25th the Department of Statistics published inflation data showing that consumer prices were up by 0.5% year on year in February.

Analysis

The ongoing [economic slowdown](#) is visible in the latest inflation data: prices rose by only 0.5% year on year in the month in which the Chinese New Year fell this year, indicating that underlying consumer demand remains subdued. Food costs (excluding food-related services) rose by 1% in February, from 1.3% in January.

Although accommodation prices declined, a positive sign was that at 1.6% the pace of decline was the weakest since May 2017. Meanwhile, lower oil and gas prices have had second-round or indirect effects on other components of the price index. Therefore, the core inflation measure tracked by the Monetary Authority of Singapore (MAS, the central bank), which strips out private transport and accommodation costs, eased to 1.5%. This is the lowest rate in almost a year, indicating that underlying inflationary pressures are moderating.

In the light of the relatively cool inflationary pressures, as well as [subdued economic prospects](#), we expect the MAS to halt the tightening stance that it adopted in 2018, in favour of a more accommodative policy. At the next monetary policy meeting, scheduled for April 2019, we expect the MAS to target zero appreciation in the nominal effective exchange rate. This move away from tightening will be aided by an increasingly dovish tone adopted by the Federal Reserve (the US central bank) in 2019.

Impact on the forecast

No changes are required to our current view that consumer prices will rise by 0.5% in 2019.

Electronics output growth remains in the red in February

March 26, 2019: Economic growth

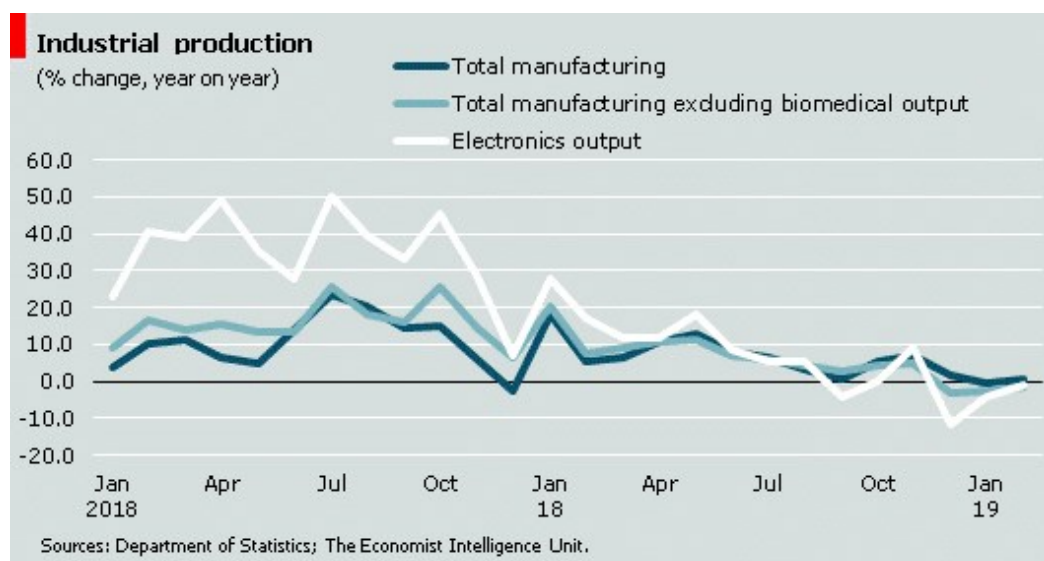
Event

On March 26th Enterprise Singapore published manufacturing production data showing that the city state's industrial output was up by 0.7% year on year in February. Excluding the volatile biomedical manufacturing sector, however, output fell by 1.6%.

Analysis

The overall data indicate that weakness in [regional demand](#) for Singapore's exports is continuing to weigh on the local industrial sector. The key electronics sector reported a 1.1% fall in output on a year-on-year basis. Taking January and February together, electronics output was down by 2.7% year on year. This is largely in line with our view that a cyclical downturn in global demand for consumer electronics will weigh on Singapore's electronics components and finished goods manufacturing sector in 2019. The weakness in electronics demand is also having secondary effects on other sectors. For instance, the output of machinery and equipment declined by 27.8% in February, reflecting lower demand for the production of semiconductors, a key component in the electronics industry.

Meanwhile, the second-largest component of the industrial production index, biomedical manufacturing, recorded a 13.3% increase in production in February, on the back of a 17.9% increase in pharmaceuticals. Singapore's pharmaceuticals output is particularly volatile from month to month, and this sector cannot be relied upon to provide sustainable support to industrial activity.



The weakness in the industrial sector is confirmed by surveys indicating [tepid business sentiment](#). According to data from the Singapore Institute of Purchasing and Materials Management, the reading on the seasonally adjusted purchasing managers' index (a barometer of sentiment in the manufacturing sector) slid to 50.4 in February, only slightly above the 50-point dividing line between expansion and contraction in activity. Meanwhile, the subindex for the electronics sector remained in contractionary territory in February.

Impact on the forecast

While the latest data are broadly in line with our expectations, we will nevertheless make a slight downward adjustment to our current forecast for 2.9% growth in industrial output in 2019.

Electronics PMI remains in contractive territory

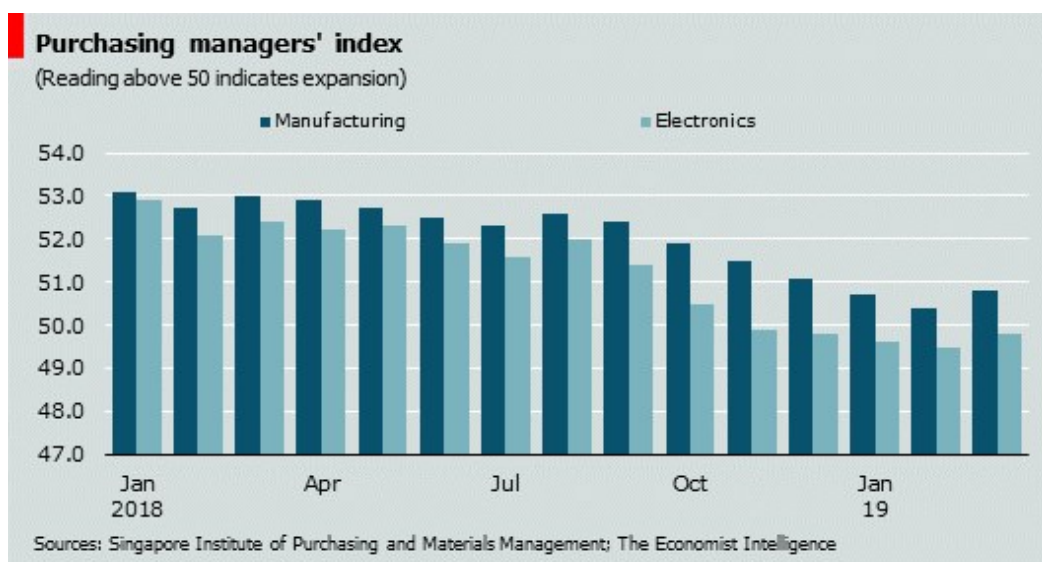
April 4, 2019: Economic growth

Event

Data released by the Singapore Institute of Purchasing and Materials Management on April 3rd showed that the reading on the seasonally adjusted purchasing managers' index (PMI), a barometer of sentiment in the manufacturing sector, rose slightly to 50.8 in March, from 50.4 in February. A reading above 50 indicates an expansion of activity.

Analysis

The March reading suggests an improvement in business sentiment, probably on the back of expectations for a breakthrough in the US-China trade war. As an important node in Asian regional supply chains, Singapore is vulnerable to any escalation in US-China trade tensions. Higher levels of optimism were visible in readings for the new orders and exports subcomponents of the index, which both edged up in March. The data are nevertheless vulnerable to seasonal distortions from the Chinese New Year, and a clearer picture of manufacturing activity may not emerge until April.



The Economist Intelligence Unit expects that the US and China will agree on a [stopgap](#) trade deal at an expected presidential summit between those countries, in either late April or early May. This will reduce immediate economic tensions, which will probably help to lift manufacturing sentiment in Singapore further. Issues over trade deal enforcement, however, mean that we also expect US-China trade friction to resurface in the future, which may reintroduce downwards pressure on manufacturing activity in the same timeframe.

Despite a slight bump from February, however, the reading in the electronics sector subindex (a significant industry for Singapore's economy) remained in contractive territory in March. This is linked to a cyclical dip in global demand for consumer electronics, which has weighed negatively on business sentiment. We expect this trend to persist throughout 2019, regardless of developments tied to the US-China trade war, with a reversal unlikely until the mass commercialisation of fifth-generation (5G) technology begins in 2020.

Impact on the forecast

While the latest data are broadly in line with our expectations, we will nevertheless make a slight downward adjustment to our current forecast for 2.9% growth in industrial output in 2019.



U.S. INDO-PACIFIC Command

<u>Subject</u>	<u>Page</u>
Admiral Philip S. Davidson	189
USINDOPACOM History	191
USINDOPACOM AOR	193
2019 Posture Statement	195

This page intentionally blank

Commander, U.S. Indo-Pacific Command

Admiral Philip S. Davidson, U.S. Navy

Photos



Admiral Philip S. Davidson (Photo by File Photo)

Adm. Phil Davidson is the 25th Commander of United States Indo-Pacific Command (USINDOPACOM), America's oldest and largest military combatant command, based in Hawai'i.

USINDOPACOM includes 380,000 Soldiers, Sailors, Marines, Airmen, Coast Guardsmen and Department of Defense civilians and is responsible for all U.S. military activities in the Indo-Pacific, covering 36 nations, 14 time zones, and more than 50 percent of the world's population.

Prior to becoming CDRUSINDOPACOM on May 30, 2018, he served as the commander of U.S. Fleet Forces Command/Naval Forces U.S. Northern Command. He previously served as the commander, U.S. 6th Fleet, and the commander, Naval Striking and Support Forces NATO, while simultaneously serving as the deputy commander, U.S. Naval Forces Europe and U.S. Naval Forces Africa.

A native of St. Louis, Missouri, Davidson is a 1982 graduate of the United States Naval Academy. He is a surface warfare officer who has deployed across the globe in frigates, destroyers, cruisers, and aircraft carriers.

His earlier sea commands included Carrier Strike Group 8/Eisenhower Carrier Strike Group, USS Gettysburg (CG 64), and USS Taylor (FFG 50).

Ashore, Davidson has served in fleet, interagency, and joint tours as a flag officer; he was previously the director, Maritime Operations, U. S. Fleet Forces Command, the senior military advisor to the Special Representative for Afghanistan and Pakistan (SRAP) at the State Department, and the deputy director for Strategy and Policy in the Joint Staff/J-5.

He served earlier in his career in policy, strategy, and operations billets on multiple tours with the U.S. Pacific Fleet staff, the Navy staff and the Joint Staff, and as the Navy's military aide to the vice president of the United States.

He is a distinguished graduate of the U.S. Naval War College. He has a Master of Arts in National Security and Strategic Studies, and a Bachelor of Science in Physics.

His decorations include the Distinguished Service Medal, the Navy and Marine Corps Commendation Medal with Combat "V," a Superior Honor Award from the U.S. Department of State, and other personal, service, unit, and campaign awards.



USINDOPACOM HISTORY



History of United States Indo-Pacific Command

The U.S. Indo-Pacific Command was established as a unified command on January 1, 1947, and it is the oldest and largest of the United States' unified commands.

The present U.S. Indo-Pacific Command (USINDOPACOM) includes areas originally assigned to two other unified commanders. The Far East Command, which had been established on January 1, 1947, was disestablished on July 1, 1957, and all its responsibilities were assumed by the Pacific Command. That same day the command assumed some of the responsibilities of the Alaskan Command and individual Army and Air Force component commands for the Pacific also were established in Hawaii.

In October 1957, the then Commander in Chief, Pacific Command (CINCPAC) headquarters moved from Makalapa to Camp H.M. Smith, which is also the headquarters of Commander, Marine Forces Pacific. CINCPAC also served concurrently as Commander in Chief, U.S. Pacific Fleet until January 1958, when the U.S. Pacific Fleet became a separate component with its own commander.

Added responsibilities were assigned to CINCPAC on January 1, 1972, for military forces and elements in the Indian Ocean, Southern Asia, and the Arctic. Alaskan Command, one of the original unified commands established on January 1, 1947, was disestablished in 1975 and its responsibilities were transferred to the Pacific Command. The Pacific Command's area of responsibility was further expanded on May 1, 1976, to the east coast of Africa. This enlarged the Pacific Command to more than 50 percent of the earth's surface, an area of over 100 million square miles.

Another enlargement of the USPACOM area took place in October 1983, when CINCPAC was assigned responsibility for the People's Republic of China, the Democratic People's Republic of Korea, Mongolia, and the Republic of Madagascar. CINCPAC was also redesignated Commander in Chief, U.S. Pacific Command (USCINCPAC).

In 1986, the Goldwater-Nichols Reorganization Act expanded, as well as codified, the authority of the commanders of the unified commands to carry out their assigned missions and to employ combatant forces provided by the individual Services.

A new Alaskan Command (ALCOM) was established on July 7, 1989, at Elmendorf Air Force Base, Alaska, as a subordinate unified command responsible to USCINCPAC. (There is no relationship to the original ALCOM, a unified command disestablished in 1975.) This placed the defense of Alaska and its surrounding waters under the leadership of one commander, providing a unity of command absent from the state since the early 1970s.

From 1989 through 2000, three Unified Command Plans slightly reduced USPACOM's area of responsibility. With the focus of attention shifting to the Middle East, the August 16, 1989, plan assigned responsibility for the Gulf of Oman and Gulf of Aden to Commander, U.S. Central Command (USCENTCOM). The January 1, 1996 plan transferred the Seychelles and adjacent waters to USCENTCOM. On October 1, 2000, responsibility for Indian Ocean waters off Tanzania, Mozambique, and South Africa was transferred from USPACOM to U.S. European Command (USEUCOM).

The Unified Command Plan changed as a result of the events of September 11, 2001, and the ensuing war on terrorism, as well as the new defense strategy articulated in the 2001 Quadrennial Defense Review. For the first time the entire surface of the earth was divided among the various unified commands. A new Northern Command (USNORTHCOM) was created for homeland security and other changes in the various commands' responsibilities resulted in significant changes for USPACOM. The West Coast of North America was reassigned from USPACOM to USNORTHCOM. While Alaska was included in the reassignment to USNORTHCOM, Alaskan Command forces remained assigned to USPACOM in the "Forces for Unified Commands Memorandum." Antarctica was also added to USPACOM's area of responsibility. Approved in April 2002, the new Unified Command Plan became effective October 1, 2002.

Effective October 24, 2002, by direction of the Secretary of Defense, the title "Commander in Chief, U.S. Pacific Command" (USCINCPAC) was changed to "Commander, U.S. Pacific Command" (CDRUSPACOM). As stated by Secretary of Defense Donald Rumsfeld, there is only one Commander in Chief and that is the President of the United States.

The 2008 Unified Command Plan, signed on December 17, 2008, documented the transfer of all areas of the Indian Ocean previously assigned to USPACOM west of 68 degrees east to the newly established U.S. Africa Command (USAFRICOM). As a result, four island countries off the east coast of Africa that were formerly assigned to PACOM were reassigned to AFRICOM: Comoros, Madagascar, Mauritius, and Reunion.

USPACOM is the recipient of six Joint Meritorious Unit Awards.

History of Camp H.M. Smith

Camp H.M. Smith, home of the headquarters of Commander, U.S. Indo-Pacific Command and the Commanding General of Marine Forces Pacific, is located on Oahu's Halawa Heights at an elevation of about 600 feet above Pearl Harbor near the community of Aiea. Once covered with sugar cane fields, Camp Smith's location was approved by an Act of Congress on March 17, 1941 to be the site of a new Navy hospital. Initial investment for the 220.5 acres of land was \$912,000; improvements cost an additional \$14 million. Hospital construction began in July 1941. Following the Japanese attack on Pearl Harbor on December 7, 1941, construction of the planned 1,650-bed facility was rushed to completion. When Admiral Chester W. Nimitz attended the commissioning ceremony for the "Aiea Naval Hospital" on November 11, 1942, expansion was already necessary.

Throughout World War II, the Aiea Naval Hospital served as an interim treatment stop for thousands of wounded Sailors and Marines on their way home from the war in the Pacific. Following the battle for Iwo Jima in February - March 1945, the hospital was filled to overflowing with 5,676 in-patients, the highest number at any given time in its history.

On June 1, 1949, the hospital was deactivated when Army and Navy medical facilities were consolidated at the new Tripler Army Medical Center. Vacant and being considered for sale, the Marine Corps selected the site as the "Home of the Fleet Marine Force Pacific" in 1955. The installation was renamed on June 8, 1955, in honor of the first commanding general of Fleet Marine Forces, Pacific and a highly regarded Marine leader during World War II, General Holland McTyeire Smith. The Marines took up residence in October 1955 and Camp H.M. Smith was in full operation two weeks before its dedication on January 31, 1956.

In October 1957, Camp Smith also became the headquarters for USINDOPACOM where they, too, were located in the old Aiea Naval Hospital. In February 2001, ground was broken for a new USINDOPACOM headquarters building. Construction was completed and people began moving into the new Building 700 during the period February-April 2004. Although neither man had commanded the Pacific Command, the building was named in honor of two great leaders of World War II in the Pacific: Fleet Admiral Chester W. Nimitz, USN, and General of the Army Douglas MacArthur, USA. The Nimitz-MacArthur Pacific Command Center was formally dedicated on April 14, 2004.



USINDOPACOM AREA OF RESPONSIBILITY



United States Indo-Pacific Command (USINDOPACOM) is one of six geographic combatant commands defined by the Department of Defense's Unified Command Plan (UCP). As a geographic combatant command, USINDOPACOM is in charge of using and integrating United States Army, Navy, Air Force and Marine Corps forces within the USINDOPACOM area of responsibility (AOR) to achieve U.S. national security objectives while protecting national interests. The USINDOPACOM AOR covers more of the globe of any of the other geographic combatant commands and shares borders with all of the other five geographic combatant commands. The commander of US Indo-Pacific Command reports to the President of the United States through the Secretary of Defense and is supported by multiple component and sub-unified commands including: U.S. Forces Korea, US Forces Japan, U.S. Special Operations Command Pacific, U.S. Pacific Fleet, U.S. Marine Forces Pacific, U.S. Pacific Air Forces and U.S. Army Pacific.

There are few regions as culturally, socially, economically, and geopolitically diverse as the Asia-Pacific. The 36 nations comprising the Asia-Pacific region are home to more than 50% of the world's population, 3,000 different languages, several of the world's largest militaries, and five nations allied with the U.S. through mutual defense treaties. Two of the three largest economies are located in the Asia-Pacific, along with ten of the fourteen smallest. The AOR includes

the most populous nation in the world, the largest democracy, and the largest Muslim-majority nation. More than one third of Asia-Pacific nations are smaller, island nations, including the smallest republic in the world and the smallest nation in Asia.

The region is a vital driver of the global economy and includes the world's busiest international sea lanes and nine of the ten largest ports. The Asia-Pacific is also a heavily militarized region, with seven of the world's ten largest standing militaries and five of the world's declared nuclear nations. Given these conditions, the strategic complexity facing the region is unique.

In concert with other U.S. government agencies, USINDOPACOM protects and defends the territory of the United States, its people, and its interests. With allies and partners, USINDOPACOM is committed to enhancing stability in the Asia-Pacific region by promoting security cooperation, encouraging peaceful development, responding to contingencies, deterring aggression, and, when necessary, fighting to win. This approach is based on partnership, presence, and military readiness.

STATEMENT OF
ADMIRAL PHILIP S. DAVIDSON, U.S. NAVY
COMMANDER, U.S. INDO-PACIFIC COMMAND
BEFORE THE SENATE ARMED SERVICES COMMITTEE
ON U.S. INDO-PACIFIC COMMAND POSTURE
12 FEBRUARY 2019

Chairman Inhofe, Ranking Member Reed, and distinguished members of the committee, thank you for the opportunity to appear before you today to discuss the Indo-Pacific region. First, let me say thank you for the significant support we have received from Congress over the last two years. The temporary relief from the Budget Control Act and an on-time FY19 budget helped to restore the military readiness and lethality necessary to safeguard U.S. vital national interests in the Indo-Pacific.

Overview

For more than 70 years the Indo-Pacific has been largely peaceful. This was made possible by three things: the willingness and commitment of free nations to work together for a Free and Open Indo-Pacific; the credibility of the combat power of U.S. Indo-Pacific Command; and a robust and modern U.S. nuclear deterrent. This commitment, and this credibility, have worked to liberate hundreds of millions of people, as well as lift billions out of poverty, all to a level of prosperity previously unseen in human history. It has also ensured that tensions, regardless of how or where they arise, do not escalate into large-scale war.

Our nation's vision for a Free and Open Indo-Pacific, announced in 2017 at the Asia Pacific Economic Council (APEC) summit in Vietnam, demonstrates our commitment to a safe, secure, and prosperous region that benefits all nations, large and small. The concept of a Free and Open Indo-Pacific resonates with our allies and partners across the region and includes economic, governance, and security dimensions. The vast majority of nations across the region share similar values, including the core beliefs that governments should be accountable to their people. We must stand together in support of our shared values and be unambiguous in condemning those who attempt to undermine those values.

USINDOPACOM is the primary military component of our government's efforts to ensure a Free and Open Indo-Pacific. Every day we work with a constellation of like-minded allies and partners and the rest of the U.S. government to advance our shared vision for a Free and Open Indo-Pacific.

When we say Free we mean Free both in terms of security—free from coercion by other nations—and in terms of values and political systems. Free to choose trading partners. Free to exercise sovereignty.

An Open Indo-Pacific means we believe all nations should enjoy unfettered access to the seas and airways upon which all nations' economies depend. Open includes open investment environments, transparent agreements between nations, protection of intellectual property rights, and fair and reciprocal trade—all of which are essential for people, goods, and capital to move across borders for the benefit of all.

While the term "Free and Open Indo-Pacific" is new, the underlying values and principles to which the vision speaks are not. In fact, this is how the United States has approached the region throughout our 240-plus year history. We are now seeing a general convergence around the importance of a free and open Indo-Pacific across the region—as Japan, Australia, France, New Zealand, and India have all put forth similar concepts or visions.

The United States is an enduring Pacific power. Our historical, structural, economic, and institutional ties to the Indo-Pacific are indelible.

U.S. power underpins the post-WWII international system that helps strengthen the essential foundation of a rules-based international order for economic growth and prosperity in the region for everyone. Furthermore, USINDOPACOM's role as a guarantor of security in the region has enabled our economic power and allowed our partners and allies to focus on their economic development, which in turn has increased opportunities for U.S. economic engagement and prevented costly conflict. A peaceful, free, and open Indo-Pacific is especially vital to our economy in the 21st century when you consider the following:

- The United States conducted more than \$1.8 trillion in two-way goods trade with Indo-Pacific nations in 2017, and more than \$1.3 trillion by the third quarter of 2018.
- In 2017, U.S. foreign direct investment in the region reached \$940 billion – more than doubling since 2007.

- The Indo-Pacific is home to half of the 20 fastest growing economies.
- The Indo-Pacific currently contains over a third of global GDP and 60% of the global GDP growth.
- By 2030, 65% of the world’s middle class will reside in the Indo-Pacific, representing an unrivaled amount of purchasing power.

As the above statistics portend, this dynamic and economically robust region will continue to play a vital role in our economic future throughout the 21st century.

Five Key Challenges

In my view, five key challenges threaten our vital national interest in ensuring a Free and Open Indo-Pacific. While we have made significant progress over the last year, North Korea will remain the most immediate challenge until we achieve the final, fully verifiable denuclearization as committed to by Chairman Kim Jong Un at the summit in June 2018. China, however, represents the greatest long-term strategic threat to a Free and Open Indo-Pacific and to the United States. Through fear and economic pressure, Beijing is working to expand its form of Communist-Socialist ideology in order to bend, break, and replace the existing rules-based international order. In its place, Beijing seeks to create a new international order led by China and with “Chinese characteristics”—an outcome that displaces the stability and peace of the Indo-Pacific that has endured for over 70 years. Russia is also active throughout the region. Moscow regularly plays the role of a spoiler, seeking to undermine U.S. interests and impose additional costs on the United States and our allies whenever and wherever possible. I am also concerned about the threat posed by non-state actors. Violent Extremist Organizations (VEOs) seek to impose their views and radicalize people across the region, as evidenced by the capture of Marawi City in the southern Philippines in 2017—a city of over 200,000 people—by ISIS extremists. Lastly, natural and manmade disasters are an ever present danger in the region. Let me describe these five key challenges in more detail.

North Korea:

Denuclearization. USINDOPACOM’s assessment on North Korean denuclearization is consistent with the Intelligence Community position. That is, we think it is unlikely that North

Korea will give up all of its nuclear weapons or production capabilities, but seeks to negotiate partial denuclearization in exchange for U.S. and international concessions.

Following a rapid series of nuclear and missile tests into 2017, tensions declined; North Korea halted nuclear testing in September 2017 and ICBM testing in November 2017. President Trump's meeting with Chairman Kim in Singapore in June 2018 was a significant milestone, and I am optimistic about another U.S.-North Korea summit. North Korea has taken some steps in the direction of denuclearization, most notably the reversible dismantlement of tunnels at the Punggye nuclear test site, yet much needs to be done to make meaningful progress.

In early 2018, the two Koreas initiated a season of rapprochement, beginning with the Winter Olympics in February 2018, and continuing through three subsequent Korean summits between President Moon and Chairman Kim and multiple lower-level meetings. More recently, North Korea has undertaken measures in accordance with the Comprehensive Military Agreement it signed with South Korea in September 2018, to include dismantling guard posts within the demilitarized zone and removing land mines near Panmunjom. North Korea also returned remains of U.S. service members from the Korean War, which provided great comfort to mourning families.

I welcome these steps, but we must remain vigilant to the threat North Korea still poses to the United States and the international community. North Korea has demanded "corresponding measures" from the United States in return for these above actions. Kim warned in his 2019 New Year's speech of a potential "new path," which could indicate an eventual return to missile and weapons of mass destruction (WMD) testing if he is not satisfied with the pace of negotiations and potential benefits. Our military combat readiness and combined lethality remain the best deterrent and the best leverage against any threat from North Korea.

Sanctions. North Korea is continuing efforts to mitigate the effects of international sanctions and the U.S.-led pressure campaign through diplomatic engagement, counter pressure against the sanctions regime, and direct sanctions evasion. USINDOPACOM will continue to support the President's pressure campaign by ensuring the military readiness of the combined force and

supporting sanctions enforcement as directed by United Nations Security Council Resolutions (UNSCR). UNSCR sanctions resulted in a decline in North Korea's export earnings and cut off key cash flow sources. However, recent calls from Russia and China to change the sanctions against North Korea threaten to undo these positive developments.

Additionally, North Korea has a long history of flouting international sanctions, and Pyongyang regularly attempts to circumvent them. Early in 2018, North Korea exceeded its sanctioned limit on refined petroleum imports through illicit ship-to-ship transfers. USINDOPACOM is working with partners and allies to disrupt illicit ship-to-ship transfers that occur primarily in the East China Sea, often near or in Chinese territorial waters, and in the Yellow Sea. North Korea is also engaged in cross-border smuggling operations and cyber-enabled theft to generate revenue, while simultaneously circumventing United Nations Security Council prohibitions on coal exports.

China:

Military Modernization. Over the last 20 years, Beijing has undertaken a massive effort to grow and modernize the People's Liberation Army (PLA). The PLA is the principal threat to U.S. interests, U.S. citizens, and our allies inside the First Island Chain—a term that refers to the islands that run from northern Japan through Taiwan, the Philippines, and Indonesia—and the PLA is quickly increasing its ability to project power and influence beyond the First Island Chain. Beijing pursues both qualitative and quantitative efforts to transform its military, modernizing its military platforms while simultaneously increasing the number of platforms in service. Newly-fielded systems include:

- Beijing's first aircraft carrier group, centered around its refurbished Soviet-built carrier, reached initial operational capability in mid-2018.
- Beijing's first domestically-built aircraft carrier, has completed four sets of sea trials since May 2018 and will likely join the PLA Navy (PLAN) fleet in 2019.
- The RENHAI-class guided missile cruiser, was launched in 2017; three additional vessels were added to the PLA Navy's inventory in 2018. This class of vessels will be a key component of PLA Navy carrier strike groups.
- The FUYU-class fast combat support ship, developed specifically to support aircraft carrier task group operations, was commissioned less than a year ago.

- The J-20, the PLA's first 5th-generation stealth fighter, entered service in February 2018; plans are underway to research a sixth-generation fighter.
- The Y-20, a domestically-produced heavy-lift aircraft, entered military service in 2016; the Y-20 has a significantly larger payload capacity and range than the PLA's previous heavy and medium-lift aircraft, which advances Beijing's strategic airlift capability.
- The S-400 advanced surface-to-air missile system, received from Russia in April, 2018; the S-400 has a 250-mile range, which could expand the PLA's air coverage over the Taiwan Strait and other high priority facilities.

The PLA maintains a high operations tempo, primarily in and near China, but is quickly expanding its operating areas beyond the region. The PLA's Naval Escort Task Force (NETF)—now in its 31st iteration—follows its anti-piracy missions off the Horn of Africa by conducting naval diplomacy deployments to Europe, Africa, and the South Pacific. From May-July 2018, the 28th NETF completed a three-month naval diplomacy tour conducting port visits and bilateral exercises in Spain, Nigeria, Ghana, Cameroon, Gabon, South Africa, and Indonesia before returning to China. Beijing regularly conducts joint military exercises across its ground, sea, air, and space forces, including amphibious assault training that is designed and specifically timed to intimidate Taiwan. This spring, approximately 10,000 PLA Marines traveled more than 1,200 miles as part of a large-scale exercise designed to improve long-range maneuverability. In April, Beijing conducted a live-fire exercise into the Taiwan Strait with coastal artillery, and PLA Air Force (PLAAF) bombers regularly circumnavigate Taiwan.

Beijing continues pursuing next-generation technologies and advanced weapons systems, including hypersonic glide vehicles, directed energy weapons, electromagnetic railguns, counter-space weapons, and unmanned and artificial intelligence-equipped weapons. The PLA has also made significant technological, game-changing developments in its ability to defeat, or drastically reduce, the effectiveness of U.S. sensors and defensive weapons. The PLA has tested hypersonic missiles since 2014, including the WU-14, with speeds approaching Mach 10. In August 2018, Beijing claimed to have successfully tested its first hypersonic aircraft.

Beijing is also modernizing and adding new capabilities across its nuclear forces. China's third generation Type 096 nuclear-powered Ballistic Missile Submarine (SSBN) will be armed with JL-3 sea-launched ballistic missiles and will likely begin construction in the early-2020s. In April, Beijing confirmed the DF-26 entered service—a road-mobile, nuclear, and conventional capable Intermediate-Range Ballistic Missile (IRBM), expanding Beijing's near-precision strike capability as far as the Second Island Chain (a term that refers to the southern part of the Aleutian Islands, the Commonwealth of Northern Mariana Islands, Guam, the Republic of Palau, and northern Papua New Guinea). Beijing continues testing its DF-41 road-mobile Intercontinental Ballistic Missile (ICBM), which carries multiple independently targetable re-entry vehicles and has a range of up to 9,300 miles.

South China Sea. Beijing maintains maritime claims in the South China Sea that are contrary to international law and pose a substantial long-term threat to the rules-based international order. Beijing ignored the 2016 ruling of an Arbitral Tribunal established under Annex VII of the Law of the Sea Convention, which concluded that China's claims to historic rights, or other sovereign rights or jurisdiction, with respect to the maritime areas of the South China Sea encompassed by the "nine-dash line" are contrary to UNCLOS and without legal effect. In April 2018, Beijing continued militarizing outposts by deploying advanced military systems that further enhance the PLA's power projection capabilities, including missiles and electronic jammers. These actions run directly counter to President Xi's 2015 commitment not to militarize these features. On multiple occasions, Beijing has landed military transport aircraft on the Spratly Islands and long-range bombers on the Paracel Islands. Additionally, Chinese Coast Guard vessels now fall under the command of the Central Military Commission and regularly harass and intimidate fishing vessels from our treaty ally, the Philippines, operating near Scarborough Reef, as well as the fishing fleets of other regional nations.

East China Sea. Beijing continues using its military forces to advance its territorial claims in the East China Sea. Beijing maintains a high level of surface combat patrols in the East China Sea. Additionally, Chinese Coast Guard vessels frequently enter the territorial waters of the Senkaku Islands, which the United States recognizes as being under the administrative control of the Japanese. In 2017, these incursions occurred on an average of once every ten days, and

continued in 2018 at about two per month. Additionally, while Beijing mostly implements United Nations Security Council Resolutions against North Korea, in a number of cases, illicit ship to ship transfers continue to occur within Chinese territorial waters.

Economic Pressure. While the United States strives to promote a Free and Open Indo-Pacific, Beijing is leveraging its economic instrument of power in ways that can undermine the autonomy of countries across the region. Beijing offers easy money in the short term, but these funds come with strings attached: unsustainable debt, decreased transparency, restrictions on market economies, and the potential loss of control of natural resources. Beijing's actions in this regard have potential military ramifications as well. Beijing touts its need to safeguard its citizens abroad and defend its expanding global interests in order to justify increased permanent PLA overseas basing and presence. Beijing is also exploiting growing debt burdens to access strategic infrastructure in the region. In December 2017, Sri Lanka handed over control of the newly-built Hambantota seaport to Beijing with a 99-year lease because Sri Lanka could no longer afford its debt payments to China.

Over the last year, we have seen that countries across the region are becoming more aware of the threat Beijing's economic policies pose. Malaysia announced the cancellation of three projects worth \$22 billion in August 2018, declaring that it could not afford Beijing's projects, decrying the corrupt practices associated with the projects, and criticizing the loans as a "new version of colonialism." The Maldives' former president described Beijing's investments as a "land grab" under the guise of development. In contrast, the United States' vision for a Free and Open Indo-Pacific strives to preserve the autonomy of independent nations in the Indo-Pacific region. We must continue to support countries that stand up to Beijing's coercive economic policies whenever possible and help those countries offset any economic blowback from Beijing. Our engagement in the Indo-Pacific must truly be a whole-of-government undertaking, in partnership with the private sector and civil society, to counter China's economic coercion.

Arctic and Antarctic. Beijing recognizes the growing strategic significance of the Arctic and Antarctic and has signaled its plans to assert a greater role in these regions. Despite not being an Arctic nation, Beijing published its first Arctic policy paper in 2018, which defends Beijing's

role in the region and outlines Beijing's vision of a "Polar Silk Road" to complement its other economic initiatives. Beijing launched its first domestically built icebreaking research vessel in September 2018, and Beijing plans to launch its second in 2019. Beijing also opened bidding for construction of its first nuclear-powered icebreaker. Beijing wants to boost its polar research and expedition capabilities and recently announced plans to double the frequency of its Arctic expeditions to once a year. Beijing has also expressed increasing interest in Antarctic operations and establishing logistics stations to supply them. This is of increasing concern to our ally Australia, as well as New Zealand, as Beijing seeks positional advantage and control of territory and natural resources in these vital regions.

Fentanyl and Pre-Cursors Chemicals. Another challenge that affects the security environment indirectly is the continuing fentanyl and opioid crisis in the United States. Illicit fentanyl, as well as legal pre-cursor chemicals used in the production of illegal drugs primarily originate from China. Moreover, technological advancements in e-commerce and commercial shipping present a different business model from the traditional methods used by transnational criminal organizations for drug trafficking. These innovations represent a new level of complexity for U.S. law enforcement agencies and policymakers alike. I welcome the PRC's decision to designate and regulate fentanyl as a controlled substance after President Xi's meeting with President Trump in Argentina in December of last year, and we look forward to seeing tangible progress.

Russia:

Military modernization. Moscow continues to modernize its military forces, viewing military power as critical to achieving key strategic objectives and global influence. Nuclear weapons remain an important component of Russia's power projection and deterrence capabilities, and the Russian military conducts regular nuclear-capable Tu-95 Bear bomber long-range aviation flights off the coasts of Japan, Korea, Canada, and Alaska. For the past decade Russian military planning has emphasized the development of modernized platforms and weapons systems, and Moscow is pushing these platforms to the Indo-Pacific region. In recent years, the Eastern Military District has become increasingly important for Russian security interests. Russia has invested in military infrastructure, improved its command-and-control capabilities, deployed

anti-ship missile systems, and modernized its anti-air capabilities in the region. For example, Russian units in the Eastern Military District expect to take delivery of thirty-seven new vessels by 2024, which is a major increase compared to the twenty-eight new units received in the region over the last decade. Moscow recently announced plans to expand its combat forces in the Eastern Military District and to substantially reinforce the Pacific Fleet. Despite the threat of U.S. sanctions through the 2017 Countering America's Adversaries Through Sanctions Act (CAATSA), Russia continues to export weapons to the Indo-Pacific region.

Furthermore, Russia hosted its largest military exercise since 1981, Exercise VOSTOK 2018, simulating land, sea, and air operations in the Eastern Military District and mobilizing forces from across Russia to engage in multiple live-fire missile launches. Of note, Chinese forces participated in Exercise VOSTOK for the first time. While Beijing's military cooperation was largely symbolic, because the forces remained segregated with separate command posts, Vostok 2018 was still a significant first step in forging a closer military partnership.

Japan-Russia Relations. Japan and Russia have a long-standing territorial dispute since the Second World War over the Northern Territories/Kuril Islands, which are strategically important for Russia's access to the Pacific Ocean. Russia has further entrenched itself in this contested territory by reestablishing an airfield on Matua Island, located in what it calls the central Kuril Islands, to accommodate light military transport aircraft and helicopters. Russia has also deployed coastal defense cruise missile systems and SU-35 multirole fighters to the islands and also announced plans to build a naval base. This more assertive approach to its eastern front reflects growing focus in Moscow of the vital importance of the broader Indo-Pacific for Russia's long-term security. Although Prime Minister Abe and President Putin have met on several occasions to negotiate a peace treaty that could, in part, resolve this territorial dispute, they have not reached an agreement. Russia remains concerned that the United States could establish military facilities under Article VI of the Treaty of Mutual Cooperation and Security in the Northern Territories if they are returned to Japan

Violent Extremist Organizations (VEOs):

In the wake of the 2017 siege of the southern Philippine city of Marawi, Philippine security forces have maintained consistent pressure on Islamic State of Iraq and Syria (ISIS) networks in the Philippines, conducting a number of arrests in 2018. Additionally, counterterrorism operations on the Philippine island of Jolo against ISIS-supporting elements of the Abu Sayyaf Group succeeded in disrupting kidnap-for-ransom operations. ISIS claimed credit for multiple small-scale attacks in the Philippines, including a mid-2018 vehicle-borne improvised explosive device attack at a military checkpoint in the southern Philippines. Outside of the Philippines, we saw a number of small-scale attacks in 2018, and I remain concerned about the growth of ISIS in the region. Over 1,000 foreign terrorist fighters have traveled to Iraq and Syria from the Indo-Pacific region, and at least 170 have returned. We expect the number of returnees to increase with the persistent loss of ISIS-held territory. ISIS' Amaq News claimed responsibility for a series of mid-May 2018 bombings against churches and a police headquarters in Surabaya, Indonesia. Other countries across the region remain concerned about the potential for disenfranchised and vulnerable populations to become recruitment targets. Self-radicalized violent extremists who are influenced or inspired by ISIS or other extremists are another cause for concern. The recent attack on a local Catholic parish in Jolo in the Sulu Archipelago is evidence of continued concern.

Natural and Man-made Disasters:

The Indo-Pacific remains the most disaster-prone region in the world. It contains 75% of the earth's volcanoes and 90% of earthquakes occur in the "Ring of Fire" surrounding the Pacific Basin. Since 2008 the Indo-Pacific has lost half a million lives and suffered over \$500 million in damages, with over one and a half billion people affected by natural and manmade disasters overall. The UN estimates that economic losses in the region due to disasters could exceed \$160 billion annually by 2030. Many countries across the region lack sufficient capability and capacity to manage natural and man-made disasters.

A key element of USINDOPACOM's engagement strategy in the region is building capacity with our allies, partners, and friends to improve their resilience and capability to conduct their own humanitarian assistance and disaster relief (HA/DR).

USINDOPACOM directly supports HA/DR efforts across the region, as well. In July 2018, we sent special operations forces to help the international effort to rescue twelve Thai boys and their coach from a flooded cave. USINDOPACOM also assisted relief efforts in Sulawesi, Indonesia last year with sixty-four personnel and three C-130 aircraft after an earthquake and tsunami hit the country. Another recent example of USINDOPACOM's support continues today after the Super Typhoon Yutu hit Tinian and Saipan. USINDOPACOM responded quickly by providing joint forces, equipment, and fresh drinking water, and by building temporary shelters and assisting with clearing debris from roads and homes.

USINDOPACOM's Security Role in the Indo-Pacific

The most important security development in the Indo-Pacific has been the rapid modernization of the PLA. The scope and scale of that modernization has caused USINDOPACOM's relative competitive military advantage to erode in recent years. With the 2018 National Defense Strategy as a guide, USINDOPACOM is focused on regaining our competitive military advantage and ensuring a Free and Open Indo-Pacific over the short- and long-term.

My strategy centers around fielding and sustaining a force capable of combat-credible deterrence that is postured for two distinct security roles: to win before fighting and, if necessary, be ready to fight and win.

Ready to Fight and Win. USINDOPACOM's ability to prevail in armed conflict is the foundation of combat credible deterrence. By fielding and maintaining a joint force ready to fight and win, USINDOPACOM reduces the likelihood that any adversary will resort to military aggression to challenge or undermine the rules-based international order.

Win Before Fighting. Deterrence is necessary to prevent conflict, but deterrence alone cannot ensure a Free and Open Indo-Pacific. Our adversaries are pursuing their objectives in the space between peace and war, using fear and coercive actions across the instruments of national power to revise the rules-based international order and without resorting to armed conflict. Alongside like-minded allies and partners, USINDOPACOM must compete in the "gray zone" between

peace and war. These deliberate actions will ensure a Free and Open Indo-Pacific against those malign actors that seek to accomplish their political objectives short of armed conflict.

USINDOPACOM Focus Areas

Given the challenges in the region, ensuring a Free and Open Indo-Pacific requires that USINDOPACOM remain ready to execute high-end/high-tech wartime missions on short notice. USINDOPACOM must be postured to achieve a more advantageous security environment without the lethal use of military force. The following four focus areas guide the command's efforts toward meeting both of the aforementioned security roles:

- **Focus Area 1. Increase joint force lethality.** We must continue to develop and field capabilities necessary to deter aggression and prevail in armed conflict should deterrence fail.
- **Focus Area 2. Enhance our design and posture.** We will adapt from our historic service-centric focus on Northeast Asia only to a more integrated joint force blueprint that is informed by the changing threat environment and challenges of the 21st century across the entire Indo-Pacific region.
- **Focus Area 3. Exercise, experiment, innovate.** Targeted innovation and experimentation will evolve the joint force while developing asymmetric capability to counter adversary capabilities.
- **Focus Area 4. Strengthen our allies and partners.** Through increased interoperability, information-sharing, and expanded access across the region, we will present a compatible and interoperable coalition to our adversaries in crisis and armed conflict.

Focus Area 1: Increase Joint Force Lethality

Over the last two decades, adversaries have rapidly closed the gap in many of the areas that used to be clear asymmetric advantages for the United States, encroaching upon USINDOPACOM's ability to deter conflict or prevail in armed conflict should deterrence fail. Our adversaries are fielding advanced Anti-Access Area Denial (A2AD) systems, advanced aircraft, ships, space, and cyber capabilities that threaten the U.S. ability to project power and influence into the region. Increasing joint force lethality means developing and fielding systems and capabilities to

preserve our key asymmetric advantages in order to prevent any potential adversary from thinking it can achieve its political or military objectives through armed conflict. Increasing our joint force lethality means joint and combined interoperability, an integrated fires network that enables long-range strike, and advanced missile defense systems capable of detecting, tracking, and engaging advanced air, cruise, ballistic, and hypersonic threats from all azimuths. In short, we must be able to defend our forces and project power so that no adversary can achieve sustained dominance in the Indo-Pacific and threaten our key allies and partners.

Air Superiority. The United States cannot assume that it will have air superiority in the Indo-Pacific. For over fifteen years, the predominant employment of United States armed forces has been in the ongoing fight against terrorism in Syria, Iraq, and Afghanistan where our ability to dominate in the air domain was unchallenged. In contrast, the U.S. faces peer competitors in the Indo-Pacific. Beijing has invested heavily in systems that challenge the United States' ability to achieve air superiority. The U.S. government must continue to pursue multi-domain capabilities to counter anti-air capabilities and we continue to prioritize 5th generation fighter capabilities to the Indo-Pacific.

Undersea Warfare. The United States must maintain its advantage in undersea warfare—an asymmetric advantage that our adversaries are focused on eroding. There are four-hundred foreign submarines in the world, of which roughly 75% reside in the Indo-Pacific region. One-hundred and sixty of these submarines belong to China, Russia, and North Korea. While these three countries increase their capacity, the United States retires attack submarines (SSNs) faster than they are replaced. USINDOPACOM must maintain its asymmetric advantage in undersea warfare capability, which includes not just attack submarines, but also munitions and other anti-submarine warfare systems such as the P-8 Poseidon and ship-borne anti-submarine systems. Potential adversary submarine activity has tripled from 2008 levels, which requires at least a corresponding increase on the part of the United States to maintain superiority.

Intelligence, Surveillance, and Reconnaissance. The Indo-Pacific's dynamic security environment requires persistent and intrusive Intelligence, Surveillance, and Reconnaissance (ISR) to provide indications, warning, and situational awareness across over half the world.

USINDOPACOM supports a re-allocation of DoD ISR assets to better satisfy intelligence needs in line with National Defense Strategy-priorities. USINDOPACOM relies on a mix of Airborne ISR (AISR) assets to provide a dedicated and flexible ISR capability across the entire region.

USINDOPACOM supports efforts to re-capitalize critical AISR capabilities and the continued development of future ISR platforms, such as the MQ-4C Triton, as well as our interoperable Processing, Exploitation, and Dissemination architectures.

Space. Space is a vital strategic domain. U.S. adversaries are militarizing space; USINDOPACOM must have access to resilient and defensible space systems that can operate in a contested environment. USINDOPACOM relies on space-based assets for satellite communications (SATCOM), ISR, missile warning, and Positioning, Navigation, Timing (PNT) capabilities, which support missions across the range of military operations. The command's vast geographic expanse increases the strain on USINDOPACOM's requirements and our reliance on low-density space-based assets that are in high-demand.

As Beijing's and Moscow's military modernization continues, they are pursuing broad and robust counter-space capabilities. While not as advanced, North Korea remains a threat through its employment of SATCOM and PNT jammers. The threat to the electromagnetic spectrum continues as our adversaries develop means to deny our space-enabled capabilities. As Space Command (SPACECOM) transitions responsibilities from United States Strategic Command (STRATCOM) into the future Space Force, USINDOPACOM looks forward to continued collaboration in this critical domain as we work to further integrate space-based capabilities into our daily operations and contingency planning.

Cyber. USINDOPACOM is heavily reliant on cyber capabilities and faces increasing threats in the cyber domain from both state and non-state actors, such as Beijing, Moscow, Pyongyang, and criminal actors. The United States must ensure it has a robust and capable cyber force with all required equipment and a common network operational structure necessary to ensure command and control. Moreover, USINDOPACOM requires an agile and defensible mission command network infrastructure to ensure adequate command and control, and enable interoperability with

our allies and partners to fully leverage our combined capacities. Furthermore, the DoD must prevent and, if necessary, respond to cyber-attacks against non-military critical infrastructure in both homeland defense and in support of civil authorities.

The U.S. military's offensive cyber capabilities provide additional tools to leverage as part of multi-domain operations to compete and win, but these tools must become more responsive to the operational requirements of the combatant commands. The growth in these offensive capabilities is not limited to equipment – we need talent and innovation. The development and retention of personnel with subject-matter expertise is a critical component for our nation's success.

My staff coordinates extensively with USCYBERCOM to integrate effective offensive, defensive, and network operations into my multi-domain plans and operations. Our staffs collaborate daily on current operations through our respective operations centers, at least weekly on future operations planning, and at least quarterly on future capability requirements.

Multi-Domain and Distributed Operations. As adversary military forces grow in both quantity and quality, USINDOPACOM must integrate operations in all domains to be successful in the 21st century. The Multi-Domain and Distributed Operations concepts of the services incorporate the capabilities of the physical domains and place greater emphasis on space, cyberspace, and other contested areas including the electromagnetic spectrum, the information environment, and the cognitive dimension of warfare. Multi-Domain and Distributed Operations allow U.S. forces to outmaneuver adversaries physically and cognitively, advancing the 20th century concept of combined arms into the 21st century's requirement to operate across all domains, at all times.

I fully support all services and functional commands efforts to operationalize Multi-Domain and Distributed Operations concepts. In 2018, USINDOPACOM successfully demonstrated Multi-Domain and Distributed Operations capabilities in major exercises while also integrating new technologies and approaches across the joint force. In the years ahead, USINDOPACOM will

progress from experimentation to validation of concepts, culminating in an overall increase in the lethality of the joint force.

Advanced Munitions. Developing and fielding advanced munitions is a critical component to increasing joint force lethality. The following are some of the more pressing munitions upgrades based on the challenges we face in the region:

- Improvements to Missile Defense – Patriot Missile Segment Enhanced (MSE), Terminal High Altitude Area Defense (THAAD) upgrades, and other capabilities to defend against maneuvering and hypersonic missiles.
- Innovations in heavy weight torpedo technology provide force-multiplying effects that currently do not exist, including long range in-port or at-sea attack and shallow water covert mine laying.
- The immediate resourcing and integration of ATACMS system and/or the Kongsberg Naval Strike Missile with HIMARS/MLRS to support Army and United States Marine Corps (USMC) units conducting Multi-Domain Operations and sea control missions.
- Continued investments in Hard Target Munitions (HTM). There is a significant increase in the number of hard and deeply buried targets in the theater requiring HTM.
- Hypersonic long-range strike (H-LRS) – these emerging weapons dramatically improve probability of engaging time sensitive targets and have increased survivability and thus higher probability of success.
- Effective counters to the expanding asymmetric unmanned aerial system (UAS) threat including potential for multiple swarms of small UAS.

Focus Area 2: Enhance Design and Posture

To effectively defend U.S. interests, USINDOPACOM must update its existing design and posture to compete with our adversaries across the entire Indo-Pacific. At present, USINDOPACOM forces west of the International Date Line are focused in Northeast Asia – an historical legacy of the Second World War and Korean War. We must update our design and posture to preserve strength in this key region, but also ensure that the United States is ready to compete and win before fighting across all of the Indo-Pacific. By recalibrating theater posture

to balance capabilities across South Asia, Southeast Asia, and Oceania, USINDOPACOM will be able to respond to aggression more effectively throughout the Indo-Pacific.

Similarly, the USINDOPACOM Joint Logistics Enterprise must be capable of supporting joint warfighting requirements across the entire theater in a more dynamic and distributed posture. Posture and pre-positioning are essential to overcome the region's tyranny of distance. Ship sailing times are upwards of ten days from the U.S. west coast, and it takes significant lead-time to reposition strategic airlift and tanker support to enable major force flow.

The speed of war has changed, and the nature of these changes makes the global security environment even more unpredictable. It's dangerous and unforgiving. Time and decision space have collapsed, so our approach to warfare must adapt to keep pace; with the speed and multiple avenues that our adversaries are able to pursue. We require a force posture that enables the United States to undertake a spectrum of missions. These missions include: capacity building for partners that face internal and external vulnerabilities, cooperation on transnational threats, and joint and combined training. Our enhancements to interoperability make for more effective coalitions in crisis.

USINDOPACOM will "regain the advantage" by positioning theater infrastructure that supports:

- Expeditionary capability that is agile and resilient.
- Dynamic basing for our maritime and air forces.
- Special operations forces capable of irregular and unconventional warfare.
- Anti-submarine warfare capabilities unmatched by any adversary.
- Land forces equipped with weapons systems that hold an adversary's air, sea, and land forces at risk.
- Cyber and space teams integrated into Multi-Domain and Distributed Operations.
- Unique intelligence, surveillance, and reconnaissance capabilities.

Global Force Management (GFM) and Posture. The Indo-Pacific is a theater that requires short response timelines across a vast region. Regional threats require U.S. forces to maintain a high level of readiness to respond rapidly to crises. USINDOPACOM's readiness is evaluated

against its ability to execute operational and contingency plans. The plans place a premium on ready and immediately responsive forces that can exercise, train, and operate with our partner nations' militaries. Forward-stationed forces west of the International Date Line decrease response times, bolster the confidence of allies and partners, and reduce the chance of miscalculation by potential adversaries. Contingency response times require that I have the essential conventional and strategic forces assigned to USINDOPACOM.

In line with the National Defense Strategy, USINDOPACOM prioritizes stationing and deployment of 5th generation aircraft in the Indo-Pacific. Additionally, the United States has deployed some of our newest and most advanced aviation platforms to the region, such as the P-8 Poseidon, RQ-4 Global Hawk, MV-22 Osprey, EA-18G Growler, E-2D Hawkeye, and C-130J Super Hercules.

In addition to forward stationed forces, the ability of the United States to surge, rotate, and globally maneuver ready forces is an asymmetric advantage that must be maintained. The high operational demands, delayed maintenance, training pipeline shortfalls, and shortage of ready surge forces limit USINDOPACOM's responsiveness to emergent contingencies and greatly increases risk. The challenges grow each year as our forces continue to deploy at unprecedented rates while the DoD grapples with fiscal uncertainty.

Integrated Air and Missile Defense. USINDOPACOM faces unique Integrated Air and Missile Defense (IAMD) challenges in the Indo-Pacific to protect our forces and allies. Hawaii, Guam, and our Pacific Territories are part of our homeland and must be defended. Hawaii is currently protected from North Korean Intercontinental Ballistic Missiles (ICBMs) by the Ground-Based Midcourse Defense System. This system includes Ground-Based Interceptors in Alaska and California; ground, sea, and space-based sensors; and redundant command, control, and communications systems.

For the defense of Hawaii, the planned Homeland Defense Radar Hawaii (HDRH) will improve U.S. capabilities. A Notice of Intent to Prepare an Environmental Impact Statement was released in June 2018, and the radar is projected to be operational by late 2023. The HDRH will

provide an enhanced ballistic missile sensing and discrimination capability in the Indo-Pacific, and it increases the capability of the Ground-Based Midcourse Defense System to defend Hawaii.

Meanwhile, our adversaries continue to improve their capabilities in ways that challenge the United States' strategic, operational, and tactical freedom of movement and maneuver. Beijing and Moscow continue to develop and field advanced counter-intervention technologies, which include highly maneuverable reentry vehicle and warheads (hypersonic weapons). Beijing and Russia possess cruise missiles and small-unmanned aerial systems (sUAS) that fly different trajectories, making them hard to detect, acquire, track, and intercept due to unpredictable low-flight profiles and sophisticated countermeasures. North Korea retains its nuclear and ICBM capabilities.

USINDOPACOM's IAMD priority is to establish a persistent, credible, and sustainable ballistic missile defense by forward deploying the latest missile defense technologies to the Indo-Pacific. Through forward and persistent presence, these active missile defense capabilities would help mitigate the risk to missile threats faced in the region and to the homeland. USINDOPACOM addresses this IAMD priority in the following ways:

- USINDOPACOM works with the DoD, Missile Defense Agency, the services, academic institutions, and industry to deploy capabilities that counter the advanced missile threats in the region.
- USINDOPACOM maintains an active Terminal High Altitude Area Defense (THAAD) battery on Guam to protect U.S. citizens and strategic military capabilities from North Korean intermediate-range ballistic missiles (KN-17 and MUSUDAN).
- USINDOPACOM employs additional radars across the theater supporting homeland and regional missile defense, as well as continued testing of the Ballistic Missile Defense System (BMDS).
- In 2017, USINDOPACOM and USFK, with support from the MDA and the DoD, deployed a THAAD battery to the Korean Peninsula that is fully operational. The MDA and the services deliver improved BMDS capability to the Korean Peninsula, including

integration of existing Ballistic Missile Defense (BMD) assets to improve engagement options and coverage area.

- The U.S. Navy completed its forward deployment of the USS MILIUS from San Diego, CA to Yokosuka, Japan in Spring 2018. This port shift provides the U.S. Seventh Fleet improved capability to support the U.S.-Japan Alliance.
- USINDOPACOM continues working with Japan, South Korea, and Australia toward creating a fully-integrated BMD architecture that addresses the increasing cruise missile threat.
- USINDOPACOM supports MDA and the services to develop and test emerging missile and counter-small UAS defense capabilities through modeling and simulation, as well as live-fire testing conducted at the Pacific Missile Range Facility, the Ronald Reagan Test Center at Kwajalein Island, Point Mugu, and other testing ranges located in the continental United States and Alaska.

I support all efforts that improve the capability and capacity of ballistic missile, cruise missile, and UAS defense technologies to further enhance homeland defense capabilities and protect key regional locations. The development of a credible and effective defense against advanced and future missile and UAS threats remains vital to our operational plans and critical to the continued defense of the United States.

Logistics and Supply. Driven by budgetary pressure, our logistics system has become a more efficient business process, and a less effective warfighting function over the last 20 years. Efficiency has come at the cost of increased vulnerability and decreased redundancy. While this arrangement is sufficient for peacetime operations, it is insufficient for combat. Congress' Indo-Pacific Stability Initiative could significantly help reverse the current trend toward a less resilient Joint Logistics Enterprise in the Pacific.

As adversary capabilities improve, joint operations will increasingly rely on distributed supply chains in order to fight and win against a peer adversary. The joint logistics enterprise must be postured with the right capability and capacity at the right locations in order to effectively support multi-domain and distributed operations. This means developing infrastructure at both

enduring and contingency operating locations; identifying and sourcing transportation, distribution, and maintenance requirements; and developing the processes to enable logistics decisions at the speed of war. USINDOPACOM is critically dependent on tactical airlift and sea lift capacity, which expands options for force design and maneuver. Increased tactical airlift and sealift capacity further increase survivability as it becomes more difficult for an adversary to counter a highly maneuverable joint force. These tactical lift assets play just as important a role as strategic lift assets in ensuring our ability to create a resilient and agile logistics network. Significant and sustained investment in munitions is needed to reduce risk to current and future strategic readiness. Services must fund and continue investment in munitions research and development, while setting relatively steady requirements to maintain a healthy production capability for current and new munitions. I appreciate Congress' action to enhance munitions funding in FY2018 and FY2019, but shortfalls remain. USINDOPACOM's top priorities for increased procurement are Long Range Anti-Ship Missiles, SM-6, MK-48 torpedoes, AIM-9X, BGM-109 Block IV (Maritime Strike Tomahawk), and AIM-120D. The Services must also upgrade storage facilities and reassess prepositioning based on the new security environment.

Fuel supply agility and resilience are central to our success in being competitive, responsive, and lethal. The changing threat environment, energy security risks, and adversarial geopolitical and economic influences are driving longer supply lines, necessitating a flexible resupply chain and more resilient, agile, and interoperable petroleum distribution capabilities. Continued investment in next generation petroleum distribution systems is required to mitigate sustainment risk in austere, contested, and denied environments. Access and positioning of fuel remains a key pillar of our logistics posture and is vital to USINDOPACOM's ability to ensure operational freedom of maneuver throughout the theater.

Focus Area 3: Exercise, Experimentation, and Innovation

Our exercise, experimentation and innovation program is key to maintaining readiness while also developing and integrating new capabilities and concepts. This program also highlights our capabilities and capacity to deter competitors while simultaneously reassuring allies, partners, and friends.

Pacific Multi-Domain Training and Experimentation Capability (PMTEC) Initiative.

USINDOPACOM's Joint Exercise Program has traditionally monitored the operational and warfighting readiness of assigned theater and partner nation forces for crises, contingency operations, and HA/DR. Exercises have advanced key objectives including strengthening regional alliances and partnerships, while deepening interoperability through combined training. The current Joint Exercise Program has been useful for enhancing the readiness of USINDOPACOM's assigned forward deployed forces; I am now looking to move to the next level of integration.

Scarce resources have reinforced the need to integrate all major test and training ranges in the Pacific region through a Pacific Multi-Domain Training and Experimentation Capability (PMTEC) initiative. This USINDOPACOM initiative combines the existing Air Force Joint Pacific Alaska Range Complex (JPARC), the Navy's Pacific Missile Range Facility (PMRF) and the Army's Pohakuloa Training Area (PTA) in Hawaii, the Delamere Air Weapons Range in Northern Australia, and the Marine Corps' future Commonwealth of Northern Mariana Islands (CNMI) Joint Military Training (CJMT) range into a fully networked and integrated training constellation that supports joint, combined, multi-domain training. PMTEC will also ensure USINDOPACOM has the ability to prioritize training, readiness, and experimentation to achieve a more integrated and lethal joint force that can both deter and when necessary, fight and win. As the next layer of integration, PMTEC will also link test-ranges (e.g., the Ronald Reagan Test Site at Kwajalein) to enable experimentation with developing technologies to create new, more effective, joint operating concepts that will ensure future warfighting success.

The PMTEC initiative also integrates cyber and space capabilities to enable joint and combined experimentation and testing that is truly multi-domain. Currently, many of these ranges restrict operations to just air and land capabilities or just air, land, and maritime capabilities. As a result, our forces often have to simulate or provide exercise injects that replicate space and cyber effects. We are working to fully incorporate space and cyber into our exercises.

Experimentation and Innovation. USINDOPACOM relies on innovation and experimentation, underpinned by strong partnerships, to address our capability gaps in the region. This includes

testing and integrating new technologies, developing new capabilities, and exploring new concepts of operation and employment. USINDOPACOM makes extensive use of OSD's Joint Capability Technology Demonstration, Coalition Warfare Program, and other rapid prototyping programs to focus cutting edge technology-based capabilities and innovation to enhance our readiness.

Innovation is crucial to increasing logistics agility and resilience. USINDOPACOM will continue utilizing the Joint Capability Technology Demonstration program to identify technological solutions to our critical logistics capability gaps. To facilitate greater resilience, USINDOPACOM will protect and harden our critical logistics infrastructure, information systems, and enablers. For example, USINDOPACOM is developing the capability to rapidly repair damage to critical seaports and airfields.

As part of our innovation and experimentation efforts, USINDOPACOM maintains robust engagement with a variety of partners to identify, promote, and incorporate research and development to address key capability gaps. USINDOPACOM has worked with some of the best DoD industry partners on advancing man and machine teaming, artificial intelligence, machine-learning, hypersonic technology, autonomy, command and control, and block chain technology. USINDOPACOM benefits from engineers, operations analysts, and theater-experienced operators from Federally Funded Research and Development Center (FFRDC) and University Affiliated Research Center (UARC) partners. These partners perform robust military utility assessments of emerging technology in the context of theater plans. The ability to harness the knowledge and experience of the individuals from these organizations is vital to advancing key capabilities for targeting, cyberspace operations, undersea warfare, electronic warfare, and ISR.

Focus Area 4: Strengthen Allies and Partners:

The United States' network of allies and partners is our principal advantage against any adversary. USINDOPACOM depends upon the collective capabilities of our allies and partners to address the challenges to a Free and Open Indo-Pacific. The most obvious point—one made abundantly clear in the National Security Strategy—is that whatever we do, we must do it with

our allies and partners. The keys to our bilateral and multilateral relationships are communication, information-sharing, and interoperability.

Agile Communications. Agile communications are crucial—not only for our readiness, but for our relationships in the region. USINDOPACOM works with allies and partners in order to enhance our interoperability throughout the Indo-Pacific region. Currently, USINDOPACOM is not fully postured with the latest technology to operate in cyberspace with dynamic multiple-partner combinations in all phases of military operations. Furthermore, our nation is still developing the communication capacity and sharable encryption capability necessary to support most modern warfighting platforms and weapon systems with our allies and partners. Although USINDOPACOM does not have formal agreements for exchanging information with many of the nations or organizations within the region, there is continued progress. The recently concluded Communications, Compatibility, and Security Agreement (COMCASA) with India is a step in the right direction. COMCASA is a bilateral agreement that allows the Indian military to procure U.S. cryptological equipment to enable secure voice and data exchange for enhanced interoperability. There will be similar efforts undertaken with others in the Indo-Pacific. As we continue to improve our agility in coalition information-sharing environments, our future capabilities will allow ally and partner forces alongside of our forces to adequately respond to natural disasters and contingencies. We will have agile, secure, dynamic information technology capabilities to support the full spectrum of military operations with our partners and allies in order to enhance interoperability.

Security Cooperation and Capacity Building. Security cooperation and capacity-building engagements in the region help build ally and partner capabilities, information-sharing, and interoperability. Addressing maritime security and maritime domain awareness challenges remains a key priority for nations across the region. The 2019 National Defense Authorization Act extended the FY16 NDAA Section 1263 “Southeast Asia Maritime Security Initiative (MSI)” for another five years (FY21 through FY25), and expanded MSI to encompass portions of South Asia. The MSI authority, along with other DoD authorities such as the Title 10 Section 333 Global Train and Equip, and Department of State authorities such as Foreign Military Financing (FMF) and International Military Education and Training (IMET), in addition to the

new Asia Reassurance Initiative Act, represent weighty tools available for building partner readiness, reducing capability gaps, and building capacity. The Department of State's one-time reprogramming of \$290.5 million of FMF to the Indo-Pacific in 2018 is a clear effort to assist our region, for which USINDOPACOM is grateful.

Addressing the Indo-Pacific Together: Enhancing Partnerships with our Allies and Partners

The Indo-Pacific is one of the largest and most diverse regions on earth. These differences are our strength, and the thousands of miles of ocean and sky between us do not divide us, they are the connective elements that bind us together. As I look at the depth and breadth of the Indo-Pacific, I see opportunities in each of the regions to advance our shared values in ensuring a Free and Open Indo-Pacific. Throughout the Indo-Pacific, the most effective way to address the challenges I have described is through collective action of multiple nations.

The security landscape mirrors the diversity of the Indo-Pacific. In Northeast Asia, the security environment where our strong alliances with Japan and South Korea dominate, I am focused on the immediate threat presented by North Korea and the long-term threat posed by Beijing's and Moscow's aggressive policies. In Southeast Asia, I am focused on working with our allies, Thailand and the Philippines, and our strong partners, Singapore and Vietnam, to strengthen ASEAN, expand multilateralism, and improve their combined capacity to stand up to the malign influence of state and non-state actors, especially in the South China Sea. In South Asia, I am focused on expanding cooperation with the world's largest democracy, India, and working with all South Asia countries to increase air and maritime domain awareness across the Indian Ocean. Finally, in Oceania, I am encouraged by the opportunities to partner with our strong allies, Australia and France, and strong friend, New Zealand, to improve information sharing and maritime cooperation as the Pacific Island Countries address the challenges associated with Illegal, Unreported, and Unregulated (IUU) fishing, natural disasters, narcotics trafficking, and economic coercion from Beijing.

Northeast Asia. The command's goal is to stabilize Northeast Asia and leverage our strong alliances with Japan and South Korea to improve stability across the broader Indo-Pacific. In order to achieve this, USINDOPACOM needs a security environment that is secure from coercion from Pyongyang, Beijing, and Moscow. As the region becomes more stable, we will encourage Japan and South Korea to take a greater role in the alliances related to their own security and contribute to security in the broader Indo-Pacific region.

Japan. The U.S.-Japan alliance is the cornerstone of our efforts to ensure a Free and Open Indo-Pacific. The Government of Japan released its own Free and Open Indo-Pacific Strategy in 2017, and Japan is looking to become more involved across the broader Indo-Pacific region. Additionally, Japan is a key supporter of UNSCR enforcement operations and hosts the Enforcement Coordination Cell (ECC) in Yokosuka, Japan. Tokyo intends to procure high-tech U.S. platforms that will increase interoperability, including F-35A, E-2D Hawkeye, Global Hawk UAS, MV-22, and Advanced Electronic Guides Interceptor System (AEGIS) Ashore. Furthermore, Japan's 2018 National Defense Program Guidelines (NDPG) call for strengthening the U.S.-Japan alliance, and expanding their international security cooperation with like-minded partners in the region. They also prioritize advancements in Japan's space, cyberspace, and electro-magnetic capabilities.

USINDOPACOM and Japan's Self Defense Force have transformed the way military alliances plan and campaign together. Our approaches for a Free and Open Indo-Pacific are synchronized in our national policies and defense strategies, and communication mechanisms exist at every level of our governments to ensure we are synchronized on key issues. The U.S.-Japan alliance is committed to supporting countries that respect and adhere to the rule-of-law, and our alliance seeks to enable opportunities for economic prosperity throughout the region.

South Korea. The U.S.-South Korea alliance remains ironclad, and we are both committed to the final, fully verified denuclearization of North Korea. South Korea is also a key supporter of UNSCR Enforcement activities against North Korea. USINDOPACOM works closely with Seoul in obtaining capabilities required under the Conditions-based Operational Control Transition Plan (COTP) – the ongoing plan to transfer Combined Forces Command (CFC) to

South Korean leadership. Seoul has future procurement plans for the P-8, advanced munitions, upgrades to PAC-3 missiles, and F-16 fighters. All these assets will increase interoperability with the United States.

Taiwan. In accordance with our One China Policy, based on the Taiwan Relations Act and three U.S.-China Joint Communiques, the United States and Taipei maintain a substantive and robust unofficial relationship with Taiwan based on the Taiwan Relations Act (TRA). Taiwan's values reflect our own—it features an open economy with a free and democratic society that respects human rights and the rule of law. The United States opposes any unilateral change to the status quo in the Taiwan Strait. The United States continues to support the peaceful resolution of cross-Strait issues in a manner, scope, and pace acceptable to the people on both sides. USINDOPACOM's engagement focuses on improving joint interoperability within Taiwan's military, improving Taiwan training and readiness, and supporting Taiwan's military and professional development.

Beijing is pushing across the globe to diplomatically isolate and economically constrain Taiwan. Taiwan has only seventeen diplomatic partners left after losing El Salvador, Burkina Faso, and the Dominican Republic as diplomatic partners in 2018. Beijing continues to press the international community and private businesses to remove or modify any references to Taiwan on websites and publications and is attempting to deny Taiwan's participation in international fora.

As evidenced in President Xi Jinping's New Year's speech, China is focused on achieving reunification as a part of the PRC's national plan of rejuvenation by "reserving the option of taking all necessary measures and not renouncing the use of force." We continue to be concerned with China's military buildup across the Strait, Beijing's opaqueness about its military capability and capacity, and its unwillingness to preclude the use of force to resolve the cross-strait issue. The United States has a deep and abiding interest in peace and stability in the Taiwan Strait and welcomes steps by both sides to reduce tensions and improve cross-Strait relations. President Xi's solution of a one country, two systems approach to reunification does not reflect the wishes of both sides. We hope that there will be continued high-level

communications and interactions going forward through which both sides can continue their constructive dialogue on the basis of dignity and respect. Although President Tsai and her party, the Democratic Progressive Party (DPP), have committed to “avoid confrontation and prevent surprises” with China, the cross-Strait situation is of increasing concern given the harsh rhetoric from Beijing toward the leadership in Taipei.

Taiwan recently passed its 2019 defense budget, which will fund foreign and indigenous acquisition programs as well as near-term training and readiness. Consistent with the TRA, USINDOPACOM engages with the Taiwan military to enable Taiwan to maintain a sufficient self-defense capability that is credible, resilient, and cost-effective.

Mongolia. Mongolia is a strong partner and contributor to the United States’ regional and global policy objectives. Mongolia supports missions in Afghanistan and United Nations Peace Keeping Operations, making Mongolia a model for emerging democratic countries that want to be more active globally. Ulaanbaatar’s “Third Neighbor Policy” intends to balance Russian and Chinese influence by developing relationships with the United States and other like-minded countries. USINDOPACOM and Mongolia have had inaugural land forces talks, developed a five-year security cooperation plan, and laid the groundwork for Airman-to-Airman Talks. The United States is helping Mongolia improve their special operations forces, peacekeeping operations, and Air Forces.

Southeast Asia. USINDOPACOM’s objective in Southeast Asia is to strengthen the sub-region’s ability to deny adversaries’ attempts to dominate or disrupt the gateway between the Pacific and Indian Oceans, while enabling the region to promote their sovereign interests, resist economic pressure from others, and preserve conditions for continued economic growth. USINDOPACOM is setting conditions in the security environment that support this goal, which ensures that all nations can freely access shared domains. Adversary militaries will be unable to dominate the global commons that enable trade and the global economy. The command’s efforts will improve the region’s awareness and capability to enforce their borders, territorial waters, and exclusive economic zones. USINDOPACOM will advocate for multilateral venues like the Association of Southeast Asian Nations (ASEAN) to advance collaboration, settle disputes

equitably, and strengthen resolve against the malign influence of state and non-state actors. We are very grateful to Congress for its continued support for the \$425 million Maritime Security Initiative for Southeast Asia which enables Thailand, Philippines, Vietnam, Malaysia, and India to increase their capability and capacity in continued maritime domain awareness over the next five years.

ASEAN. The United States and ASEAN share the common principles of a rules-based international order, respect for international law, and the peaceful resolution of disputes. The ten ASEAN member states, under the chairmanship of Singapore in 2018 and Thailand in 2019, continue to seek ways to improve multilateral security engagements and advance stability in the Indo-Pacific. USINDOPACOM is committed to strengthening regional institutions such as ASEAN, the ASEAN Defense Ministers' Meeting-Plus, and the ASEAN Regional Forum. USINDOPACOM participates in ASEAN exercises, key leader engagements, and multilateral cooperation on a number of shared transnational challenges, and will host an ASEAN-U.S. Maritime Exercise in 2019. USINDOPACOM co-chairs the ASEAN Defense Ministers' Meeting-Plus Experts' Working Group on Humanitarian Assistance and Disaster Relief with Malaysia through the end of 2019. USINDOPACOM's engagements with ASEAN, and with the respective ASEAN member states, build and strengthen relationships, and convey the United States' steadfast commitment to the region.

Cambodia. USINDOPACOM reduced the number of engagements with Cambodia. During these limited engagements the command reaffirms the importance of strengthening democratic institutions and maintaining an independent foreign policy. The United States and other countries in the region are concerned about the possible construction by a Chinese state-owned enterprise of a facility in Cambodia. USINDOPACOM appreciates the statements by the Prime Minister noting that foreign military facilities are prohibited under their constitution. However, the command remains concerned about the possible militarization of Cambodia's coast including the prepositioning of military equipment, the stationing of military units on long term rotations, and the construction of dual use facilities.

Indonesia. This year, the United States and Indonesia celebrate our 70th anniversary of bilateral relations, which provides an opportunity to highlight our growing strategic relationship. USINDOPACOM is committed to a strategic partnership with Indonesia. Indonesia's strategic location, its status as the third largest democracy, fourth most populous country, and its expanding economy all underscore its essential role in the regional security architecture. Indonesia is the largest recipient of U.S. training and education programs in the region. We continue to support the Indonesian military's focus on external threats and national defense, particularly maritime domain awareness and maritime security.

Laos. After decades of stagnation in the U.S.-Lao relationship following the Vietnam War, we have seen some significant advancements over the last two years. In 2016, the United States and the Lao People's Democratic Republic signed a Comprehensive Partnership that resulted in a surge of bilateral military engagements. The command's engagement goals are to partner and assist Laos in becoming a stable, prosperous, and independent member of ASEAN that is willing and able to promote its sovereign interests and respect international law. These engagements focus around unexploded ordnance (UXO) clearance, POW/MIA recovery, and military medicine. Laos actively supports the Defense Personnel Accounting Agency (DPAA) in the search for 290 missing U.S. service members with an aim to honorably conclude war legacy issues (UXO and POW/MIA recovery missions) by 2030. USINDOPACOM is expanding engagements with the Lao military.

Malaysia. Malaysia remains a critical partner of increasing importance in the region ever since the United States elevated the relationship to a Comprehensive Partnership in 2014. USINDOPACOM is exploring expanded collaboration in the areas of maritime security, counterterrorism, information-sharing, and defense institutional reform. Malaysian Armed Forces have demonstrated the professionalism, capacity, and resolve to contribute to regional security, and we continue to evolve our defense relationship on mutual areas of interest.

Philippines. The Philippines is a treaty ally and a partner in preserving a Free and Open Indo-Pacific and our military-to-military relationship has never been stronger. USINDOAPCOM has increased the number and scope of exercises in recent years, to include the resumption of live-

fire exercises. Terrorism continues to pose a security challenge in the Philippines, and USINDOPACOM is committed to helping the Philippines ensure that the southern Philippines does not become a safe-haven for terrorists that would threaten the entire region. I am also focused on helping to develop the territorial defense capability of the Armed Forces Philippines (AFP) and look forward to re-engaging with the Philippines National Police Maritime Group to continue improving their ability to protect their sovereign interests.

Singapore. Singapore remains a steadfast security cooperation partner in Southeast Asia with a strong commitment to promoting a Free and Open Indo-Pacific. Though not a formal ally, Singapore provides valuable access to the strategically-located entrance of the Malacca Straits and South China Sea. Singapore supports a strong U.S. presence in the region as well as a deep and broad defense relationship between our two countries. Singapore supports our objectives on North Korea, and in 2018, Singapore hosted the historic U.S.-North Korea summit between President Trump and Chairman Kim Jong Un. Singapore also hosted the transit and rotational deployment of more than 1,500 U.S. military aircraft and vessels (2015-2018), making the United States the heaviest foreign user of Singapore's facilities at Sembawang Port, Paya Lebar Air Base, and Changi Naval Base. Singapore maintains training facilities at Luke Air Force Base (AFB), Arizona (F-16); Mountain Home AFB, Idaho (F-15SG); Marana, Arizona (Apache AH-64D); and Fort Sill, Oklahoma (High Mobility Artillery Rocket System (HIMARS)). Moreover, USINDOPACOM and Singapore steadily increased interoperability through increasingly complex exercises, and we continue to strengthen cooperation in counterterrorism and maritime security. Singapore annually sends 1000 students to training and education courses in the United States, representing the largest training presence in the United States from any foreign military.

Thailand. Last year marked 200 years of friendly U.S.-Thai relations, and Thailand remains a key ally and security partner. In 2019, I am focused on advancing our alliance and restoring elements of our military-to-military relationship following the restoration of a democratic government after elections in March. Thai facilities provide vital training opportunities for USINDOPACOM personnel, and logistical nodes that are essential to operate throughout the

Indo-Pacific region. Thailand assumed the chairmanship of ASEAN in 2019 and continues to play a vital leadership role in the Indo-Pacific region.

Vietnam. Vietnam has emerged as a key partner in promoting a secure and rules-based international order in the Indo-Pacific region. USINDOPACOM's defense partnership with the Vietnamese military is among the strongest aspects of our growing bilateral relationship. As a symbol of closer ties between the United States and Vietnam, the aircraft carrier USS CARL VINSON made a port call in March 2018 to Vietnam, the first of its kind since the end of the war in 1975. Vietnam shares many of the United States' principles on issues such as international rule of law and freedom of navigation, and Vietnam is one of the loudest voices on South China Sea disputes. USINDOPACOM's and the Vietnamese military's military-to-military engagements prioritize enhancing Vietnam's maritime capacity, which will be bolstered by Vietnam's acquisition of Scan Eagle UAVs, T-6 trainer aircraft, and a second U.S. Coast Guard cutter. I look forward to Vietnam assuming the ASEAN Chairmanship in 2020 and increasing its leadership across the region.

Burma (Myanmar). Ongoing human rights abuses, including growing restrictions on freedom of expression, including for members of the press, and atrocities [including ethnic cleansing], and instability in some ethnic minority areas comprise threats to Burma's democratic transition. Due to credible information of serious human rights violations and abuses, especially in relation to Rohingya, as well as restrictions that remain in place based on decades of military rule, U.S.-Burma security cooperation is minimal. The U.S.-Burma security relationship is limited to lower-level engagements at select regional security events and conferences, and participation in multilateral exercises focused on HA/DR. Burma military personnel are not attending academic exchanges, including at the region's DoD academic institute, despite the importance of engaging the next generation of officers.

South Asia. USINDOPACOM's goal in South Asia is to create and seize opportunities to broaden critical partnerships to ensure shared domains remain open to all. In conjunction with India's contributions to regional security, these actions will prevent adversaries from establishing an effective military presence in the Indian Ocean that threaten the security of vital commerce

and continued economic growth and development. As a result, the regional states will be able to reduce internal conflicts, respond to regional security challenges, and resist adversaries' military and economic coercion.

India. The U.S.-India strategic partnership continues to advance at an historic pace as we continue to increase our interoperability and information-sharing capabilities. The inaugural 2+2 Ministerial and signing of the COMCASA in 2018 were pivotal moments in our relationship. USINDOPACOM expects this trajectory to continue and that 2019 will be a significant year in bilateral relations. The United States and India are natural partners on a range of political, economic, and security issues. With a mutual desire for global stability, support for the rules-based international order, and a Free-and-Open Indo-Pacific region, the United States and India have an increased agreement on interests, including maritime security and maritime domain awareness, counter-piracy, counterterrorism, humanitarian assistance, and coordinated responses to natural disasters and transnational threats. Over the past year, the United States and Indian militaries participated in five major exercises, executed more than fifty other military exchanges, and further operationalized the 2016 Logistics Exchange Memorandum of Agreement (LEMOA). The LEMOA enables the U.S. Navy to replenish supplies from Indian navy logistics platforms. USINDOPACOM is working with the Indian military to operationalize the COMCASA, which will boost interoperability between our militaries. Defense sales are at an all-time high, with India operating U.S. sourced platforms such as P-8s, C-130Js, C-17s, AH-64s, CH-47s, and M777 howitzers. Additionally, India recently agreed to a \$2.1-billion purchase of MH-60R multi-role sea-based helicopters and is considering a number of additional U.S. systems for purchase. USINDOPACOM fully supports the purchase of U.S. systems, F-16 and F/A-18E aircraft, a reorder of 12-15 P-8Is, and a potential purchase of Sea Guardian UASs.

Bangladesh. Bangladesh is an important security partner with strong potential to enhance regional stability and advance U.S. interests in South Asia on counter-terrorism, Muslim outreach, countering violent extremism, supporting humanitarian assistance and disaster relief, and supporting United Nations Peacekeeping Operations (UNPKO). The humanitarian crisis caused by the presence of more than 700,000 Rohingya refugees from Burma (Myanmar) in Bangladesh has strained the Government of Bangladesh. Bangladesh's December 30 elections

point to concerning trend of consolidation of power by the ruling Awami League and raise fears that PM Hasina is aiming to achieve a de facto one-party state. Military-to-military engagement with Bangladesh fits into a broader strategy and commitment to uphold an international, rules-based order in the vital Indo-Pacific region and contributes to building a regional security framework.

Sri Lanka. Sri Lanka remains a significant strategic opportunity in the Indian Ocean, and our military-to-military relationship continues to strengthen. However, political turmoil and ethnic tension between the Tamil and Sinhalese populations remain drivers of instability and potential obstacles to continued growth in our partnership. Moreover, Sri Lanka has handed over the deep water port of Hambantota to China on a 99-year lease due to its mounting debts to China, which has caused international concern. Despite the political upheaval, it is in our interests to continue military collaboration and cooperation with Sri Lankan Forces. USINDOPACOM cooperation with the Sri Lankan Military centers on building capacity in maritime security and maritime domain awareness, humanitarian assistance and disaster relief as well as humanitarian demining, medical assistance, and peacekeeping operations. Increasing navy-to-navy engagement with Sri Lanka will be a USINDOPACOM focus in 2019. The Sri Lankan Navy is a well-trained and professional force with the potential to contribute to multi-lateral maritime interoperability in the Indian Ocean. The recent transfer of an excess U.S. Coast Guard cutter to Sri Lanka in August 2018, along with additional platforms from Japan and India, provide the Sri Lankan Navy greater capabilities to contribute to regional maritime domain awareness initiatives. Going forward, it is necessary to sustain engagement with Sri Lanka, particularly the navy, and construct a multi-lateral approach to capacity building with like-minded partners to rapidly enhance the Sri Lankan Navy's capabilities.

Oceania. USINDOPACOM is deepening engagement with the Pacific Island Countries (PICs) of Oceania to preserve a Free and Open Indo-Pacific region, and we are committed to strengthening the region's future security and prosperity with our partners and allies. In close coordination with Australia, Japan, France, and New Zealand, USINDOPACOM is working to strengthen the resilience of the PICs by tackling common challenges: drug trafficking; illegal,

Unreported, Unregulated (IUU) fishing; the existential threat of rising ocean levels; natural disasters; and the heavy debt burdens that threaten their sovereign interests.

Australia. Our alliance with Australia underpins our relations across Oceania, and Canberra plays a leading role in regional security and capacity-building efforts for a Free and Open Indo-Pacific. Australia is increasing its diplomatic presence, military and economic assistance, and infrastructure investments in Fiji, Papua New Guinea, and the other PICs to enhance security in the region. Australia is a key supporter of UNSCR enforcement operations against North Korea as well. The U.S. Marine Corps completed its sixth successful Marine Rotational Force-Darwin deployment, and we expect to reach the full authorized strength of 2,500 Marines later this year. These deployments maintain significant combat power west of the International Date Line with an ally. Moreover, Australia is procuring high-tech U.S. platforms, such as the F-35, that will increase interoperability.

Compact of Free Association (COFA) States. The Republic of Palau, Federated States of Micronesia (FSM), and the Republic of the Marshall Islands (RMI), collectively referred to as the “Compact” states, are threatened by external pressures including the pernicious use of Beijing’s economic leverage. The Republic of Palau, FSM, and RMI entered into a Compact of Free Association (COFA) with the United States more than 25 years ago, allowing the United States to foreclose access or use of those countries by third-country militaries. Under the COFAs, the Compact States receive economic assistance, including grants, access to various U.S. federal programs, and for many citizens of the Compact States, visa-free travel to the United States. U.S. contributions to the trust funds established by the COFA are scheduled to end after 2023. Moreover, these island nations are under increasing pressure from Beijing’s economic strategy. Additionally, the changing climate represents an existential threat to these nations as they urgently seek to mitigate damage from higher tides and rising sea levels, shifting patterns of fishing populations essential to economic livelihood, and greater intensity of natural disasters such as tropical storms and droughts. The continued support that the COFA has engendered also benefits the United States. We provide support to these countries and they support the United States. The patriotic citizens of these nations join the U.S. armed forces in larger numbers per capita than most U.S. states, and I value their service. The Compact states

rely on continued support from the United States to mitigate these threats and the United States would like to continue to benefit from the good will of these Pacific Island Countries to further our strategic interests in Indo-Pacific region.

Fiji. USINDOPACOM's relationship with the Republic of Fiji is thriving and robust, and we were pleased to see a credible election process there in 2018. Australia's decision to invest in the Black Rock International Peacekeeping Center was welcomed, and will ensure that Fiji continues to play an important role in peacekeeping missions around the world. USINDOPACOM is postured to provide engineering support for improvements and new construction to the Ground Forces Training Center and to assist Australian engineers with the Black Rock International Peacekeeping Center. In 2018, Fiji signed a U.S. ship-rider agreement, opening up new opportunities for maritime security cooperation between our two countries. Additionally, the establishment of Fiji as a partner in the National Guard's State Partnership Program opens up another door for our two militaries to train and work together. The \$5 million plus-up in foreign military sales (FMS) allows USINDOPACOM to deepen our military relationship with the Fijian military.

France. France, a NATO ally with significant territory in the Indo-Pacific, is increasing its operational activities in the region and is a key contributor to the multilateral efforts. The United States, Japan, Australia, New Zealand, and France coordinate operational support and capacity-building with the PICs. The primary operational engagement provides support to the Forum Fisheries Agency to address IUU fishing. France is also becoming increasingly active across the broader Indo-Pacific region, and I welcome both French support to UNSCR sanction enforcement activities against North Korea, and increased French activity in the South China Sea.

New Zealand. New Zealand remains a steadfast and key partner who, in 2018, increased investment, foreign assistance, and infrastructure support to the South Pacific. USINDOPACOM greatly appreciates this commitment of additional resources to the PICs. For the last six years, the United States and New Zealand, through bilateral defense dialogues, have increased interoperability collaboration headlined in 2018 by New Zealand's purchase of P-8

Poseidon maritime patrol aircraft to replace aging P-3 Orion aircraft. Additionally, New Zealand has provided key support to UNSCR sanctions enforcement against North Korea.

Papua New Guinea (PNG). USINDOPACOM's engagement with PNG improves regional posture and demonstrates the U.S. commitment to the region. With security support from Australia and the United States, PNG hosted the Asia Pacific Economic Cooperation (APEC) summit in 2018. During APEC, Vice President Pence announced that Australia and the United States would partner with Papua New Guinea to develop the Lombrum Naval Base on Manus Island in the northern part of PNG. USINDOPACOM looks forward to assisting Australia and PNG in developing options for this base.

Additional Allies

Canada. Like the United States, Canada is a member of NATO and a Pacific nation. Canadian policy in the Indo-Pacific focuses on cooperation and building partnerships as they increase operational activities in the region. By focusing on consistent engagement with all willing parties, Canada hopes to deepen its relationship with Australia, New Zealand, and the United States. Canada wants to provide a continued presence in the Pacific to enhance regional stability, specifically citing tensions on the Korean Peninsula in their National Defence Policy. Ottawa provides support to ongoing North Korea UNSCR sanctions enforcement as well.

United Kingdom (UK). The UK, another NATO ally, remains one of the strongest defenders of a Free and Open Indo-Pacific, and sees prosperity and security in the Indo-Pacific as an essential driver of global economic growth. The UK recently established three new diplomatic posts in the Pacific and increased foreign aid to the Pacific by 6% in 2018. The recently concluded cooperative deployment with the HMS Argyll and USS McCampbell in the South China Sea highlights the value of multinational operations and, more importantly, the international message to those who seek to infringe on the ability to fly, sail, and operate wherever international law allows.

Conclusion

In the 21st century, U.S. security and prosperity will increasingly depend upon a peaceful and stable Indo-Pacific region—one that features respect for states’ sovereignty, freedom of the seas and skies, and adherence to international norms, rules, and behavior. In short, it is in our vital national interests to ensure a Free and Open Indo-Pacific over the short- and long-term. As the Commander of USINDOPACOM, my focus is first and foremost on preserving and advancing the security and stability of the region, over the short- and long-term.

I will ensure the 375,000 men and women of USINDOPACOM remain ready to fight and win, if necessary, while also focusing on competing and winning below the level of armed conflict. It is in this so-called “gray zone” between peace and war where many of our adversaries currently operate, and we must be equally prepared to compete with our adversaries before and after the initiation of hostilities. To do this, we need a comprehensive approach across multiple U.S. governmental departments, and partnerships with civil society and the private sector, to engage in areas that transcend traditional military core competencies. Our armed services must be manned, trained, and equipped to overcome the full spectrum of challenges presented by state and non-state actors. With the continued support of Congress, and together with our allies and partners, I believe we will be successful at this important mission.

This page intentionally blank



NATIONAL SECURITY STRATEGY

of the United States of America

DECEMBER 2017





THE WHITE HOUSE

WASHINGTON, DC

My fellow Americans:

The American people elected me to make America great again. I promised that my Administration would put the safety, interests, and well-being of our citizens first. I pledged that we would revitalize the American economy, rebuild our military, defend our borders, protect our sovereignty, and advance our values.

During my first year in office, you have witnessed my America First foreign policy in action. We are prioritizing the interests of our citizens and protecting our sovereign rights as a nation. America is leading again on the world stage. We are not hiding from the challenges we face. We are confronting them head-on and pursuing opportunities to promote the security and prosperity of all Americans.

The United States faces an extraordinarily dangerous world, filled with a wide range of threats that have intensified in recent years. When I came into office, rogue regimes were developing nuclear weapons and missiles to threaten the entire planet. Radical Islamist terror groups were flourishing. Terrorists had taken control of vast swaths of the Middle East. Rival powers were aggressively undermining American interests around the globe. At home, porous borders and unenforced immigration laws had created a host of vulnerabilities. Criminal cartels were bringing drugs and danger into our communities. Unfair trade practices had weakened our economy and exported our jobs overseas. Unfair burden-sharing with our allies and inadequate investment in our own defense had invited danger from those who wish us harm. Too many Americans had lost trust in our government, faith in our future, and confidence in our values.

Nearly one year later, although serious challenges remain, we are charting a new and very different course.

We are rallying the world against the rogue regime in North Korea and confronting the danger posed by the dictatorship in Iran, which those determined to pursue a flawed nuclear deal had neglected. We have renewed our friendships in the Middle East and partnered with regional leaders to help drive out terrorists and extremists, cut off their financing, and discredit their wicked ideology. We crushed Islamic State of Iraq and Syria (ISIS) terrorists on the battlefields of Syria and Iraq, and will continue pursuing them until they are destroyed. America's allies are now contributing more to our common defense, strengthening even our strongest alliances. We have also continued to make clear that the United States will no longer tolerate economic aggression or unfair trading practices.

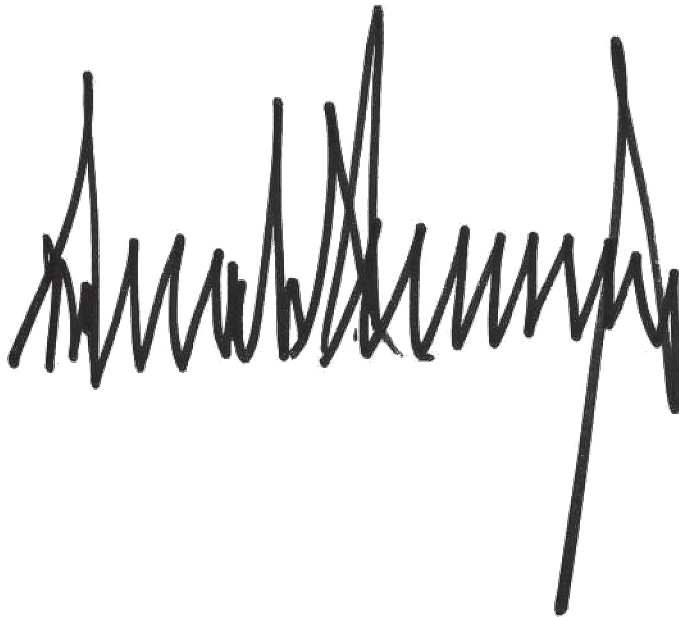
At home, we have restored confidence in America's purpose. We have recommitted ourselves to our founding principles and to the values that have made our families, communities, and society so successful. Jobs are coming back and our economy is growing. We are making historic investments in the United States military. We are enforcing our borders, building trade relationships based on fairness and reciprocity, and defending America's sovereignty without apology.

The whole world is lifted by America's renewal and the reemergence of American leadership. After one year, the world knows that America is prosperous, America is secure, and America is strong. We will bring about the better future we seek for our people and the world, by confronting the challenges and dangers posed by those who seek to destabilize the world and threaten America's people and interests.

My Administration's National Security Strategy lays out a strategic vision for protecting the American people and preserving our way of life, promoting our prosperity, preserving peace through strength, and advancing American influence in the world. We will pursue this beautiful vision—a world of strong, sovereign, and independent nations, each with its own cultures and dreams, thriving side-by-side in prosperity, freedom, and peace—throughout the upcoming year.

In pursuit of that future, we will look at the world with clear eyes and fresh thinking. We will promote a balance of power that favors the United States, our allies, and our partners. We will never lose sight of our values and their capacity to inspire, uplift, and renew.

Most of all, we will serve the American people and uphold their right to a government that prioritizes their security, their prosperity, and their interests. This National Security Strategy puts America First.

A large, bold, handwritten signature in black ink, characteristic of Donald Trump's signature style, featuring multiple sharp peaks and a long, sweeping tail.

President Donald J. Trump

The White House
December 2017



TABLE OF CONTENTS

INTRODUCTION 1

**PILLAR I: PROTECT THE AMERICAN PEOPLE, THE HOMELAND,
AND THE AMERICAN WAY OF LIFE** 7

Secure U.S. Borders and Territory 8

Defend Against Weapons of Mass Destruction (WMD) 8

Combat Biothreats and Pandemics 9

Strengthen Border Control and Immigration Policy 9

Pursue Threats to Their Source 10

Defeat Jihadist Terrorists 10

Dismantle Transnational Criminal Organizations 11

Keep America Safe in the Cyber Era 12

Promote American Resilience 14

PILLAR II: PROMOTE AMERICAN PROSPERITY 17

Rejuvenate the Domestic Economy 18

Promote Free, Fair, and Reciprocal Economic Relationships 19

Lead in Research, Technology, Invention, and Innovation 20

Promote and Protect the U.S. National Security Innovation Base 21

Embrace Energy Dominance 22

PILLAR III: PRESERVE PEACE THROUGH STRENGTH 25

Renew America’s Competitive Advantages 26

Renew Capabilities 28

Military 28

Defense Industrial Base 29

Nuclear Forces 30

Space 31

Cyberspace 31

Intelligence 32

Diplomacy and Statecraft	33
<i>Competitive Diplomacy</i>	33
<i>Tools of Economic Diplomacy</i>	34
<i>Information Statecraft</i>	34
PILLAR IV: ADVANCE AMERICAN INFLUENCE	37
Encourage Aspiring Partners	38
Achieve Better Outcomes in Multilateral Forums.....	40
Champion American Values.....	41
THE STRATEGY IN A REGIONAL CONTEXT	45
Indo-Pacific.....	45
Europe.....	47
Middle East.....	48
South and Central Asia.....	50
Western Hemisphere	51
Africa.....	52
CONCLUSION	55



INTRODUCTION

An America that is safe, prosperous, and free at home is an America with the strength, confidence, and will to lead abroad. It is an America that can preserve peace, uphold liberty, and create enduring advantages for the American people. Putting America first is the duty of our government and the foundation for U.S. leadership in the world.

A strong America is in the vital interests of not only the American people, but also those around the world who want to partner with the United States in pursuit of shared interests, values, and aspirations.

This National Security Strategy puts America first.

An America First National Security Strategy is based on American principles, a clear-eyed assessment of U.S. interests, and a determination to tackle the challenges that we face. It is a strategy of principled realism that is guided by outcomes, not ideology. It is based upon the view that peace, security, and prosperity depend on strong, sovereign nations that respect their citizens at home and cooperate to advance peace abroad. And it is grounded in the realization that American principles are a lasting force for good in the world.

“We the People” is America’s source of strength.

The United States was born of a desire for life, liberty, and the pursuit of happiness—and a conviction that unaccountable political power is tyranny. For these reasons, our Founders crafted and ratified the Constitution, establishing the republican form of government we enjoy today. The Constitution grants our national government not only specified powers necessary to protect our God-given rights and liberties but also safeguards them by limiting the government’s size and scope,

separating Federal powers, and protecting the rights of individuals through the rule of law. All political power is ultimately delegated from, and accountable to, the people.

We protect American sovereignty by defending these institutions, traditions, and principles that have allowed us to live in freedom, to build the nation that we love. And we prize our national heritage, for the rare and fragile institutions of republican government can only endure if they are sustained by a culture that cherishes those institutions.

Liberty and independence have given us the flourishing society Americans enjoy today—a vibrant and confident Nation, welcoming of disagreement and differences, but united by the bonds of history, culture, beliefs, and principles that define who we are.

We are proud of our roots and honor the wisdom of the past. We are committed to protecting the rights and dignity of every citizen. And we are a nation of laws, because the rule of law is the shield that protects the individual from government corruption

and abuse of power, allows families to live without fear, and permits markets to thrive.

Our founding principles have made the United States of America among the greatest forces for good in history. But we are also aware that we must protect and build upon our accomplishments, always conscious of the fact that the interests of the American people constitute our true North Star.

America's achievements and standing in the world were neither inevitable nor accidental. On many occasions, Americans have had to compete with adversarial forces to preserve and advance our security, prosperity, and the principles we hold dear. At home, we fought the Civil War to end slavery and preserve our Union in the long struggle to extend equal rights for all Americans. In the course of the bloodiest century in human history, millions of Americans fought, and hundreds of thousands lost their lives, to defend liberty in two World Wars and the Cold War. America, with our allies and partners, defeated fascism, imperialism, and Soviet communism and eliminated any doubts about the power and durability of republican democracy when it is sustained by a free, proud, and unified people.

The United States consolidated its military victories with political and economic triumphs built on market economies and fair trade, democratic principles, and shared security partnerships. American political, business, and military leaders worked together with their counterparts in Europe and Asia to shape the post-war order through the United Nations, the Marshall Plan, the North Atlantic Treaty Organization (NATO), and other institutions designed to advance our shared interests of security, freedom, and peace. We recognize the invaluable advantages that our strong relationships with allies and partners deliver.

Following the remarkable victory of free nations in the Cold War, America emerged as the lone super-

power with enormous advantages and momentum in the world. Success, however, bred complacency. A belief emerged, among many, that American power would be unchallenged and self-sustaining. The United States began to drift. We experienced a crisis of confidence and surrendered our advantages in key areas. As we took our political, economic, and military advantages for granted, other actors steadily implemented their long-term plans to challenge America and to advance agendas opposed to the United States, our allies, and our partners.

We stood by while countries exploited the international institutions we helped to build. They subsidized their industries, forced technology transfers, and distorted markets. These and other actions challenged America's economic security. At home, excessive regulations and high taxes stifled growth and weakened free enterprise—history's greatest antidote to poverty. Each time government encroached on the productive activities of private commerce, it threatened not only our prosperity but also the spirit of creation and innovation that has been key to our national greatness.

A Competitive World

The United States will respond to the growing political, economic, and military competitions we face around the world.

China and Russia challenge American power, influence, and interests, attempting to erode American security and prosperity. They are determined to make economies less free and less fair, to grow their militaries, and to control information and data to repress their societies and expand their influence. At the same time, the dictatorships of the Democratic People's Republic of Korea and the Islamic Republic of Iran are determined to destabilize regions, threaten Americans and our allies, and brutalize their own people. Transnational

threat groups, from jihadist terrorists to transnational criminal organizations, are actively trying to harm Americans. While these challenges differ in nature and magnitude, they are fundamentally contests between those who value human dignity and freedom and those who oppress individuals and enforce uniformity.

These competitions require the United States to rethink the policies of the past two decades—policies based on the assumption that engagement with rivals and their inclusion in international institutions and global commerce would turn them into benign actors and trustworthy partners. For the most part, this premise turned out to be false.

Rival actors use propaganda and other means to try to discredit democracy. They advance anti-Western views and spread false information to create divisions among ourselves, our allies, and our partners. In addition, jihadist terrorists such as ISIS and al-Qa'ida continue to spread a barbaric ideology that calls for the violent destruction of governments and innocents they consider to be apostates. These jihadist terrorists attempt to force those under their influence to submit to Sharia law.

America's military remains the strongest in the world. However, U.S. advantages are shrinking as rival states modernize and build up their conventional and nuclear forces. Many actors can now field a broad arsenal of advanced missiles, including variants that can reach the American homeland. Access to technology empowers and emboldens otherwise weak states. North Korea—a country that starves its own people—has spent hundreds of millions of dollars on nuclear, chemical, and biological weapons that could threaten our homeland. In addition, many actors have become skilled at operating below the threshold of military conflict—challenging the United States, our allies, and our partners with hostile actions cloaked in deniability. Our task is to ensure that American military superiority endures, and

in combination with other elements of national power, is ready to protect Americans against sophisticated challenges to national security.

The contest over information accelerates these political, economic, and military competitions. Data, like energy, will shape U.S. economic prosperity and our future strategic position in the world. The ability to harness the power of data is fundamental to the continuing growth of America's economy, prevailing against hostile ideologies, and building and deploying the most effective military in the world.

We learned the difficult lesson that when America does not lead, malign actors fill the void to the disadvantage of the United States. When America does lead, however, from a position of strength and confidence and in accordance with our interests and values, all benefit.

Competition does not always mean hostility, nor does it inevitably lead to conflict—although none should doubt our commitment to defend our interests. An America that successfully competes is the best way to prevent conflict. Just as American weakness invites challenge, American strength and confidence deters war and promotes peace.

An America First National Security Strategy

The competitions and rivalries facing the United States are not passing trends or momentary problems. They are intertwined, long-term challenges that demand our sustained national attention and commitment.

America possesses unmatched political, economic, military, and technological advantages. But to maintain these advantages, build upon our strengths, and unleash the talents of the American people, we must protect four vital national interests in this competitive world.

First, our fundamental responsibility is to **protect the American people, the homeland, and the American way of life**. We will strengthen control of our borders and reform our immigration system. We will protect our critical infrastructure and go after malicious cyber actors. A layered missile defense system will defend our homeland against missile attacks. And we will pursue threats to their source, so that jihadist terrorists are stopped before they ever reach our borders.

Second, we will **promote American prosperity**. We will rejuvenate the American economy for the benefit of American workers and companies. We will insist upon fair and reciprocal economic relationships to address trade imbalances. The United States must preserve our lead in research and technology and protect our economy from competitors who unfairly acquire our intellectual property. And we will embrace America's energy dominance because unleashing abundant energy resources stimulates our economy.

Third, we will **preserve peace through strength** by rebuilding our military so that it remains pre-eminent, deters our adversaries, and if necessary, is able to fight and win. We will compete with all tools of national power to ensure that regions of the world are not dominated by one power. We will strengthen America's capabilities—including in space and cyberspace—and revitalize others that have been neglected. Allies and partners magnify our power. We expect them to shoulder a fair share of the burden of responsibility to protect against common threats.

Fourth, we will **advance American influence** because a world that supports American interests and reflects our values makes America more secure and prosperous. We will compete and lead in multilateral organizations so that American interests and principles are protected. America's commitment to liberty, democracy, and the rule of law serves as an inspiration for those living under

tyranny. We can play a catalytic role in promoting private-sector-led economic growth, helping aspiring partners become future trading and security partners. And we will remain a generous nation, even as we expect others to share responsibility.

Strengthening our sovereignty—the first duty of a government is to serve the interests of its own people—is a necessary condition for protecting these four national interests. And as we strengthen our sovereignty we will renew confidence in ourselves as a nation. We are proud of our history, optimistic about America's future, and confident of the positive example the United States offers to the world. We are also realistic and understand that the American way of life cannot be imposed upon others, nor is it the inevitable culmination of progress. Together with our allies, partners, and aspiring partners, the United States will pursue cooperation with reciprocity. Cooperation means sharing responsibilities and burdens. In trade, fair and reciprocal relationships benefit all with equal levels of market access and opportunities for economic growth. An America First National Security Strategy appreciates that America will catalyze conditions to unleash economic success for America and the world.

In the United States, free men and women have created the most just and prosperous nation in history. Our generation of Americans is now charged with preserving and defending that precious inheritance. This National Security Strategy shows the way.



PILLAR I

PROTECT THE AMERICAN PEOPLE,
THE HOMELAND, AND
THE AMERICAN WAY OF LIFE

*“We will defend our country, protect our communities,
and put the safety of the American people first.”*

PRESIDENT DONALD J. TRUMP | JULY 2017

This National Security Strategy begins with the determination to protect the American people, the American way of life, and American interests. Americans have long recognized the benefits of an interconnected world, where information and commerce flow freely. Engaging with the world, however, does not mean the United States should abandon its rights and duties as a sovereign state or compromise its security. Openness also imposes costs, since adversaries exploit our free and democratic system to harm the United States.

North Korea seeks the capability to kill millions of Americans with nuclear weapons. Iran supports terrorist groups and openly calls for our destruction. Jihadist terrorist organizations such as ISIS and al-Qa’ida are determined to attack the United States and radicalize Americans with their hateful ideology. Non-state actors undermine social order through drug and human trafficking networks, which they use to commit violent crimes and kill thousands of American each year.

Adversaries target sources of American strength, including our democratic system and our econ-

omy. They steal and exploit our intellectual property and personal data, interfere in our political processes, target our aviation and maritime sectors, and hold our critical infrastructure at risk. All of these actions threaten the foundations of the American way of life. Reestablishing lawful control of our borders is a first step toward protecting the American homeland and strengthening American sovereignty.

We must prevent nuclear, chemical, radiological, and biological attacks, block terrorists from reaching our homeland, reduce drug and human trafficking, and protect our critical infrastructure. We must also deter, disrupt, and defeat potential threats before they reach the United States. We will target jihadist terrorists and transnational criminal organizations at their source and dismantle their networks of support.

We must also take steps to respond quickly to meet the needs of the American people in the event of natural disaster or attack on our homeland. We must build a culture of preparedness and resilience across our governmental functions, critical infrastructure, and economic and political systems.

Secure U.S. Borders and Territory

State and non-state actors place the safety of the American people and the Nation’s economic vitality at risk by exploiting vulnerabilities across the land, air, maritime, space, and cyberspace domains. Adversaries constantly evolve their methods to threaten the United States and our citizens. We must be agile and adaptable.

Defend Against Weapons of Mass Destruction (WMD)

The danger from hostile state and non-state actors who are trying to acquire nuclear, chemical, radiological, and biological weapons is increasing. The Syrian regime’s use of chemical weapons against its own citizens undermines international norms against these heinous weapons, which may encourage more actors to pursue and use them. ISIS has used chemical weapons in Iraq and Syria. Terrorist groups continue to pursue WMD-related materials. We would face grave danger if terrorists obtained inadequately secured nuclear, radiological, or biological material.

As missiles grow in numbers, types, and effectiveness, to include those with greater ranges, they are the most likely means for states like North Korea to use a nuclear weapon against the United States. North Korea is also pursuing chemical and biological weapons which could also be delivered by missile. China and Russia are developing advanced weapons and capabilities that could threaten our critical infrastructure and our command and control architecture.

Priority Actions

ENHANCE MISSILE DEFENSE: The United States is deploying a layered missile defense system focused on North Korea and Iran to defend our homeland against missile attacks. This system will include the ability to defeat missile threats prior to launch. Enhanced missile defense is not intended to undermine strategic stability or disrupt longstanding strategic relationships with Russia or China.

DETECT AND DISRUPT WEAPONS OF MASS DESTRUCTION: At our borders and within our territory, we will bolster efforts to detect nuclear, chemical, radiological, and biological agents and keep them from being used against us. We will also better integrate intelligence, law enforcement, and emergency management operations to ensure that frontline defenders have the right information and capabilities to respond to WMD threats from state and non-state actors.

ENHANCE COUNTERPROLIFERATION MEASURES: Building on decades of initiatives, we will augment measures to secure, eliminate, and prevent the spread of WMD and related materials, their delivery systems, technologies, and knowledge to reduce the chance that they might fall into the hands of hostile actors. We will hold state and non-state actors accountable for the use of WMD.

TARGET WMD TERRORISTS: We will direct counterterrorism operations against terrorist WMD specialists, financiers, administrators, and facilitators. We will work with allies and partners to detect and disrupt plots.

Strengthening control over our borders and immigration system is central to national security, economic prosperity, and the rule of law.

Combat Biothreats and Pandemics

Biological incidents have the potential to cause catastrophic loss of life. Biological threats to the U.S. homeland—whether as the result of deliberate attack, accident, or a natural outbreak—are growing and require actions to address them at their source.

Naturally emerging outbreaks of viruses such as Ebola and SARS, as well as the deliberate 2001 anthrax attacks in the United States, demonstrated the impact of biological threats on national security by taking lives, generating economic losses, and contributing to a loss of confidence in government institutions.

Advancements in life sciences that benefit our health, economy, and society also open up new avenues to actors who want to cause harm. Dedicated state actors are likely to develop more advanced bioweapons, and these capabilities may become available to malicious non-state actors as well.

Priority Actions

DETECT AND CONTAIN BIOTHREATS AT THEIR SOURCE:

We will work with other countries to detect and mitigate outbreaks early to prevent the spread of disease. We will encourage other countries to invest in basic health care systems and to strengthen global health security across the intersection of human and animal health to prevent infectious disease outbreaks. And we will work with partners to ensure that laboratories that handle dangerous pathogens have in place safety and security measures.

SUPPORT BIOMEDICAL INNOVATION: We will protect and support advancements in biomedical innovation by strengthening the intellectual property system that is the foundation of the biomedical industry.

IMPROVE EMERGENCY RESPONSE: At home, we will strengthen our emergency response and uni-

fied coordination systems to rapidly characterize outbreaks, implement public health containment measures to limit the spread of disease, and provide surge medical care—including life-saving treatments.

Strengthen Border Control and Immigration Policy

Strengthening control over our borders and immigration system is central to national security, economic prosperity, and the rule of law. Terrorists, drug traffickers, and criminal cartels exploit porous borders and threaten U.S. security and public safety. These actors adapt quickly to outpace our defenses.

The United States affirms our sovereign right to determine who should enter our country and under what circumstances. The United States understands the contributions immigrants have made to our Nation throughout its history. Illegal immigration, however, burdens the economy, hurts American workers, presents public safety risks, and enriches smugglers and other criminals.

The United States recognizes that decisions about who to legally admit for residency, citizenship, or otherwise are among the most important a country has to make. The United States will continue to welcome lawful immigrants who do not pose a security threat and whose entry is consistent with the national interest, while at the same time enhancing the screening and vetting of travelers, closing dangerous loopholes, revising outdated laws, and eliminating easily exploited vulnerabilities. We will also reform our current immigration system, which, contrary to our national interest and national security, allows for randomized entry and extended-family chain migration. Residency and citizenship determinations should be based on individuals' merits and their ability to positively contribute to U.S. society, rather than chance or extended family connections.

Priority Actions

ENHANCE BORDER SECURITY: We will secure our borders through the construction of a border wall, the use of multilayered defenses and advanced technology, the employment of additional personnel, and other measures. The U.S. Government will work with foreign partners to deter, detect, and disrupt suspicious individuals well before they enter the United States.

ENHANCE VETTING: The U.S. Government will enhance vetting of prospective immigrants, refugees, and other foreign visitors to identify individuals who might pose a risk to national security or public safety. We will set higher security standards to ensure that we keep dangerous people out of the United States and enhance our information collection and analysis to identify those who may already be within our borders.

ENFORCE IMMIGRATION LAWS: We will enforce immigration laws, both at the border and in the interior, to provide an effective deterrent to illegal immigration. The apprehension and swift removal of illegal aliens at the border is critical to an effective border security strategy. We must also increase efforts to identify and counter fraud in the immigration process, which undermines the integrity of our immigration system, exploits vulnerable individuals, and creates national security risks.

BOLSTER TRANSPORTATION SECURITY: We will improve information sharing across our government and with foreign partners to enhance the security of the pathways through which people and goods enter the country. We will invest in technology to counter emerging threats to our aviation, surface, and maritime transportation sectors. We will also work with international and industry partners to raise security standards.

Pursue Threats to Their Source

There is no perfect defense against the range of threats facing our homeland. That is why America must, alongside allies and partners, stay on the offensive against those violent non-state groups that target the United States and our allies.

The primary transnational threats Americans face are from jihadist terrorists and transnational criminal organizations. Although their objectives differ, these actors pose some common challenges. First, they exploit our open society. Second, they often operate in loose confederations and adapt rapidly. Third, they rely on encrypted communication and the dark web to evade detection as they plot, recruit, finance, and execute their operations. Fourth, they thrive under conditions of state weakness and prey on the vulnerable as they accelerate the breakdown of rules to create havens from which to plan and launch attacks on the United States, our allies, and our partners. Fifth, some are sheltered and supported by states and do their bidding.

Defeat Jihadist Terrorists

Jihadist terrorist organizations present the most dangerous terrorist threat to the Nation. America, alongside our allies and partners, is fighting a long war against these fanatics who advance a totalitarian vision for a global Islamist caliphate that justifies murder and slavery, promotes repression, and seeks to undermine the American way of life. Jihadist terrorists use virtual and physical networks around the world to radicalize isolated individuals, exploit vulnerable populations, and inspire and direct plots.

Even after the territorial defeat of ISIS and al-Qa'ida in Syria and Iraq, the threat from jihadist terrorists will persist. They have used battlefields as test beds of terror and have exported tools and tactics to their followers. Many of these jihadist terror-

ists are likely to return to their home countries, from which they can continue to plot and launch attacks on the United States and our allies.

The United States also works with allies and partners to deter and disrupt other foreign terrorist groups that threaten the homeland—including Iranian-backed groups such as Lebanese Hizballah.

Priority Actions

DISRUPT TERROR PLOTS: We will enhance intelligence sharing domestically and with foreign partners. We will give our frontline defenders—including homeland security, law enforcement, and intelligence professionals—the tools, authorities, and resources to stop terrorist acts before they take place.

TAKE DIRECT ACTION: The U.S. military and other operating agencies will take direct action against terrorist networks and pursue terrorists who threaten the homeland and U.S. citizens regardless of where they are. The campaigns against ISIS and al-Qa’ida and their affiliates demonstrate that the United States will enable partners and sustain direct action campaigns to destroy terrorists and their sources of support, making it harder for them to plot against us.

ELIMINATE TERRORIST SAFE HAVENS: Time and territory allow jihadist terrorists to plot, so we will act against sanctuaries and prevent their reemergence, before they can threaten the U.S. homeland. We will go after their digital networks and work with private industry to confront the challenge of terrorists and criminals “going dark” and using secure platforms to evade detection.

SEVER SOURCES OF STRENGTH: We will disrupt the financial, materiel, and personnel supply chains of terrorist organizations. We will sever their financing and protect the U.S. and international financial systems from abuse. We will degrade their ability

to message and attract potential recruits. This includes combating the evil ideology of jihadists by exposing its falsehoods, promoting counter-narratives, and amplifying credible voices.

SHARE RESPONSIBILITY: Our allies and partners, who are also targets of terrorism, will continue to share responsibility in fighting these barbaric groups. We will help our partners develop and responsibly employ the capacity to

degrade and maintain persistent pressure against terrorists and will encourage partners to work independently of U.S. assistance.

COMBAT RADICALIZATION AND RECRUITMENT IN COMMUNITIES: The United States rejects bigotry and oppression and seeks a future built on our values as one American people. We will deny violent ideologies the space to take root by improving trust among law enforcement, the private sector, and American citizens. U.S. intelligence and homeland security experts will work with law enforcement and civic leaders on terrorism prevention and provide accurate and actionable information about radicalization in their communities.

Dismantle Transnational Criminal Organizations

The United States must devote greater resources to dismantle transnational criminal organizations (TCOs) and their subsidiary networks. Some have established global supply chains that are

We will give our frontline defenders—including homeland security, law enforcement, and intelligence professionals—the tools, authorities, and resources to stop terrorist acts before they take place.

comparable to Fortune 500 corporations. Every day they deliver drugs to American communities, fuel gang violence, and engage in cybercrime. The illicit opioid epidemic, fed by drug cartels as well as Chinese fentanyl traffickers, kills tens of thousands of Americans each year. These organizations weaken our allies and partners too, by corrupting and undermining democratic institutions. TCOs are motivated by profit, power, and political influence. They exploit weak governance and enable other national security threats, including terrorist organizations. In addition, some state adversaries use TCOs as instruments of national power, offering them territorial sanctuary where they are free to conduct unattributable cyber intrusions, sabotage, theft, and political subversion.

Priority Actions

IMPROVE STRATEGIC PLANNING AND INTELLIGENCE:

We will establish national-level strategic intelligence and planning capabilities to improve the ability of agencies to work together to combat TCOs at home and abroad.

DEFEND COMMUNITIES: We will deny TCOs the ability to harm Americans. We will support public health efforts to halt the growth of illicit drug use in the United States, expand national and community-based prevention efforts, increase access to evidenced-based treatment for addiction, improve prescription drug monitoring, and provide training on substance use disorders for medical personnel.

DEFEND IN DEPTH: U.S. agencies and foreign partners will target TCO leaders and their support infrastructure. We will assist countries, particularly in the Western Hemisphere, to break the power of these organizations and networks.

COUNTER CYBER CRIMINALS: We will use sophisticated investigative tools to disrupt the ability of criminals to use online marketplaces, cryptocurrencies, and other tools for illicit activities. The United States will hold countries accountable for harboring these criminals.

Keep America Safe in the Cyber Era

America’s response to the challenges and opportunities of the cyber era will determine our future prosperity and security. For most of our history, the United States has been able to protect the homeland by controlling its land, air, space, and maritime domains. Today, cyberspace offers state and non-state actors the ability to wage campaigns against American political, economic, and security interests without ever physically crossing our borders. Cyberattacks offer adversaries low-

cost and deniable opportunities to seriously damage or disrupt critical infrastructure, cripple American businesses, weaken our Federal networks, and attack the tools and devices that Americans use every day to communicate and conduct business.

Critical infrastructure keeps our food fresh, our houses warm, our trade flowing, and our citizens productive and safe. The vulnerability of U.S. critical infrastructure to cyber, physical, and electromagnetic attacks means that adversaries could disrupt military command and control, banking and financial operations, the electrical grid, and means of communication.

Federal networks also face threats. These networks allow government agencies to carry out vital functions and provide services to the American peo-

America’s response to the challenges and opportunities of the cyber era will determine our future prosperity and security.

ple. The government must do a better job of protecting data to safeguard information and the privacy of the American people. Our Federal networks must be modernized and updated.

In addition, the daily lives of most Americans rely on computer-driven and interconnected technologies. As our reliance on computers and connectivity increases, we become increasingly vulnerable to cyberattacks. Businesses and individuals must be able to operate securely in cyberspace.

Security was not a major consideration when the Internet was designed and launched. As it evolves, the government and private sector must design systems that incorporate prevention, protection, and resiliency from the start, not as an afterthought. We must do so in a way that respects free markets, private competition, and the limited but important role of government in enforcing the rule of law. As we build the next generation of digital infrastructure, we have an opportunity to put our experience into practice.

The Internet is an American invention, and it should reflect our values as it continues to transform the future for all nations and all generations. A strong, defensible cyber infrastructure fosters economic growth, protects our liberties, and advances our national security.

Priority Actions

IDENTIFY AND PRIORITIZE RISK: To improve the security and resilience of our critical infrastructure, we will assess risk across six key areas: national security, energy and power, banking and finance, health and safety, communications, and transportation. We will assess where cyberattacks could have catastrophic or cascading consequences and prioritize our protective efforts, capabilities, and defenses accordingly.

BUILD DEFENSIBLE GOVERNMENT NETWORKS: We will use the latest commercial capabilities, shared services, and best practices to modernize our Federal information technology. We will improve our ability to provide uninterrupted and secure communications and services under all conditions.

DETER AND DISRUPT MALICIOUS CYBER ACTORS: The Federal Government will ensure that those charged with securing critical infrastructure have the necessary authorities, information, and capabilities to prevent attacks before they affect or hold at risk U.S. critical infrastructure. The United States will impose swift and costly consequences on foreign governments, criminals, and other actors who undertake significant malicious cyber activities. We will work with allies and friends to expand our awareness of malicious activities. A stronger and more resilient critical infrastructure will strengthen deterrence by creating doubt in our adversaries that they can achieve their objectives.

IMPROVE INFORMATION SHARING AND SENSING: The U.S. Government will work with our critical infrastructure partners to assess their informational needs and to reduce the barriers to information sharing, such as speed and classification levels. We will also invest in capabilities that improve the ability of the United States to attribute cyberattacks. In accordance with the protection of civil liberties and privacy, the U.S. Government will expand collaboration with the private sector so that we can better detect and attribute attacks.

DEPLOY LAYERED DEFENSES: Since threats transit globally, passing through communications backbones without challenge, the U.S. Government will work with the private sector to remediate known bad activities at the network level to improve the security of all customers. Malicious activity must be defeated within a network and not be passed on to its destination whenever possible.

Promote American Resilience

Despite our best efforts, our government cannot prevent all dangers to the American people. We can, however, help Americans remain resilient in the face of adversity. Resilience includes the ability to withstand and recover rapidly from deliberate attacks, accidents, natural disasters, as well as unconventional stresses, shocks, and threats to our economy and democratic system. In the event of a disaster, Federal, state, and local agencies must perform essential functions and have plans in place to ensure the continuation of our constitutional form of government.

Reducing risk and building more resilient communities are the best ways to protect people, property, and taxpayer dollars from loss and disruption. Through risk-informed investments, we will build resilient communities and infrastructure to protect and benefit future generations.

Should tragedy strike, the U.S. Government will help communities recover and rebuild. Citizens must be confident in our government, but also recognize that response and recovery begins with individuals and local communities. In difficult times, the true character of the American people emerges: their strength, their love, and their resolve. Our first responders selflessly run toward danger, and volunteers rally to the aid of neighbors when disaster strikes.

A democracy is only as resilient as its people. An informed and engaged citizenry is the fundamental requirement for a free and resilient nation. For generations, our society has protected free press, free speech, and free thought. Today, actors such as Russia are using information tools in an attempt to undermine the legitimacy of democracies. Adversaries target media, political processes, financial networks, and personal data. The American public and private sectors must recognize this and

work together to defend our way of life. No external threat can be allowed to shake our shared commitment to our values, undermine our system of government, or divide our Nation.

Priority Actions

IMPROVE RISK MANAGEMENT: The United States will improve its ability to assess the threats and hazards that pose the greatest risks to Americans and will prioritize resources based on the highest risks.

BUILD A CULTURE OF PREPAREDNESS: This Administration will take steps to build a culture of preparedness, informing and empowering communities and individuals to obtain the skills and take the preparatory actions necessary to become more resilient against the threats and hazards that Americans face.

IMPROVE PLANNING: State and local governments must conduct realistic exercises that test existing plans to make sure that they are sound and can be executed. Agencies from all levels of government must coordinate better and apply lessons learned from exercises to pinpoint the areas and capabilities that require improvement.

INCENTIVIZE INFORMATION SHARING: To improve the coordination among the private sector and all levels of government that is needed to improve resilience, we must make a stronger commitment to protecting sensitive information so that all partners actively identify and share vulnerabilities and work collaboratively to reduce them.



PILLAR II

PROMOTE AMERICAN PROSPERITY

“Economic security is national security.”

PRESIDENT DONALD J. TRUMP | NOVEMBER 2017

A strong economy protects the American people, supports our way of life, and sustains American power. American workers thrive when they are free to innovate, develop and access our abundant natural resources, and operate in markets free from excessive regulations and unfair foreign trade practices. A growing and innovative economy allows the United States to maintain the world’s most powerful military and protect our homeland.

We must rebuild our economic strength and restore confidence in the American economic model. Over decades, American factories, companies, and jobs moved overseas. After the 2008 global financial crisis, doubt replaced confidence. Risk-aversion and regulations replaced investment and entrepreneurship. The recovery produced anemic growth in real earnings for American workers. The U.S. trade deficit grew as a result of several factors, including unfair trading practices.

For 70 years, the United States has embraced a strategy premised on the belief that leadership of a stable international economic system rooted in American principles of reciprocity, free markets, and free trade served our economic and security interests. Working with our allies and partners, the United States led the creation of a group of financial institutions and other economic forums that established equitable rules and built instruments to stabilize the interna-

tional economy and remove the points of friction that had contributed to two world wars.

That economic system continues to serve our interests, but it must be reformed to help American workers prosper, protect our innovation, and reflect the principles upon which that system was founded. Trading partners and international institutions can do more to address trade imbalances and adhere to and enforce the rules of the order.

Today, American prosperity and security are challenged by an economic competition playing out in a broader strategic context. The United States helped expand the liberal economic trading system to countries that did not share our values, in the hopes that these states would liberalize their economic and political practices and provide commensurate benefits to the United States. Experience shows that these countries distorted and undermined key economic institutions without undertaking significant reform of their economies or politics. They espouse free trade rhetoric and exploit its benefits, but only adhere selectively to the rules and agreements.

We welcome all economic relationships rooted in fairness, reciprocity, and faithful adherence to the rules. Those who join this pursuit will be our closest economic partners. But the United States will no longer turn a blind eye to violations, cheating, or economic aggression. We must work with like-

minded allies and partners to ensure our principles prevail and the rules are enforced so that our economies prosper.

The United States will pursue an economic strategy that rejuvenates the domestic economy, benefits the American worker, revitalizes the U.S. manufacturing base, creates middle-class jobs, encourages innovation, preserves technological advantage, safeguards the environment, and achieves energy dominance. Rebuilding economic strength at home and preserving a fair and reciprocal international economic system will enhance our security and advance prosperity and peace in the world.

Rebuilding economic strength at home and preserving a fair and reciprocal international economic system will enhance our security and advance prosperity and peace in the world.

ulation burdened small businesses. Banking regulations squelched new bank formation and caused hundreds of small banks to close. Regulation decreased credit availability to consumers and decreased product choice. Excessive environmental and infrastructure regulations impeded American energy trade and the development of new infrastructure projects.

Moreover, the poor state of our physical infrastructure stultified the economy, reduced the profitability of American small businesses, and slowed the productivity of American workers. America's digital infrastructure also fell behind. Improvements

in bandwidth, better broadband connectivity, and protection from persistent cyberattacks are needed to support America's future growth. Economic and personal transactions are dependent upon the ".com world," and wealth creation depends on a reliable, secure Internet.

The Administration is dedicated to rejuvenating the U.S. economy, unleashing the potential of all Americans, and restoring confidence in our free market system. Promoting American prosperity makes America more secure and advances American influence in the world.

Rejuvenate the Domestic Economy

Economic challenges at home demand that we understand economic prosperity as a pillar of national security. Despite low unemployment rates and stock market gains, overall economic growth has, until recently, been anemic since the 2008 recession. In the past five years, gross domestic product (GDP) growth hovered barely above two percent, and wages stagnated. Taxes increased, and health insurance and prescription drug costs continued to rise, albeit at a slower pace. Education costs climbed at rates far above inflation, increasing student debt. Productivity growth fell to levels not seen in decades.

Significant government intrusion in the economy slowed growth and job creation. Regulatory and corporate tax policies incentivized businesses to invest overseas and disadvantaged American companies against foreign competitors. Excessive reg-

Priority Actions

REDUCE REGULATORY BURDENS: Departments and agencies will eliminate unnecessary regulations that stifle growth, drive up costs for American businesses, impede research and development, discourage hiring, and incentivize domestic businesses to move overseas. We will balance our reduction in regulations with adequate protections and oversight.

PROMOTE TAX REFORM: This Administration will work with the Congress to create a simpler, fairer, and pro-growth tax code that encourages the creation of higher wage jobs and gives middle-income families tax relief. Reduced business tax rates and a territorial system for foreign subsidiary earnings will improve the competitiveness of American companies and encourage their return to the United States.

IMPROVE AMERICAN INFRASTRUCTURE: Federal, state, and local governments will work together with private industry to improve our airports, seaports and waterways, roads and railways, transit systems, and telecommunications. The United States will use our strategic advantage as a leading natural gas producer to transform transportation and manufacturing. We will improve America's digital infrastructure by deploying a secure 5G Internet capability nationwide. These improvements will increase national competitiveness, benefit the environment, and improve our quality of life.

REDUCE THE DEBT THROUGH FISCAL RESPONSIBILITY: The national debt, now over \$20 trillion, presents a grave threat to America's long-term prosperity and, by extension, our national security. By restraining Federal spending, making government more efficient, and by modernizing our tax system and making our businesses globally competitive, our economy will grow and make the existing debt more serviceable.

SUPPORT EDUCATION AND APPRENTICESHIP PROGRAMS:

We will support apprenticeships and workforce development programs that prepare American workers for high-wage manufacturing and science, technology, engineering, and mathematics (STEM) jobs of the 21st century.

Promote Free, Fair, and Reciprocal Economic Relationships

For decades, the United States has allowed unfair trading practices to grow. Other countries have used dumping, discriminatory non-tariff barriers, forced technology transfers, non-economic capacity, industrial subsidies, and other support from governments and state-owned enterprises to gain economic advantages.

Today we must meet the challenge. We will address persistent trade imbalances, break down trade barriers, and provide Americans new opportunities to increase their exports. The United States will expand trade that is fairer so that U.S. workers and industries have more opportunities to compete for business. We oppose closed mercantilist trading blocks. By strengthening the international trading system and incentivizing other

countries to embrace market-friendly policies, we can enhance our prosperity.

The United States distinguishes between economic competition with countries that follow fair and free market principles and competition with those that act with little regard for those principles. We will compete with like-minded states in the economic domain—particularly where trade imbalances exist—while recognizing that competition is healthy when nations

share values and build fair and reciprocal relationships. The United States will pursue enforcement actions when countries violate the rules to gain unfair advantage. The United States will engage industrialized democracies and other like-minded states to defend against economic aggres-

The Administration is dedicated to rejuvenating the U.S. economy, unleashing the potential of all Americans, and restoring confidence in our free market system.

sion, in all its forms, that threatens our common prosperity and security.

Priority Actions

ADOPT NEW TRADE AND INVESTMENT AGREEMENTS AND MODERNIZE EXISTING ONES: The United States will pursue bilateral trade and investment agreements with countries that commit to fair and reciprocal trade and will modernize existing agreements to ensure they are consistent with those principles. Agreements must adhere to high standards in intellectual property, digital trade, agriculture, labor, and the environment.

COUNTER UNFAIR TRADE PRACTICES: The United States will counter all unfair trade practices that distort markets using all appropriate means, from dialogue to enforcement tools.

COUNTER FOREIGN CORRUPTION: Using our economic and diplomatic tools, the United States will continue to target corrupt foreign officials and work with countries to improve their ability to fight corruption so U.S. companies can compete fairly in transparent business climates.

WORK WITH LIKE-MINDED PARTNERS: The United States will work with like-minded partners to preserve and modernize the rules of a fair and reciprocal economic order. Together we will emphasize fair trade enforcement actions when necessary, as well as multinational efforts to ensure transparency and adherence to international standards within trade and investment projects.

FACILITATE NEW MARKET OPPORTUNITIES: The United States will partner with countries as they build their export markets, promote free market competition, and incentivize private sector growth. We will expand U.S. trade and investment opportunities and increase the market base for U.S. goods and services.

Lead in Research, Technology, Invention, and Innovation

The United States will build on the ingenuity that has launched industries, created jobs, and improved the quality of life at home and abroad. To maintain our competitive advantage, the United States will prioritize emerging technologies critical to economic growth and security, such as data science, encryption, autonomous technologies, gene editing, new materials, nanotechnology, advanced computing technologies, and artificial intelligence. From self-driving cars to autonomous weapons, the field of artificial intelligence, in particular, is progressing rapidly.

The United States must continue to attract the innovative and the inventive, the brilliant and the bold. We will encourage scientists in government, academia, and the private sector to achieve advancements across the full spectrum of discovery, from incremental improvements to game-changing breakthroughs. We will nurture a healthy innovation economy that collaborates with allies and partners, improves STEM education, draws on an advanced technical workforce, and invests in early-stage research and development (R&D).

Priority Actions

UNDERSTAND WORLDWIDE SCIENCE AND TECHNOLOGY (S&T) TRENDS: To retain U.S. advantages over our competitors, U.S. Government agencies must improve their understanding of worldwide S&T trends and how they are likely to influence—or undermine—American strategies and programs.

ATTRACT AND RETAIN INVENTORS AND INNOVATORS: The U.S. Government must improve our collaboration with industry and academia and our recruitment of technical talent. We will remove barriers to the full use of talent across Federal agencies, and increase incentives for hiring and retaining Federal STEM employees. Initiatives

will include rapid hiring, swift adjudication of national security clearances, and offers of competitive salaries. We must create easier paths for the flow of scientists, engineers, and technologists into and out of public service.

LEVERAGE PRIVATE CAPITAL AND EXPERTISE TO BUILD AND INNOVATE: The U.S. Government will use private sector technical expertise and R&D capabilities more effectively. Private industry owns many of the technologies that the government relies upon for critical national security missions. The Department of Defense and other agencies will establish strategic partnerships with U.S. companies to help align private sector R&D resources to priority national security applications.

RAPIDLY FIELD INVENTIONS AND INNOVATIONS: The United States must regain the element of surprise and field new technologies at the pace of modern industry. Government agencies must shift from an archaic R&D process to an approach that rewards rapid fielding and risk taking.

Promote and Protect the U.S. National Security Innovation Base

America's business climate and legal and regulatory systems encourage risk taking. We are a nation of people who work hard, dream big, and never give up. Not every country shares these characteristics. Some instead steal or illicitly acquire America's hard-earned intellectual property and proprietary information to compensate for their own systemic weaknesses.

Every year, competitors such as China steal U.S. intellectual property valued at hundreds of billions of dollars. Stealing proprietary technology and early-stage ideas allows competitors to unfairly tap into the innovation of free societies. Over the years, rivals have used sophisticated

means to weaken our businesses and our economy as facets of cyber-enabled economic warfare and other malicious activities. In addition to these illegal means, some actors use largely legitimate, legal transfers and relationships to gain access to fields, experts, and trusted foundries that fill their capability gaps and erode America's long-term competitive advantages.

We must defend our National Security Innovation Base (NSIB) against competitors. The NSIB is the American network of knowledge, capabilities, and people—including academia, National Laboratories, and the private sector—that turns ideas into innovations, transforms discoveries into successful commercial products and companies, and protects and enhances the American way of life. The genius of creative Americans, and the free system that enables them, is critical to American security and prosperity.

Protecting the NSIB requires a domestic and international response beyond the scope of any individual company, industry, university, or government agency. The landscape of innovation does not divide neatly into sectors. Technologies that are part of most weapon systems often originate in diverse businesses as well as in universities and colleges. Losing our innovation and technological edge would have far-reaching negative implications for American prosperity and power.

Priority Actions

UNDERSTAND THE CHALLENGES: The U.S. Government will develop a capability to integrate, monitor, and better understand the national security implications of unfair industry trends and the actions of our rivals. We will explore new ways to share this information with the private sector and academia so they better understand their responsibilities in curtailing activities that undercut America's NSIB.

PROTECT INTELLECTUAL PROPERTY: The United States will reduce the illicit appropriation of U.S. pub-

lic and private sector technology and technical knowledge by hostile foreign competitors. While maintaining an investor-friendly climate, this Administration will work with the Congress to strengthen the Committee on Foreign Investment in the United States (CFIUS) to ensure it addresses current and future national security risks. The United States will prioritize counterintelligence and law enforcement activities to curtail intellectual property theft by all sources and will explore new legal and regulatory mechanisms to prevent and prosecute violations.

For the first time in generations, the United States will be an energy-dominant nation.

TIGHTEN VISA PROCEDURES:

The United States will review visa procedures to reduce economic theft by non-traditional intelligence collectors. We will consider restrictions on foreign STEM students from designated countries to ensure that intellectual property is not transferred to our competitors, while acknowledging the importance of recruiting the most advanced technical workforce to the United States.

PROTECT DATA AND UNDERLYING INFRASTRUCTURE:

The United States will expand our focus beyond protecting networks to protecting the data on those networks so that it remains secure—both at rest and in transit. To do this, the U.S. Government will encourage practices across companies and universities to defeat espionage and theft.

Embrace Energy Dominance

For the first time in generations, the United States will be an energy-dominant nation. Energy dominance—America’s central position in the global energy system as a leading producer, consumer, and innovator—ensures that markets are free and U.S. infrastructure is resilient and secure. It ensures

that access to energy is diversified, and recognizes the importance of environmental stewardship.

Access to domestic sources of clean, affordable, and reliable energy underpins a prosperous, secure, and powerful America for decades to come.

Unleashing these abundant energy resources—coal, natural gas, petroleum, renewables, and nuclear—stimulates the economy and builds a foundation for future growth. Our Nation must take advantage of our wealth in domestic resources and energy efficiency to promote competitiveness across our industries.

The United States also anchors the North American energy system, which is one of the most highly integrated in the world. Our vibrant cross-border energy trade and investment are vital for a robust and resilient U.S. economy and energy market. We are committed to supporting energy initiatives that will attract investments, safeguard the environment, strengthen our energy security, and unlock the enormous potential of our shared region.

Climate policies will continue to shape the global energy system. U.S. leadership is indispensable to countering an anti-growth energy agenda that is detrimental to U.S. economic and energy security interests. Given future global energy demand, much of the developing world will require fossil fuels, as well as other forms of energy, to power their economies and lift their people out of poverty. The United States will continue to advance an approach that balances energy security, economic development, and environmental protection. The United States will remain a global leader in reducing traditional pollution, as well as greenhouse gases, while expanding our economy. This achievement, which can serve as a model to other countries, flows from innovation, technology breakthroughs, and energy efficiency gains, not from onerous regulation.

As a growing supplier of energy resources, technologies, and services around the world, the United States will help our allies and partners become more resilient against those that use energy to coerce. America's role as an energy exporter will also require an assessment of our vulnerabilities and a resilient American infrastructure.

Finally, the Nation's long-term energy security future rests with our people. We must invest in our future by supporting innovation and R&D, including through the National Laboratories.

Priority Actions

REDUCE BARRIERS: The United States will promote clean and safe development of our energy resources, while limiting regulatory burdens that encumber energy production and constrain economic growth. We will streamline the Federal regulatory approval processes for energy infrastructure, from pipeline and export terminals to container shipments and gathering lines, while also ensuring responsible environmental stewardship.

PROMOTE EXPORTS: The United States will promote exports of our energy resources, technologies, and services, which helps our allies and partners diversify their energy sources and brings economic gains back home. We will expand our export capacity through the continued support of private sector development of coastal terminals, allowing increased market access and a greater competitive edge for U.S. industries.

ENSURE ENERGY SECURITY: The United States will work with allies and partners to protect global energy infrastructure from cyber and physical threats. The United States will support the diversification of energy sources, supplies, and routes at home and abroad. We will modernize our strategic petroleum stocks and encourage other countries to develop their own—consistent with their national energy security needs.

ATTAIN UNIVERSAL ENERGY ACCESS: The United States will seek to ensure universal access to affordable, reliable energy, including highly efficient fossil fuels, nuclear, and renewables, to help reduce poverty, foster economic growth, and promote prosperity.

FURTHER AMERICA'S TECHNOLOGICAL EDGE: We will improve America's technological edge in energy, including nuclear technology, next-generation nuclear reactors, better batteries, advanced computing, carbon-capture technologies, and opportunities at the energy-water nexus. The United States will continue to lead in innovative and efficient energy technologies, recognizing the economic and environmental benefits to end users.



P I L L A R I I I

PRESERVE PEACE THROUGH STRENGTH

“As long as I am President, the servicemen and women who defend our Nation will have the equipment, the resources, and the funding they need to secure our homeland, to respond to our enemies quickly and decisively, and, when necessary, to fight, to overpower, and to always, always, always win.”

PRESIDENT DONALD J. TRUMP | DECEMBER 2017

A central continuity in history is the contest for power. The present time period is no different. Three main sets of challengers—the revisionist powers of China and Russia, the rogue states of Iran and North Korea, and transnational threat organizations, particularly jihadist terrorist groups—are actively competing against the United States and our allies and partners. Although differing in nature and magnitude, these rivals compete across political, economic, and military arenas, and use technology and information to accelerate these contests in order to shift regional balances of power in their favor. These are fundamentally political contests between those who favor repressive systems and those who favor free societies.

China and Russia want to shape a world antithetical to U.S. values and interests. China seeks to displace the United States in the Indo-Pacific region, expand the reaches of its state-driven economic model, and reorder the region in its favor. Russia seeks to restore its great power status and establish spheres of influence near its borders. The intentions of both nations are not necessarily fixed. The United

States stands ready to cooperate across areas of mutual interest with both countries.

For decades, U.S. policy was rooted in the belief that support for China’s rise and for its integration into the post-war international order would liberalize China. Contrary to our hopes, China expanded its power at the expense of the sovereignty of others. China gathers and exploits data on an unrivaled scale and spreads features of its authoritarian system, including corruption and the use of surveillance. It is building the most capable and well-funded military in the world, after our own. Its nuclear arsenal is growing and diversifying. Part of China’s military modernization and economic expansion is due to its access to the U.S. innovation economy, including America’s world-class universities.

Russia aims to weaken U.S. influence in the world and divide us from our allies and partners. Russia views the North Atlantic Treaty Organization (NATO) and European Union (EU) as threats. Russia is investing in new military capabilities, including nuclear systems that remain the most significant existential threat to the United States, and in

destabilizing cyber capabilities. Through modernized forms of subversive tactics, Russia interferes in the domestic political affairs of countries around the world. The combination of Russian ambition and growing military capabilities creates an unstable frontier in Eurasia, where the risk of conflict due to Russian miscalculation is growing.

The scourge of the world today is a small group of rogue regimes that violate all principles of free and civilized states. The Iranian regime sponsors terrorism around the world. It is developing more capable ballistic missiles and has the potential to resume its work on nuclear weapons that could threaten the United States and our partners. North Korea is ruled as a ruthless dictatorship without regard for human dignity. For more than 25 years, it has pursued nuclear weapons and ballistic missiles in defiance of every commitment it has made. Today, these missiles and weapons threaten the United States and our allies. The longer we ignore threats from countries determined to proliferate and develop weapons of mass destruction, the worse such threats become, and the fewer defensive options we have.

The United States continues to wage a long war against jihadist terrorist groups such as ISIS and al-Qa'ida. These groups are linked by a common radical Islamist ideology that encourages violence against the United States and our partners and produces misery for those under their control. Although the United States and our partners have inflicted defeats on ISIS and al-Qa'ida in Syria and Iraq, these organizations maintain global reach with established branches in strategic locations. The threat from jihadist terrorists will persist, even as we intensify efforts to prevent attacks on Americans, our allies, and our partners.

Protecting American interests requires that we compete continuously within and across these contests, which are being played out in regions around the world. The outcome of these con-

tests will influence the political, economic, and military strength of the United States and our allies and partners.

To prevail, we must integrate all elements of America's national power—political, economic, and military. Our allies and partners must also contribute the capabilities, and demonstrate the will, to confront shared threats. Experience suggests that the willingness of rivals to abandon or forgo aggression depends on their perception of U.S. strength and the vitality of our alliances.

The United States will seek areas of cooperation with competitors from a position of strength, foremost by ensuring our military power is second to none and fully integrated with our allies and all of our instruments of power. A strong military ensures that our diplomats are able to operate from a position of strength. In this way we can, together with our allies and partners, deter and if necessary, defeat aggression against U.S. interests and increase the likelihood of managing competitions without violent conflict and preserving peace.

Renew America's Competitive Advantages

The United States must consider what is enduring about the problems we face, and what is new. The contests over influence are timeless. They have existed in varying degrees and levels of intensity, for millennia. Geopolitics is the interplay of these contests across the globe. But some conditions are new, and have changed how these competitions are unfolding. We face simultaneous threats from different actors across multiple arenas—all accelerated by technology. The United States must develop new concepts and capabilities to protect our homeland, advance our prosperity, and preserve peace.

Since the 1990s, the United States displayed a great degree of strategic complacency. We assumed that our military superiority was guaranteed and that a democratic peace was inevitable. We believed that liberal-democratic enlargement and inclusion would fundamentally alter the nature of international relations and that competition would give way to peaceful cooperation.

Instead of building military capacity, as threats to our national security increased, the United States dramatically cut the size of our military to the lowest levels since 1940. Instead of developing important capabilities, the Joint Force entered a nearly decade long “procurement holiday” during which the acquisition of new weapon systems was severely limited. The breakdown of the Nation’s annual Federal budgeting process, exemplified by sequestration and repeated continuing resolutions, further contributed to the erosion of America’s military dominance during a time of increasing threats.

Despite decades of efforts to reform the way that the United States develops and procures new weapons, our acquisition system remained sclerotic. The Joint Force did not keep pace with emerging threats or technologies. We got less for our defense dollars, shortchanging American taxpayers and warfighters.

We also incorrectly believed that technology could compensate for our reduced capacity—for the ability to field enough forces to prevail militarily, consolidate our gains, and achieve our desired political ends. We convinced ourselves that all wars would be fought and won quickly, from stand-off distances and with minimal casualties.

In addition, after being dismissed as a phenomenon of an earlier century, great power competition returned. China and Russia began to reassert their influence regionally and globally. Today, they are fielding military capabilities designed to deny

America access in times of crisis and to contest our ability to operate freely in critical commercial zones during peacetime. In short, they are contesting our geopolitical advantages and trying to change the international order in their favor.

Moreover, deterrence today is significantly more complex to achieve than during the Cold War. Adversaries studied the American way of war and began investing in capabilities that targeted our strengths and sought to exploit perceived weaknesses. The spread of accurate and inexpensive weapons

and the use of cyber tools have allowed state and non-state competitors to harm the United States across various domains. Such capabilities contest what was until recently U.S. dominance across the land, air, maritime, space, and cyberspace domains. They also enable adversaries to attempt strategic attacks against the United States—without resorting to nuclear weapons—in ways that could cripple our economy and our ability to deploy our military forces. Deterrence must be extended across all of these domains and must address all possible strategic attacks.

In addition, adversaries and competitors became adept at operating below the threshold of open military conflict and at the edges of international law. Repressive, closed states and organizations, although brittle in many ways, are often more agile and faster at integrating economic, military, and especially informational

The United States will seek areas of cooperation with competitors from a position of strength, foremost by ensuring our military power is second to none and fully integrated with our allies and all of our instruments of power.

means to achieve their goals. They are unencumbered by truth, by the rules and protections of privacy inherent in democracies, and by the law of armed conflict. They employ sophisticated political, economic, and military campaigns that combine discrete actions. They are patient and content to accrue strategic gains over time—making it harder for the United States and our allies to respond. Such actions are calculated to achieve maximum effect without provoking a direct military response from the United States. And as these incremental gains are realized, over time, a new status quo emerges.

The United States must prepare for this type of competition. China, Russia, and other state and non-state actors recognize that the United States often views the world in binary terms, with states being either “at peace” or “at war,” when it is actually an arena of continuous competition. Our adversaries will not fight us on our terms. We will raise our competitive game to meet that challenge, to protect American interests, and to advance our values.

Our diplomatic, intelligence, military, and economic agencies have not kept pace with the changes in the character of competition. America’s military must be prepared to operate across a full spectrum of conflict, across multiple domains at once. To meet these challenges we must also upgrade our political and economic instruments to operate across these environments.

Bureaucratic inertia is powerful. But so is the talent, creativity, and dedication of Americans. By aligning our public and private sector efforts we can field a Joint Force that is unmatched. New advances in computing, autonomy, and manufacturing are already transforming the way we fight. When coupled with the strength of our allies and partners, this advantage grows. The future that we face is ours to win or lose. History suggests that Americans will rise to the occasion and that we can shift trends back in favor of the United States, our allies, and our partners.

Renew Capabilities

Given the new features of the geopolitical environment, the United States must renew key capabilities to address the challenges we face.

Military

U.S. military strength remains a vital component of the competition for influence. The Joint Force demonstrates U.S. resolve and commitment and provides us with the ability to fight and win across any plausible conflict that threatens U.S. vital interests.

The United States must retain overmatch—the combination of capabilities in sufficient scale to prevent enemy success and to ensure that America’s sons and daughters will never be in a fair fight. Overmatch strengthens our diplomacy and permits us to shape the international environment to protect our interests. To retain military overmatch the United States must restore our ability to produce innovative capabilities, restore the readiness of our forces for major war, and grow the size of the force so that it is capable of operating at sufficient scale and for ample duration to win across a range of scenarios.

We must convince adversaries that we can and will defeat them—not just punish them if they attack the United States. We must ensure the ability to deter potential enemies by denial, convincing them that they cannot accomplish objectives through the use of force or other forms of aggression. We need our allies to do the same—to modernize, acquire necessary capabilities, improve readiness, expand the size of their forces, and affirm the political will to win.

Priority Actions

MODERNIZATION: Ensuring that the U.S. military can defeat our adversaries requires weapon systems that clearly overmatch theirs in lethality. Where possible, we must improve existing systems to maximize returns on prior investments. In other areas we should seek new capabilities that create clear advantages for our military while posing costly dilemmas for our adversaries. We must eliminate bureaucratic impediments to innovation and embrace less expensive and time-intensive commercial off-the-shelf solutions. Departments and agencies must work with industry to experiment, prototype, and rapidly field new capabilities that can be easily upgraded as new technologies come online.

ACQUISITION: The United States will pursue new approaches to acquisition to make better deals on behalf of the American people that avoid cost overruns, eliminate bloated bureaucracies, and stop unnecessary delays so that we can put the right equipment into the hands of our forces. We must harness innovative technologies that are being developed outside of the traditional defense industrial base.

CAPACITY: The size of our force matters. To deter conflict and, if deterrence fails, to win in war, the Nation must be able to field forces capable of operating in sufficient scale and for ample duration to defeat enemies, consolidate military gains, and achieve sustainable outcomes that protect the American people and our vital interests. The United States must reverse recent decisions to reduce the size of the Joint Force and grow the force while modernizing and ensuring readiness.

Support for a vibrant domestic manufacturing sector, a solid defense industrial base, and resilient supply chains is a national priority.

IMPROVE READINESS: The United States must retain a ready force that is capable of protecting the homeland while defending U.S. interests. Readiness requires a renewed focus on training, logistics, and maintenance. We must be able to get to a theater in time to shape events quickly. This will require a resilient forward posture and agile global mobility forces.

RETAIN A FULL-SPECTRUM FORCE: The Joint Force must remain capable of deterring and defeating the full range of threats to the United States. The Department of Defense must develop new operational concepts and capabilities to win without assured dominance in air, maritime, land, space, and cyberspace domains, including against those operating below the level of conventional military conflict.

We must sustain our competence in irregular warfare, which requires planning for a long-term, rather than ad hoc, fight against terrorist networks and other irregular threats.

Defense Industrial Base

A healthy defense industrial base is a critical element of U.S. power and the National Security Innovation Base. The ability of the military to surge in response to an emergency depends on our Nation's ability to produce needed parts and systems, healthy and secure supply chains, and a skilled U.S. workforce. The erosion of American manufacturing over the last two decades, however, has had a negative impact on these capabilities and threatens to undermine the ability of U.S. manufacturers to meet national security requirements. Today, we rely on single domestic sources for some products and foreign supply chains for others, and we face the possibility of not being able to produce specialized components for

the military at home. As America’s manufacturing base has weakened, so too have critical workforce skills ranging from industrial welding, to high-technology skills for cybersecurity and aerospace. Support for a vibrant domestic manufacturing sector, a solid defense industrial base, and resilient supply chains is a national priority.

Priority Actions

UNDERSTAND THE PROBLEM: We will evaluate the strengths and weaknesses of our defense industrial base, including the identification of materials essential to national security, contingencies that could affect supply chains, and technologies that are likely to be critical for the future.

ENCOURAGE HOMELAND INVESTMENT: The United States will promote policies and incentives that return key national security industries to American shores. Where possible, the U.S. Government will work with industry partners to strengthen U.S. competitiveness in key technologies and manufacturing capabilities. In addition, we will reform regulations and processes to facilitate the export of U.S. military equipment.

PROTECT AND GROW CRITICAL SKILLS: The United States must maintain and develop skilled trades and high-technology skills through increased support for technical college and apprenticeship programs. We will support STEM efforts, at the Federal and state levels, and target national security technology areas.

Nuclear Forces

Nuclear weapons have served a vital purpose in America’s National Security Strategy for the past 70 years. They are the foundation of our strategy to preserve peace and stability by deterring aggression against the United States, our allies, and our partners. While nuclear deterrence strategies cannot prevent all conflict, they are essen-

tial to prevent nuclear attack, non-nuclear strategic attacks, and large-scale conventional aggression. In addition, the extension of the U.S. nuclear deterrent to more than 30 allies and partners helps to assure their security, and reduces their need to possess their own nuclear capabilities.

Following the Cold War, the United States reduced investments in our nuclear enterprise and reduced the role of nuclear weapons in our strategy. Some parts of America’s strategic nuclear Triad of bombers, sea-based missiles, and land-based missiles are over 30 years old, and much of our nuclear infrastructure dates to the World War II era. At the same time, however, nuclear-armed adversaries have expanded their arsenals and range of delivery systems. The United States must maintain the credible deterrence and assurance capabilities provided by our nuclear Triad and by U.S. theater nuclear capabilities deployed abroad. Significant investment is needed to maintain a U.S. nuclear arsenal and infrastructure that is able to meet national security threats over the coming decades.

Priority Actions

SUSTAIN U.S. NUCLEAR WEAPONS: The United States will sustain a nuclear force structure that meets our current needs and addresses unanticipated risks. The United States does not need to match the nuclear arsenals of other powers, but we must sustain a stockpile that can deter adversaries, assure allies and partners, and achieve U.S. objectives if deterrence fails.

MODERNIZE U.S. NUCLEAR FORCES AND INFRASTRUCTURE: We will modernize our nuclear enterprise to ensure that we have the scientific, engineering, and manufacturing capabilities necessary to retain an effective and safe nuclear Triad and respond to future national security threats. Modernization and sustainment require investing in our aging command and control system and maintaining and growing

the highly skilled workforce needed to develop, manufacture, and deploy nuclear weapons.

MAINTAIN STABLE DETERRENCE: To avoid miscalculation, the United States will conduct discussions with other states to build predictable relationships and reduce nuclear risks. We will consider new arms control arrangements if they contribute to strategic stability and if they are verifiable. We will not allow adversaries to use threats of nuclear escalation or other irresponsible nuclear behaviors to coerce the United States, our allies, and our partners. Fear of escalation will not prevent the United States from defending our vital interests and those of our allies and partners.

Space

The United States must maintain our leadership and freedom of action in space. Communications and financial networks, military and intelligence systems, weather monitoring, navigation, and more have components in the space domain. As U.S. dependence on space has increased, other actors have gained access to space-based systems and information. Governments and private sector firms have the ability to launch satellites into space at increasingly lower costs. The fusion of data from imagery, communications, and geolocation services allows motivated actors to access previously unavailable information. This “democratization of space” has an impact on military operations and on America’s ability to prevail in conflict.

Many countries are purchasing satellites to support their own strategic military activities. Others believe that the ability to attack space assets offers an asymmetric advantage and as a result, are pursuing a range of anti-satellite (ASAT) weapons. The United States considers unfettered access to and freedom to operate in space to be a vital interest. Any harmful interference with or an attack upon critical components of our space architecture that directly affects this vital U.S. inter-

est will be met with a deliberate response at a time, place, manner, and domain of our choosing.

Priority Actions

ADVANCE SPACE AS A PRIORITY DOMAIN: America’s newly re-established National Space Council, chaired by the Vice President, will review America’s long-range space goals and develop a strategy that integrates all space sectors to support innovation and American leadership in space.

PROMOTE SPACE COMMERCE: The United States will simplify and update regulations for commercial space activity to strengthen competitiveness. As the U.S. Government partners with U.S. commercial space capabilities to improve the resiliency of our space architecture, we will also consider extending national security protections to our private sector partners as needed.

MAINTAIN LEAD IN EXPLORATION: To enable human exploration across the solar system and to bring back to Earth new knowledge and opportunities, we will increase public-private partnerships and promote ventures beyond low Earth orbit with allies and friends.

Cyberspace

Malicious state and non-state actors use cyberattacks for extortion, information warfare, disinformation, and more. Such attacks have the capability to harm large numbers of people and institutions with comparatively minimal investment and a troubling degree of deniability. These attacks can undermine faith and confidence in democratic institutions and the global economic system.

Many countries now view cyber capabilities as tools for projecting influence, and some use cyber tools to protect and extend their autocratic regimes. Cyberattacks have become a key feature of modern conflict. The United States will deter,

defend, and when necessary defeat malicious actors who use cyberspace capabilities against the United States. When faced with the opportunity to take action against malicious actors in cyberspace, the United States will be risk informed, but not risk averse, in considering our options.

Priority Actions

IMPROVE ATTRIBUTION, ACCOUNTABILITY, AND RESPONSE: We will invest in capabilities to support and improve our ability to attribute cyberattacks, to allow for rapid response.

ENHANCE CYBER TOOLS AND EXPERTISE: We will improve our cyber tools across the spectrum of conflict to protect U.S. Government assets and U.S. critical infrastructure, and to protect the integrity of data and information. U.S. departments and agencies will recruit, train, and retain a workforce capable of operating across this spectrum of activity.

IMPROVE INTEGRATION AND AGILITY: We will improve the integration of authorities and procedures across the U.S. Government so that cyber operations against adversaries can be conducted as required. We will work with the Congress to address the challenges that continue to hinder timely intelligence and information sharing, planning and operations, and the development of necessary cyber tools.

Intelligence

America's ability to identify and respond to geostrategic and regional shifts and their political, economic, military, and security implications requires that the U.S. Intelligence Community (IC) gather, analyze, discern, and operationalize information. In this information-dominant era, the IC must continuously pursue strategic intelligence to anticipate geostrategic shifts, as well as shorter-term intelligence so that the United States can respond to the actions and provocations of rivals.

The ability of the United States to modernize our military forces to overmatch our adversaries requires intelligence support. Intelligence is needed to understand and anticipate foreign doctrine and the intent of foreign leaders, prevent tactical and operational surprise, and ensure that U.S. capabilities are not compromised before they are fielded. In addition, virtually all modern weapon systems depend upon data derived from scientific and technical intelligence.

The IC, as well as the law enforcement community, offer unique abilities to defend against and mitigate threat actors operating below the threshold of open conflict. Both communities have exceptionally strong liaison relationships throughout the world, allowing the United States to cooperate with allies and partners to protect against adversaries.

Priority Actions

IMPROVE UNDERSTANDING: To prevent the theft of sensitive and proprietary information and maintain supply chain integrity, the United States must increase our understanding of the economic policy priorities of our adversaries and improve our ability to detect and defeat their attempts to commit economic espionage.

HARNESS ALL INFORMATION AT OUR DISPOSAL: The United States will, in concert with allies and partners, use the information-rich open-source environment to deny the ability of state and non-state actors to attack our citizens, conduct offensive intelligence activities, and degrade America's democratic institutions.

FUSE INFORMATION AND ANALYSIS: The United States will fuse our analysis of information derived from the diplomatic, information, military, and economic domains to compete more effectively on the geopolitical stage.

Diplomacy and Statecraft

Competitive Diplomacy

Across the competitive landscape, America's diplomats are our forward-deployed political capability, advancing and defending America's interests abroad. Diplomacy catalyzes the political, economic, and societal connections that create America's enduring alignments and that build positive networks of relationships with partners. Diplomacy sustains dialogue and fosters areas of cooperation with competitors. It reduces the risk of costly miscommunication.

Diplomacy is indispensable to identify and implement solutions to conflicts in unstable regions of the world short of military involvement. It helps to galvanize allies for action and marshal the collective resources of like-minded nations and organizations to address shared problems. Authoritarian states are eager to replace the United States where the United States withdraws our diplomats and closes our outposts.

We must upgrade our diplomatic capabilities to compete in the current environment and to embrace a competitive mindset. Effective diplomacy requires the efficient use of limited resources, a professional diplomatic corps, modern and safe facilities, and secure methods to communicate and engage with local populations.

Priority Actions

PRESERVE A FORWARD DIPLOMATIC PRESENCE: Our diplomats must be able to build and sustain relationships where U.S. interests are at stake. Face-to-face diplomacy cannot be replaced by technology. Relationships, developed over time, create trust and shared understanding that the United States calls upon when confronting security threats, responding to crises, and encouraging others to share the burden for tackling the world's challenges. We must enable forward-deployed field work beyond the confines of diplomatic facilities, including partnering with military colleagues in conflict-affected states.

ADVANCE AMERICAN INTERESTS: In the ongoing contests for power, our diplomats must build and lead coalitions that advance shared interests and articulate America's vision in international forums, in bilateral relationships, and at local levels within states. Our diplomats need additional flexibility to operate in complex conflict-affected areas.

CATALYZE OPPORTUNITIES: Diplomats must identify opportunities for commerce and cooperation, and facilitate the cultural, educational, and people-to-people exchanges that create the networks of current and future political, civil society, and educational leaders who will extend a free and prosperous world.

Diplomacy is indispensable to identify and implement solutions to conflicts in unstable regions of the world short of military involvement. It helps to galvanize allies for action and marshal the collective resources of like-minded nations and organizations to address shared problems.

Tools of Economic Diplomacy

Retaining our position as the world’s preeminent economic actor strengthens our ability to use the tools of economic diplomacy for the good of Americans and others. Maintaining America’s central role in international financial forums enhances our security and prosperity by expanding a community of free market economies, defending against threats from state-led economies, and protecting the U.S. and international economy from abuse by illicit actors.

We want to create wealth for Americans and our allies and partners. Prosperous states are stronger security partners who are able to share the burden of confronting common threats. Fair and reciprocal trade, investments, and exchanges of knowledge deepen our alliances and partnerships, which are necessary to succeed in today’s competitive geopolitical environment. Trade, export promotion, targeted use of foreign assistance, and modernized development finance tools can promote stability, prosperity, and political reform, and build new partnerships based on the principle of reciprocity.

Economic tools—including sanctions, anti-money-laundering and anti-corruption measures, and enforcement actions—can be important parts of broader strategies to deter, coerce, and constrain adversaries. We will work with like-minded partners to build support for tools of economic diplomacy against shared threats. Multilateral economic pressure is often more effective because it limits the ability of targeted states to circumvent measures and conveys united resolve.

America's competitors weaponize information to attack the values and institutions that underpin free societies, while shielding themselves from outside information.

Priority Actions

REINFORCE ECONOMIC TIES WITH ALLIES AND PARTNERS: We will strengthen economic ties as a core aspect of our relationships with like-minded states and use our economic expertise, markets, and resources to bolster states threatened by our competitors.

DEPLOY ECONOMIC PRESSURE ON SECURITY THREATS: We will use existing and pursue new economic authorities and mobilize international actors to increase pressure on threats to peace and security in order to resolve confrontations short of military action.

SEVER SOURCES OF FUNDING: We will deny revenue to terrorists, WMD proliferators, and other illicit actors in order to constrain their ability to use and move funds to support hostile acts and operations.

Information Statecraft

America’s competitors weaponize information to attack the values and institutions that underpin free societies, while shielding themselves from outside information. They exploit marketing techniques to target individuals based upon their activities, interests, opinions, and values. They disseminate misinformation and propaganda.

Risks to U.S. national security will grow as competitors integrate information derived from personal and commercial sources with intelligence collection and data analytic capabilities based on Artificial Intelligence (AI) and machine learning. Breaches of U.S. commercial and government organizations also provide adversaries with data and insights into their target audiences.

China, for example, combines data and the use of AI to rate the loyalty of its citizens to the state and uses these ratings to determine jobs and more. Jihadist terrorist groups continue to wage ideological information campaigns to establish and legitimize their narrative of hate, using sophisticated communications tools to attract recruits and encourage attacks against Americans and our partners.

Russia uses information operations as part of its offensive cyber efforts to influence public opinion across the globe. Its influence campaigns blend covert intelligence operations and false online personas with state-funded media, third-party intermediaries, and paid social media users or “trolls.”

U.S. efforts to counter the exploitation of information by rivals have been tepid and fragmented. U.S. efforts have lacked a sustained focus and have been hampered by the lack of properly trained professionals. The American private sector has a direct interest in supporting and amplifying voices that stand for tolerance, openness, and freedom.

Priority Actions

PRIORITIZE THE COMPETITION: We will improve our understanding of how adversaries gain informational and psychological advantages across all policies. The United States must empower a true public diplomacy capability to compete effectively in this arena.

DRIVE EFFECTIVE COMMUNICATIONS: We will craft and direct coherent communications campaigns to advance American influence and counter challenges from the ideological threats that emanate from radical Islamist groups and competitor nations. These campaigns will adhere to American values and expose adversary propaganda and disinformation.

ACTIVATE LOCAL NETWORKS: Local voices are most compelling and effective in ideological competitions. We must amplify credible voices and partner with them to advance alternatives to violent and hateful messages. Since media and Internet companies are the platforms through which messages are transported, the private sector should lend its creativity and resources to promoting the values that inspire and grow a community of civilized groups and individuals.

SHARE RESPONSIBILITY: The United States will urge states where radicalism thrives to take greater responsibility for countering violent messaging and promoting tolerant and pluralistic worldviews.

UPGRADE, TAILOR, AND INNOVATE: We will reexamine legacy delivery platforms for communicating U.S. messages overseas. We must consider more cost-effective and efficient ways to deliver and evaluate content consistent with U.S. national security interests.



P I L L A R I V

ADVANCE AMERICAN INFLUENCE

“Above all, we value the dignity of every human life, protect the rights of every person, and share the hope of every soul to live in freedom. That is who we are.”

PRESIDENT DONALD J. TRUMP | JULY 2017

Our America First foreign policy celebrates America’s influence in the world as a positive force that can help set the conditions for peace and prosperity and for developing successful societies.

There is no arc of history that ensures that America’s free political and economic system will automatically prevail. Success or failure depends upon our actions. This Administration has the confidence to compete to protect our values and interests and the fundamental principles that underpin them.

During the Cold War, a totalitarian threat from the Soviet Union motivated the free world to create coalitions in defense of liberty. Today’s challenges to free societies are just as serious, but more diverse. State and non-state actors project influence and advance their objectives by exploiting information, democratic media freedoms, and international institutions. Repressive leaders often collaborate to subvert free societies and corrupt multilateral organizations.

Around the world, nations and individuals admire what America stands for. We treat people equally and value and uphold the rule of law. We have a democratic system that allows the best ideas to flourish. We know how to grow economies so that individuals can achieve prosperity. These

qualities have made America the richest country on earth—rich in culture, talent, opportunities, and material wealth.

The United States offers partnership to those who share our aspirations for freedom and prosperity. We lead by example. “The world has its eye upon America,” Alexander Hamilton once observed. “The noble struggle we have made in the cause of liberty, has occasioned a kind of revolution in human sentiment. The influence of our example has penetrated the gloomy regions of despotism.”

We are not going to impose our values on others. Our alliances, partnerships, and coalitions are built on free will and shared interests. When the United States partners with other states, we develop policies that enable us to achieve our goals while our partners achieve theirs.

Allies and partners are a great strength of the United States. They add directly to U.S. political, economic, military, intelligence, and other capabilities. Together, the United States and our allies and partners represent well over half of the global GDP. None of our adversaries have comparable coalitions.

We encourage those who want to join our community of like-minded democratic states and

improve the condition of their peoples. By modernizing U.S. instruments of diplomacy and development, we will catalyze conditions to help them achieve that goal. These aspiring partners include states that are fragile, recovering from conflict, and seeking a path forward to sustainable security and economic growth. Stable, prosperous, and friendly states enhance American security and boost U.S. economic opportunities.

We will continue to champion American values and offer encouragement to those struggling for human dignity in their societies. There can be no moral equivalency between nations that uphold the rule of law, empower women, and respect individual rights and those that brutalize and suppress their people. Through our words and deeds, America demonstrates a positive alternative to political and religious despotism.

Encourage Aspiring Partners

Some of the greatest triumphs of American statecraft resulted from helping fragile and developing countries become successful societies. These successes, in turn, created profitable markets for American businesses, allies to help achieve favorable regional balances of power, and coalition partners to share burdens and address a variety of problems around the world. Over time, the United States has helped create a network of states that advance our common interests and values.

This historical record is unprecedented and exceptional. American support to aspiring partners enabled the recovery of the countries of Western Europe under the Marshall Plan, as well as the

ongoing integration of Central and Eastern Europe into Western institutions after the Cold War. In Asia, the United States worked with South Korea and Japan, countries ravaged by war, to help them become successful democracies and among the most prosperous economies in the world.

These achievements were products of patient partnerships with those who aspired to build prosperous societies and join the community of democratic states. They resulted in mutually beneficial relationships in which the United States helped states mobilize their own resources to achieve transitions to growth and stability. Working with these countries made the United States wealthier and

more competitive. This progress illustrates how effective foreign assistance programs should reach their natural endpoint.

Today, the United States must compete for positive relationships around the world. China and Russia target their investments in the developing world to expand influence and gain competitive advantages against the United States. China is investing billions of dollars in infrastructure across the globe. Russia, too, projects its influence economically, through the control of key energy and other infrastructure throughout parts of Europe and Central Asia. The United States provides an alternative to state-directed investments, which often leave developing countries worse off. The United States pursues economic ties not only for market access but also to create enduring relationships to advance common political and security interests.

The United States will promote a development model that partners with countries that want progress, consistent with their culture, based on free market principles, fair and reciprocal trade, private

There is no arc of history that ensures that America's free political and economic system will automatically prevail. Success or failure depends upon our actions.

sector activity, and rule of law. The United States will shift away from a reliance on assistance based on grants to approaches that attract private capital and catalyze private sector activity. We will emphasize reforms that unlock the economic potential of citizens, such as the promotion of formal property rights, entrepreneurial reforms, and infrastructure improvements—projects that help people earn their livelihood and have the added benefit of helping U.S. businesses. By mobilizing both public and private resources, the United States can help maximize returns and outcomes and reduce the burden on U.S. Government resources. Unlike the state-directed mercantilism of some competitors that can disadvantage recipient nations and promote dependency, the purpose of U.S. foreign assistance should be to end the need for it. The United States seeks strong partners, not weak ones.

U.S. development assistance must support America's national interests. We will prioritize collaboration with aspiring partners that are aligned with U.S. interests. We will focus on development investments where we can have the most impact—where local reformers are committed to tackling their economic and political challenges.

Within this framework, the United States will also assist fragile states to prevent threats to the U.S. homeland. Transnational threat organizations, such as jihadist terrorists and organized crime, often operate freely from fragile states and undermine sovereign governments. Failing states can destabilize entire regions.

Across Africa, Latin America, and Asia, states are eager for investments and financing to develop their infrastructure and propel growth. The United States and its partners have opportunities to work with countries to help them realize their potential as prosperous and sovereign states that are accountable to their people. Such states can become trading partners that buy more American-made goods and create more predictable business environments that benefit American

companies. American-led investments represent the most sustainable and responsible approach to development and offer a stark contrast to the corrupt, opaque, exploitive, and low-quality deals offered by authoritarian states.

Priority Actions: Developing Countries

MOBILIZE RESOURCES: The United States will modernize its development finance tools so that U.S. companies have incentives to capitalize on opportunities in developing countries. With these changes, the United States will not be left behind as other states use investment and project finance to extend their influence. In addition, the U.S. Government must not be an obstacle to U.S. companies that want to conduct business in the developing world.

CAPITALIZE ON NEW TECHNOLOGIES: We will incorporate innovative technologies in our diplomatic and development programs. For example, digital technologies enable millions to access financial services through their cell phones and can connect farmers to markets. Such technologies can reduce corruption, increase transparency, and help ensure that money reaches its intended destination.

INCENTIVIZE REFORMS: The United States will use diplomacy and assistance to encourage states to make choices that improve governance, rule of law, and sustainable development. We already do this through the Millennium Challenge Corporation, which selects countries that are committed to reform and then monitors and evaluates their projects.

Priority Actions: Fragile States

COMMIT SELECTIVELY: We will give priority to strengthening states where state weaknesses or failure would magnify threats to the American

homeland. For instance, engagement in Afghanistan seeks to prevent the reemergence of terrorist safe havens.

WORK WITH REFORMERS: Political problems are at the root of most state fragility. The United States will prioritize programs that empower reform-minded governments, people, and civil society. As the United States designs its efforts, inputs from local actors improve the likelihood of enduring solutions, reduce costs, and increase accountability to the American taxpayer.

SYNCHRONIZE ACTIONS: The United States must use its diplomatic, economic, and military tools simultaneously when assisting aspiring partners. We will place a priority on economic support that achieves local and macroeconomic stability, helps build capable security forces, and strengthens the rule of law.

Achieve Better Outcomes in Multilateral Forums

The United States must lead and engage in the multinational arrangements that shape many of the rules that affect U.S. interests and values. A competition for influence exists in these institutions. As we participate in them, we must protect American sovereignty and advance American interests and values.

A range of international institutions establishes the rules for how states, businesses, and individuals interact with each other, across land and sea, the Arctic, outer space, and the digital realm. It is vital to U.S. prosperity and security that these institutions uphold the rules that help keep these common domains open and free. Free access to the seas remains a central principle of national security and economic prosperity, and exploration of sea and space provides opportunities for commercial gain and scientific breakthroughs. The flow of data

and an open, interoperable Internet are inseparable from the success of the U.S. economy.

Authoritarian actors have long recognized the power of multilateral bodies and have used them to advance their interests and limit the freedom of their own citizens. If the United States cedes leadership of these bodies to adversaries, opportunities to shape developments that are positive for the United States will be lost. All institutions are not equal, however. The United States will prioritize its efforts in those organizations that serve American interests, to ensure that they are strengthened and supportive of the United States, our allies, and our partners. Where existing institutions and rules need modernizing, the United States will lead to update them. At the same time, it should be clear that the United States will not cede sovereignty to those that claim authority over American citizens and are in conflict with our constitutional framework.

Priority Actions

EXERCISE LEADERSHIP IN POLITICAL AND SECURITY BODIES: The United States will strive for outcomes in political and security forums that are consistent with U.S. interests and values—values which are shared by our allies and partners. The United Nations can help contribute to solving many of the complex problems in the world, but it must be reformed and recommit to its founding principles. We will require accountability and emphasize shared responsibility among members. If the United States is asked to provide a disproportionate level of support for an institution, we will expect a commensurate degree of influence over the direction and efforts of that institution.

SHAPE AND REFORM INTERNATIONAL FINANCIAL AND TRADE INSTITUTIONS: The United States will continue to play a leading role in institutions such as the International Monetary Fund (IMF), World Bank, and World Trade Organization (WTO), but will

improve their performance through reforms. These reforms include encouraging multilateral development banks to invest in high-quality infrastructure projects that promote economic growth. We will press to make the WTO a more effective forum to adjudicate unfair trade practices.

ENSURE COMMON DOMAINS

REMAIN FREE: The United States will provide leadership and technology to shape and govern common domains—space, cyberspace, air, and maritime—within the framework of international law. The United States supports the peaceful resolution of disputes under international law but will use all of its instruments of power to defend U.S. interests and to ensure common domains remain free.

PROTECT A FREE AND OPEN

INTERNET: The United States will advocate for open, interoperable communications, with minimal barriers to the global exchange of information and services. The United States will promote the free flow of data and protect its interests through active engagement in key organizations, such as the Internet Corporation for Assigned Names and Numbers (ICANN), the Internet Governance Forum (IGF), the UN, and the International Telecommunication Union (ITU).

Champion American Values

The extraordinary trajectory of the United States from a group of colonies to a thriving, industrialized, sovereign republic—the world's lone superpower—is a testimony to the strength of the idea on which our Nation is founded, namely that each of our citizens is born free and equal under

the law. America's core principles, enshrined in the Declaration of Independence, are secured by the Bill of Rights, which proclaims our respect for fundamental individual liberties beginning with the freedoms of religion, speech, the press, and assembly. Liberty, free enterprise, equal justice under the law, and the dignity of every human life are central to who we are as a people.

*For much of the world,
America's liberties are
inspirational, and the United
States will always stand
with those who seek freedom.
We will remain a beacon
of liberty and opportunity
around the world.*

These principles form the foundation of our most enduring alliances, and the United States will continue to champion them. Governments that respect the rights of their citizens remain the best vehicle for prosperity, human happiness, and peace. In contrast, governments that routinely abuse the rights of their citizens do not play constructive roles in the world. For example, governments that fail to treat women equally do not allow their societies to reach their potential.

No nation can unilaterally alleviate all human suffering, but just because we cannot help everyone does not mean that we should stop trying to help anyone. For much of the world, America's liberties are inspirational, and the United States will always stand with those who seek freedom. We will remain a beacon of liberty and opportunity around the world.

The United States also remains committed to supporting and advancing religious freedom—America's first freedom. Our Founders understood religious freedom not as the state's creation, but as the gift of God to every person and a fundamental right for our flourishing society.

And it is part of our culture, as well as in America's interest, to help those in need and those trying to

build a better future for their families. We aid others judiciously, aligning our means to our objectives, but with a firm belief that we can improve the lives of others while establishing conditions for a more secure and prosperous world.

Priority Actions

SUPPORT THE DIGNITY OF INDIVIDUALS: We support, with our words and actions, those who live under oppressive regimes and who seek freedom, individual dignity, and the rule of law. We are under no obligation to offer the benefits of our free and prosperous community to repressive regimes and human rights abusers. We may use diplomacy, sanctions, and other tools to isolate states and leaders who threaten our interests and whose actions run contrary to our values. We will not remain silent in the face of evil. We will hold perpetrators of genocide and mass atrocities accountable.

DEFEAT TRANSNATIONAL TERRORIST ORGANIZATIONS: There can be no greater action to advance the rights of individuals than to defeat jihadist terrorists and other groups that foment hatred and use violence to advance their supremacist Islamist ideologies. We will continue to join with other states to defeat this scourge of all civilized peoples.

EMPOWER WOMEN AND YOUTH: Societies that empower women to participate fully in civic and economic life are more prosperous and peaceful. We will support efforts to advance women's equality, protect the rights of women and girls, and promote women and youth empowerment programs.

PROTECT RELIGIOUS FREEDOM AND RELIGIOUS MINORITIES: We will advocate on behalf of religious freedom and threatened minorities. Religious minorities continue to be victims of violence. We will place a priority on protecting these groups and will continue working with regional partners to protect minority communities from attacks and to preserve their cultural heritage.

REDUCE HUMAN SUFFERING: The United States will continue to lead the world in humanitarian assistance. Even as we expect others to share responsibility, the United States will continue to catalyze international responses to man-made and natural disasters and provide our expertise and capabilities to those in need. We will support food security and health programs that save lives and address the root cause of hunger and disease. We will support displaced people close to their homes to help meet their needs until they can safely and voluntarily return home.



THE STRATEGY IN A REGIONAL CONTEXT

The United States must tailor our approaches to different regions of the world to protect U.S. national interests. We require integrated regional strategies that appreciate the nature and magnitude of threats, the intensity of competitions, and the promise of available opportunities, all in the context of local political, economic, social, and historical realities.

Changes in a regional balance of power can have global consequences and threaten U.S. interests. Markets, raw materials, lines of communication, and human capital are located within, or move among, key regions of the world. China and Russia aspire to project power worldwide, but they interact most with their neighbors. North Korea and Iran also pose the greatest menace to those closest to them. But, as destructive weapons proliferate and regions become more interconnected, threats become more difficult to contain. And regional balances that shift against the United States could combine to threaten our security.

The United States must marshal the will and capabilities to compete and prevent unfavorable shifts in the Indo-Pacific, Europe, and the Middle East. Sustaining favorable balances of power will require a strong commitment and close cooperation with allies and partners because allies and partners magnify U.S. power and extend U.S. influence. They share our interests and responsibility for resisting authoritarian trends, contesting radical ideologies, and deterring aggression.

In other regions of the world, instability and weak governance threaten U.S. interests. Some governments are unable to maintain security and meet the basic needs of their people, making their country and citizens vulnerable to preda-

tors. Terrorists and criminals thrive where governments are weak, corruption is rampant, and faith in government institutions is low. Strategic competitors often exploit rather than discourage corruption and state weakness to extract resources and exploit their populations.

Regions afflicted by instability and weak governments also offer opportunities to improve security, promote prosperity, and restore hope. Aspiring partner states across the developing world want to improve their societies, build transparent and effective governments, confront non-state threats, and strengthen their sovereignty. Many recognize the opportunities offered by market economies and political liberties and are eager for partnership with the United States and our allies. The United States will encourage aspiring partners as they undertake reforms and pursue their aspirations. States that prosper and nations that transition from recipients of development assistance to trading partners offer economic opportunities for American businesses. And stability reduces threats that target Americans at home.

Indo-Pacific

A geopolitical competition between free and repressive visions of world order is taking place in the Indo-Pacific region. The region, which stretches

from the west coast of India to the western shores of the United States, represents the most populous and economically dynamic part of the world. The U.S. interest in a free and open Indo-Pacific extends back to the earliest days of our republic.

Although the United States seeks to continue to cooperate with China, China is using economic inducements and penalties, influence operations, and implied military threats to persuade other states to heed its political and security agenda. China's infrastructure investments and trade strategies reinforce its geopolitical aspirations. Its efforts to build and militarize outposts in the South China Sea endanger the free flow of trade, threaten the sovereignty of other nations, and undermine regional stability. China has mounted a rapid military modernization campaign designed to limit U.S. access to the region and provide China a freer hand there. China presents its ambitions as mutually beneficial, but Chinese dominance risks diminishing the sovereignty of many states in the Indo-Pacific. States throughout the region are calling for sustained U.S. leadership in a collective response that upholds a regional order respectful of sovereignty and independence.

In Northeast Asia, the North Korean regime is rapidly accelerating its cyber, nuclear, and ballistic missile programs. North Korea's pursuit of these weapons poses a global threat that requires a global response. Continued provocations by North Korea will prompt neighboring countries and the United States to further strengthen security bonds and take additional measures to protect themselves. And a nuclear-armed North Korea could lead to the prolif-

eration of the world's most destructive weapons across the Indo-Pacific region and beyond.

U.S. allies are critical to responding to mutual threats, such as North Korea, and preserving our mutual interests in the Indo-Pacific region. Our alliance and friendship with South Korea, forged

by the trials of history, is stronger than ever. We welcome and support the strong leadership role of our critical ally, Japan. Australia has fought alongside us in every significant conflict since World War I, and continues to reinforce economic and security arrangements that support our shared interests and safeguard democratic values across the region. New Zealand is a key U.S. partner contributing to peace and security across the region. We welcome

India's emergence as a leading global power and stronger strategic and defense partner. We will seek to increase quadrilateral cooperation with Japan, Australia, and India.

In Southeast Asia, the Philippines and Thailand remain important allies and markets for Americans. Vietnam, Indonesia, Malaysia, and Singapore are growing security and economic partners of the United States. The Association of Southeast Asian Nations (ASEAN) and Asia-Pacific Economic Cooperation (APEC) remain centerpieces of the Indo-Pacific's regional architecture and platforms for promoting an order based on freedom.

Priority Actions

POLITICAL: Our vision for the Indo-Pacific excludes no nation. We will redouble our commitment to established alliances and partnerships, while expanding and deepening relationships with new

Sustaining favorable balances of power will require a strong commitment and close cooperation with allies and partners because allies and partners magnify U.S. power and extend U.S. influence.

partners that share respect for sovereignty, fair and reciprocal trade, and the rule of law. We will reinforce our commitment to freedom of the seas and the peaceful resolution of territorial and maritime disputes in accordance with international law. We will work with allies and partners to achieve complete, verifiable, and irreversible denuclearization on the Korean Peninsula and preserve the non-proliferation regime in Northeast Asia.

ECONOMIC: The United States will encourage regional cooperation to maintain free and open seaways, transparent infrastructure financing practices, unimpeded commerce, and the peaceful resolution of disputes. We will pursue bilateral trade agreements on a fair and reciprocal basis. We will seek equal and reliable access for American exports. We will work with partners to build a network of states dedicated to free markets and protected from forces that would subvert their sovereignty. We will strengthen cooperation with allies on high-quality infrastructure. Working with Australia and New Zealand, we will shore up fragile partner states in the Pacific Islands region to reduce their vulnerability to economic fluctuations and natural disasters.

MILITARY AND SECURITY: We will maintain a forward military presence capable of deterring and, if necessary, defeating any adversary. We will strengthen our long-standing military relationships and encourage the development of a strong defense network with our allies and partners. For example, we will cooperate on missile defense with Japan and South Korea to move toward an area defense capability. We remain ready to respond with overwhelming force to North Korean aggression and will improve options to compel denuclearization of the peninsula. We will improve law enforcement, defense, and intelligence cooperation with Southeast Asian partners to address the growing terrorist threat. We will maintain our strong ties with Taiwan in accordance with our “One China” policy, including our commitments under the

Taiwan Relations Act to provide for Taiwan’s legitimate defense needs and deter coercion. We will expand our defense and security cooperation with India, a Major Defense Partner of the United States, and support India’s growing relationships throughout the region. We will re-energize our alliances with the Philippines and Thailand and strengthen our partnerships with Singapore, Vietnam, Indonesia, Malaysia, and others to help them become cooperative maritime partners.

Europe

A strong and free Europe is of vital importance to the United States. We are bound together by our shared commitment to the principles of democracy, individual liberty, and the rule of law. Together, we rebuilt Western Europe after World War II and created institutions that produced stability and wealth on both sides of the Atlantic. Today, Europe is one of the most prosperous regions in the world and our most significant trading partner.

Although the menace of Soviet communism is gone, new threats test our will. Russia is using subversive measures to weaken the credibility of America’s commitment to Europe, undermine transatlantic unity, and weaken European institutions and governments. With its invasions of Georgia and Ukraine, Russia demonstrated its willingness to violate the sovereignty of states in the region. Russia continues to intimidate its neighbors with threatening behavior, such as nuclear posturing and the forward deployment of offensive capabilities.

China is gaining a strategic foothold in Europe by expanding its unfair trade practices and investing in key industries, sensitive technologies, and infrastructure. Europe also faces immediate threats from violent Islamist extremists. Attacks by ISIS and other jihadist groups in Spain, France, Germany, Belgium, the United Kingdom, and

other countries show that our European partners continue to face serious threats. Instability in the Middle East and Africa has triggered the movement of millions of migrants and refugees into Europe, exacerbating instability and tensions in the region.

The United States is safer when Europe is prosperous and stable, and can help defend our shared interests and ideals. The United States remains firmly committed to our European allies and partners. The NATO alliance of free and sovereign states is one of our great advantages over our competitors, and the United States remains committed to Article V of the Washington Treaty.

European allies and partners increase our strategic reach and provide access to forward basing and overflight rights for global operations. Together we confront shared threats. European nations are contributing thousands of troops to help fight jihadist terrorists in Afghanistan, stabilize Iraq, and fight terrorist organizations across Africa and the greater Middle East.

The NATO alliance will become stronger when all members assume greater responsibility for and pay their fair share to protect our mutual interests, sovereignty, and values.

Priority Actions

POLITICAL: The United States will deepen collaboration with our European allies and partners to confront forces threatening to undermine our common values, security interests, and shared vision. The United States and Europe will work together to counter Russian subversion and aggression, and the threats posed by North Korea and Iran. We will continue to advance our shared principles and interests in international forums.

ECONOMIC: The United States will work with the European Union, and bilaterally with the United Kingdom and other states, to ensure fair and reciprocal trade practices and eliminate barriers to

growth. We will encourage European foreign direct investment in the United States to create jobs. We will work with our allies and partners to diversify European energy sources to ensure the energy security of European countries. We will work with our partners to contest China's unfair trade and economic practices and restrict its acquisition of sensitive technologies.

MILITARY AND SECURITY: The United States fulfills our defense responsibilities and expects others to do the same. We expect our European allies to increase defense spending to 2 percent of gross domestic product by 2024, with 20 percent of this spending devoted to increasing military capabilities. On NATO's eastern flank we will continue to strengthen deterrence and defense, and catalyze frontline allies and partners' efforts to better defend themselves. We will work with NATO to improve its integrated air and missile defense capabilities to counter existing and projected ballistic and cruise missile threats, particularly from Iran. We will increase counterterrorism and cybersecurity cooperation.

Middle East

The United States seeks a Middle East that is not a safe haven or breeding ground for jihadist terrorists, not dominated by any power hostile to the United States, and that contributes to a stable global energy market.

For years, the interconnected problems of Iranian expansion, state collapse, jihadist ideology, socio-economic stagnation, and regional rivalries have convulsed the Middle East. The United States has learned that neither aspirations for democratic transformation nor disengagement can insulate us from the region's problems. We must be realistic about our expectations for the region without allowing pessimism to obscure our interests or vision for a modern Middle East.

The region remains home to the world’s most dangerous terrorist organizations. ISIS and al-Qa’ida thrive on instability and export violent jihad. Iran, the world’s leading state sponsor of terrorism, has taken advantage of instability to expand its influence through partners and proxies, weapon proliferation, and funding. It continues to develop more capable ballistic missiles and intelligence capabilities, and it undertakes malicious cyber activities. These activities have continued unabated since the 2015 nuclear deal. Iran continues to perpetuate the cycle of violence in the region, causing grievous harm to civilian populations. Rival states are filling vacuums created by state collapse and prolonged regional conflict.

Despite these challenges, there are emerging opportunities to advance American interests in the Middle East. Some of our partners are working together to reject radical ideologies, and key leaders are calling for a rejection of Islamist extremism and violence. Encouraging political stability and sustainable prosperity would contribute to dampening the conditions that fuel sectarian grievances.

For generations the conflict between Israel and the Palestinians has been understood as the prime irritant preventing peace and prosperity in the region. Today, the threats from jihadist terrorist organizations and the threat from Iran are creating the realization that Israel is not the cause of the region’s problems. States have increasingly found common interests with Israel in confronting common threats.

Today, the United States has the opportunity to catalyze greater economic and political cooperation that will expand prosperity for those who want to partner with us. By revitalizing partnerships with reform-minded nations and encour-

aging cooperation among partners in the region, the United States can promote stability and a balance of power that favors U.S. interests.

Priority Actions

POLITICAL: We will strengthen partnerships, and form new ones, to help advance security through stability. Whenever possible, we will encourage gradual reforms. We will support efforts to counter violent ideologies and increase respect for the dignity of individuals. We remain committed to helping our partners achieve a stable and prosperous region, including through a strong and integrated Gulf Cooperation Council. We will strengthen our long-term strategic partnership with Iraq as an independent state. We will seek a settlement to the Syrian civil war that sets the conditions for refugees to return home and rebuild their lives in safety. We will work with partners to deny the Iranian

regime all paths to a nuclear weapon and neutralize Iranian malign influence. We remain committed to helping facilitate a comprehensive peace agreement that is acceptable to both Israelis and Palestinians.

ECONOMIC: The United States will support the reforms underway that begin to address core inequities that jihadist terrorists exploit. We will encourage states in the region, including

Egypt and Saudi Arabia, to continue modernizing their economies. We will play a role in catalyzing positive developments by engaging economically, supporting reformers, and championing the benefits of open markets and societies.

MILITARY AND SECURITY: We will retain the necessary American military presence in the region to protect the United States and our allies from terrorist attacks and preserve a favorable regional

Terrorists and criminals thrive where governments are weak, corruption is rampant, and faith in government institutions is low.

balance of power. We will assist regional partners in strengthening their institutions and capabilities, including in law enforcement, to conduct counterterrorism and counterinsurgency efforts. We will help partners procure interoperable missile defense and other capabilities to better defend against active missile threats. We will work with partners to neutralize Iran's malign activities in the region.

South and Central Asia

With over a quarter of the world's population, a fifth of all U.S.-designated terrorist groups, several fast-growing economies, and two nuclear-armed states, South and Central Asia present some of the most complicated national security challenges and opportunities. The region spans the terrorist threats emanating from the Middle East and the competition for power unfolding in Europe and the Indo-Pacific. The United States continues to face threats from transnational terrorists and militants operating from within Pakistan. The prospect for an Indo-Pakistani military conflict that could lead to a nuclear exchange remains a key concern requiring consistent diplomatic attention.

U.S. interests in the region include countering terrorist threats that impact the security of the U.S. homeland and our allies, preventing cross-border terrorism that raises the prospect of military and nuclear tensions, and preventing nuclear weapons, technology, and materials from falling into the hands of terrorists. We seek an American presence in the region proportionate to threats to the homeland and our allies. We seek a Pakistan that is not engaged in destabilizing behavior and a stable and self-reliant Afghanistan. And we seek Central Asian states that are resilient against domination by rival powers, are resistant to becoming jihadist safe havens, and prioritize reforms.

Priority Actions

POLITICAL: We will deepen our strategic partnership with India and support its leadership role in Indian Ocean security and throughout the broader region. We will press Pakistan to intensify its counterterrorism efforts, since no partnership can survive a country's support for militants and terrorists who target a partner's own service members and officials. The United States will also encourage Pakistan to continue demonstrating that it is a responsible steward of its nuclear assets. We will continue to partner with Afghanistan to promote peace and security in the region. We will continue to promote anti-corruption reform in Afghanistan to increase the legitimacy of its government and reduce the appeal of violent extremist organizations. We will help South Asian nations maintain their sovereignty as China increases its influence in the region.

ECONOMIC: We will encourage the economic integration of Central and South Asia to promote prosperity and economic linkages that will bolster connectivity and trade. And we will encourage India to increase its economic assistance in the region. In Pakistan, we will build trade and investment ties as security improves and as Pakistan demonstrates that it will assist the United States in our counterterrorism goals.

MILITARY AND SECURITY: We are committed to supporting the Afghan government and security forces in their fight against the Taliban, al-Qa'ida, ISIS, and other terrorists. We will bolster the fighting strength of the Afghan security forces to convince the Taliban that they cannot win on the battlefield and to set the conditions for diplomatic efforts to achieve enduring peace. We will insist that Pakistan take decisive action against militant and terrorist groups operating from its soil. We will work with the Central Asian states to guarantee access to the region to support our counterterrorism efforts.

Western Hemisphere

Stable, friendly, and prosperous states in the Western Hemisphere enhance our security and benefit our economy. Democratic states connected by shared values and economic interests will reduce the violence, drug trafficking, and illegal immigration that threaten our common security, and will limit opportunities for adversaries to operate from areas of close proximity to us.

In the last half century, parts of this hemisphere were marred by dictatorships and insurgencies that killed tens of thousands of people. Today, this region stands on the cusp of prosperity and peace, built upon democracy and the rule of law. U.S. trade in the region is thriving and market opportunities for American goods and services, energy and infrastructure projects, and foreign direct investment continue to expand.

Challenges remain, however. Transnational criminal organizations—including gangs and cartels—perpetuate violence and corruption, and threaten the stability of Central American states including Guatemala, Honduras, and El Salvador. In Venezuela and Cuba, governments cling to anachronistic leftist authoritarian models that continue to fail their people. Competitors have found operating space in the hemisphere.

China seeks to pull the region into its orbit through state-led investments and loans. Russia continues its failed politics of the Cold War by bolstering its radical Cuban allies as Cuba continues to repress its citizens. Both China and Russia support the dictatorship in Venezuela and are seeking to expand military linkages and arms sales across the region. The hemisphere's democratic states have a shared interest in confronting threats to their sovereignty.

Canada and the United States share a unique strategic and defense partnership. The United States also has important and deepening rela-

tions with key countries in the region. Together, we will build a stable and peaceful hemisphere that increases economic opportunities for all, improves governance, reduces the power of criminal organizations, and limits the malign influence of non-hemispheric forces.

Priority Actions

POLITICAL: We will catalyze regional efforts to build security and prosperity through strong diplomatic engagement. We will isolate governments that refuse to act as responsible partners in advancing hemispheric peace and prosperity. We look forward to the day when the people of Cuba and Venezuela can enjoy freedom and the benefits of shared prosperity, and we encourage other free states in the hemisphere to support this shared endeavor.

ECONOMIC: We will modernize our trade agreements and deepen our economic ties with the region and ensure that trade is fair and reciprocal. We will encourage further market-based economic reforms and encourage transparency to create conditions for sustained prosperity. We will ensure the U.S. financial system does not serve as a haven or transit point for criminal proceeds.

MILITARY AND SECURITY: We will build upon local efforts and encourage cultures of lawfulness to reduce crime and corruption, including by supporting local efforts to professionalize police and other security forces; strengthen the rule of law and undertake judicial reform; and improve information sharing to target criminals and corrupt leaders and disrupt illicit trafficking.

Africa

Africa remains a continent of promise and enduring challenges. Africa contains many of the world's fastest growing economies, which represent potential new markets for U.S. goods and services. Aspiring partners across the continent are eager to build market-based economies and enhance stability. The demand for quality American exports is high and will likely grow as Africa's population and prosperity increase. People across the continent are demanding government accountability and less corruption, and are opposing autocratic trends. The number of stable African nations has grown since the independence era as numerous countries have emerged from devastating conflicts and undergone democratic transitions.

Despite this progress, many states face political turbulence and instability that spills into other regions. Corruption and weak governance threaten to undermine the political benefits that should emerge from new economic opportunities. Many African states are battlegrounds for violent extremism and jihadist terrorists. ISIS, al-Qa'ida, and their affiliates operate on the continent and have increased the lethality of their attacks, expanded into new areas, and targeted U.S. citizens and interests. African nations and regional organizations have demonstrated a commitment to confront the threat from jihadist terrorist organizations, but their security capabilities remain weak.

China is expanding its economic and military presence in Africa, growing from a small investor in the continent two decades ago into Africa's largest trading partner today. Some Chinese prac-

tices undermine Africa's long-term development by corrupting elites, dominating extractive industries, and locking countries into unsustainable and opaque debts and commitments.

The United States seeks sovereign African states that are integrated into the world economy, able to provide for their citizens' needs, and capable of managing threats to peace and security. Improved governance in these states supports economic development and opportunities, diminishes the attraction of illegal migration, and reduces vulnerability to extremists, thereby reducing instability.

Priority Actions

POLITICAL: The United States will partner with governments, civil society, and regional organizations to end long-running, violent conflicts. We will encourage reform, working with promising nations to promote effective governance, improve the rule of law, and develop institutions accountable and responsive to citizens. We will continue to respond to humanitarian needs while also working with committed governments and regional organizations to address the root causes of human suffering. If necessary, we are prepared to sanction government officials and institutions that prey on their citizens and commit atrocities. When there is no alternative, we will suspend aid rather than see it exploited by corrupt elites.

ECONOMIC: We will expand trade and commercial ties to create jobs and build wealth for Americans and Africans. We will work with reform-oriented governments to help establish conditions that can transform them into trading partners and improve

We will encourage reform, working with promising nations to promote effective governance, improve the rule of law, and develop institutions accountable and responsive to citizens.

their business environment. We will support economic integration among African states. We will work with nations that seek to move beyond assistance to partnerships that promote prosperity. We will offer American goods and services, both because it is profitable for us and because it serves as an alternative to China's often extractive economic footprint on the continent.

MILITARY AND SECURITY: We will continue to work with partners to improve the ability of their security services to counter terrorism, human trafficking, and the illegal trade in arms and natural resources. We will work with partners to defeat terrorist organizations and others who threaten U.S. citizens and the homeland.



CONCLUSION

This National Security Strategy sets a positive strategic direction for the United States that is meant to reassert America's advantages on the world stage and to build upon our country's great strengths. During the Trump Administration, the American people can be confident that their security and prosperity will always come first. A secure, prosperous, and free America will be strong and ready to lead abroad to protect our interests and our way of life.

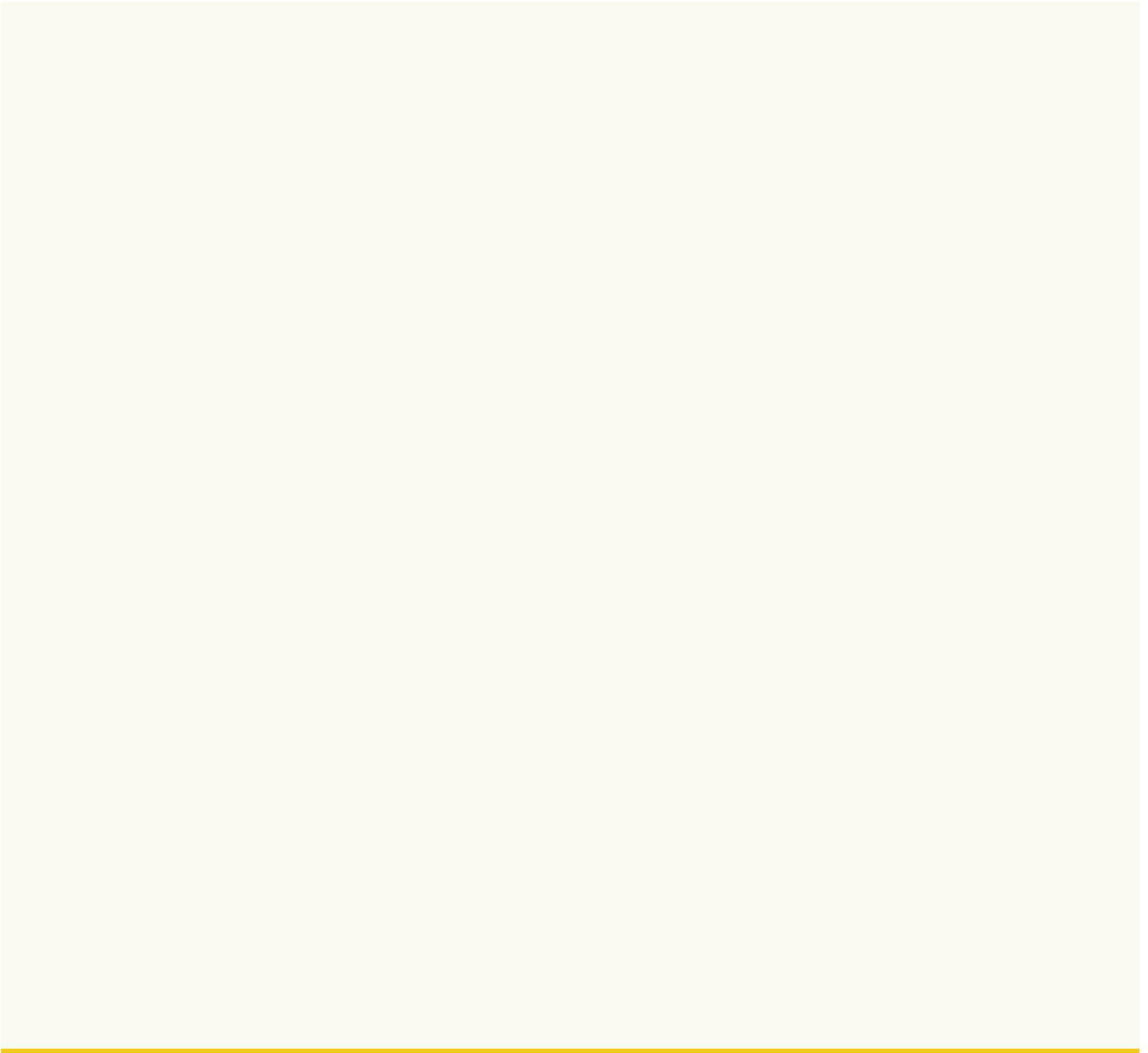
America's renewed strategic confidence is anchored in our recommitment to the principles inscribed in our founding documents. The National Security Strategy celebrates and protects what we hold dear—individual liberty, the rule of law, a democratic system of government, tolerance, and opportunity for all. By knowing ourselves and what we stand for, we clarify what we must defend and we establish guiding principles for our actions.

This strategy is guided by principled realism. It is realist because it acknowledges the central role of power in international politics, affirms that sovereign states are the best hope for a peaceful world, and clearly defines our national interests. It is principled because it is grounded in the knowledge that advanc-

ing American principles spreads peace and prosperity around the globe. We are guided by our values and disciplined by our interests.

This Administration has a bright vision of America's future. America's values and influence, underwritten by American power, make the world more free, secure, and prosperous.

Our Nation derives its strength from the American people. Every American has a role to play in this grand, national effort to implement this America First National Security Strategy. Together, our task is to strengthen our families, to build up our communities, to serve our citizens, and to celebrate American greatness as a shining example to the world. We will leave our children and grandchildren a Nation that is stronger, better, freer, prouder, and greater than ever before.





Summary of the

2 0 1 8

National Defense Strategy

of

The United States of America

Sharpening the American Military's Competitive Edge

Table of Contents

Introduction	1
Strategic Environment	2
Department of Defense Objectives	4
Strategic Approach	4
Build a More Lethal Force	5
Strengthen Alliances and Attract New Partners	8
Reform the Department for Greater Performance and Affordability	10
Conclusion	11

INTRODUCTION

The Department of Defense's enduring mission is to provide combat-credible military forces needed to deter war and protect the security of our nation. Should deterrence fail, the Joint Force is prepared to win. Reinforcing America's traditional tools of diplomacy, the Department provides military options to ensure the President and our diplomats negotiate from a position of strength.

Today, we are emerging from a period of strategic atrophy, aware that our competitive military advantage has been eroding. We are facing increased global disorder, characterized by decline in the long-standing rules-based international order—creating a security environment more complex and volatile than any we have experienced in recent memory. Inter-state strategic competition, not terrorism, is now the primary concern in U.S. national security.

China is a strategic competitor using predatory economics to intimidate its neighbors while militarizing features in the South China Sea. Russia has violated the borders of nearby nations and pursues veto power over the economic, diplomatic, and security decisions of its neighbors. As well, North Korea's outlaw actions and reckless rhetoric continue despite United Nation's censure and sanctions. Iran continues to sow violence and remains the most significant challenge to Middle East stability. Despite the defeat of ISIS's physical caliphate, threats to stability remain as terrorist groups with long reach continue to murder the innocent and threaten peace more broadly.

This increasingly complex security environment is defined by rapid technological change, challenges from adversaries in every operating domain, and the impact on current readiness from the longest continuous stretch of armed conflict in our Nation's history. In this environment, there can be no complacency—we must make difficult choices and prioritize what is most important to field a lethal, resilient, and rapidly adapting Joint Force. America's military has no preordained right to victory on the battlefield.

This unclassified synopsis of the classified 2018 National Defense Strategy articulates our strategy to compete, deter, and win in this environment. The reemergence of long-term strategic competition, rapid dispersion of technologies, and new concepts of warfare and competition that span the entire spectrum of conflict require a Joint Force structured to match this reality.

A more lethal, resilient, and rapidly innovating Joint Force, combined with a robust constellation of allies and partners, will sustain American influence and ensure favorable balances of power that safeguard the free and open international order. Collectively, our force posture, alliance and partnership architecture, and Department modernization will provide the capabilities and agility required to prevail in conflict and preserve peace through strength.

The costs of not implementing this strategy are clear. Failure to meet our defense objectives will result in decreasing U.S. global influence, eroding cohesion among allies and partners, and reduced access to markets that will contribute to a decline in our prosperity and standard of living. Without sustained and predictable investment to restore readiness and modernize our military to make it fit for our time, we will rapidly lose our military advantage, resulting in a Joint Force that has legacy systems irrelevant to the defense of our people.

STRATEGIC ENVIRONMENT

The National Defense Strategy acknowledges an increasingly complex global security environment, characterized by overt challenges to the free and open international order and the re-emergence of long-term, strategic competition between nations. These changes require a clear-eyed appraisal of the threats we face, acknowledgement of the changing character of warfare, and a transformation of how the Department conducts business.

The central challenge to U.S. prosperity and security is the re-emerged long-term, strategic competition by what the National Security Strategy classifies as revisionist powers. It is increasingly clear that China and Russia want to shape a world consistent with their authoritarian model—gaining veto authority over other nations' economic, diplomatic, and security decisions.

China is leveraging military modernization, influence operations, and predatory economics to coerce neighboring countries to reorder the Indo-Pacific region to their advantage. As China continues its economic and military ascendance, asserting power through an all-of-nation long-term strategy, it will continue to pursue a military modernization program that seeks Indo-Pacific regional hegemony in the near-term and displacement of the United States to achieve global preeminence in the future. The most far-reaching objective of this defense strategy is to set the military relationship between our two countries on a path of transparency and non-aggression.

Concurrently, Russia seeks veto authority over nations on its periphery in terms of their governmental, economic, and diplomatic decisions, to shatter the North Atlantic Treaty Organization and change European and Middle East security and economic structures to its favor. The use of emerging technologies to discredit and subvert democratic processes in Georgia, Crimea, and eastern Ukraine is concern enough, but when coupled with its expanding and modernizing nuclear arsenal the challenge is clear.

Another change to the strategic environment is a resilient, but weakening post-WWII international order. In the decades after fascism's defeat in World War II, the United States and its allies and partners constructed a free and open international order to better safeguard their liberty and people from aggression and coercion. Although this system has evolved since the end of the Cold War, our network of alliances and partnerships remain the backbone of global security. China and Russia are now undermining the international order from within the system by exploiting its benefits while simultaneously undercutting its principles and "rules of the road."

Rogue regimes such as North Korea and Iran are destabilizing regions through their pursuit of nuclear weapons or sponsorship of terrorism. North Korea seeks to guarantee regime survival and increased leverage by seeking a mixture of nuclear, biological, chemical, conventional, and unconventional weapons and a growing ballistic missile capability to gain coercive influence over South Korea, Japan, and the United States. In the Middle East, Iran is competing with its neighbors, asserting an arc of influence and instability while vying for regional hegemony, using state-sponsored terrorist activities, a growing network of proxies, and its missile program to achieve its objectives.

Both revisionist powers and rogue regimes are competing across all dimensions of power. They have increased efforts short of armed conflict by expanding coercion to new fronts, violating principles of sovereignty, exploiting ambiguity, and deliberately blurring the lines between civil and military goals.

NATIONAL DEFENSE STRATEGY

Challenges to the U.S. military advantage represent another shift in the global security environment. For decades the United States has enjoyed uncontested or dominant superiority in every operating domain. We could generally deploy our forces when we wanted, assemble them where we wanted, and operate how we wanted. Today, every domain is contested—air, land, sea, space, and cyberspace.

We face an ever more lethal and disruptive battlefield, combined across domains, and conducted at increasing speed and reach—from close combat, throughout overseas theaters, and reaching to our homeland. Some competitors and adversaries seek to optimize their targeting of our battle networks and operational concepts, while also using other areas of competition short of open warfare to achieve their ends (e.g., information warfare, ambiguous or denied proxy operations, and subversion). These trends, if unaddressed, will challenge our ability to deter aggression.

The security environment is also affected by rapid technological advancements and the changing character of war. The drive to develop new technologies is relentless, expanding to more actors with lower barriers of entry, and moving at accelerating speed. New technologies include advanced computing, “big data” analytics, artificial intelligence, autonomy, robotics, directed energy, hypersonics, and biotechnology—the very technologies that ensure we will be able to fight and win the wars of the future.

New commercial technology will change society and, ultimately, the character of war. The fact that many technological developments will come from the commercial sector means that state competitors and non-state actors will also have access to them, a fact that risks eroding the conventional overmatch to which our Nation has grown accustomed. Maintaining the Department’s technological advantage will require changes to industry culture, investment sources, and protection across the National Security Innovation Base.

States are the principal actors on the global stage, but non-state actors also threaten the security environment with increasingly sophisticated capabilities. Terrorists, trans-national criminal organizations, cyber hackers and other malicious non-state actors have transformed global affairs with increased capabilities of mass disruption. There is a positive side to this as well, as our partners in sustaining security are also more than just nation-states: multilateral organizations, non-governmental organizations, corporations, and strategic influencers provide opportunities for collaboration and partnership. Terrorism remains a persistent condition driven by ideology and unstable political and economic structures, despite the defeat of ISIS’s physical caliphate.

It is now undeniable that the homeland is no longer a sanctuary. America is a target, whether from terrorists seeking to attack our citizens; malicious cyber activity against personal, commercial, or government infrastructure; or political and information subversion. New threats to commercial and military uses of space are emerging, while increasing digital connectivity of all aspects of life, business, government, and military creates significant vulnerabilities. During conflict, attacks against our critical defense, government, and economic infrastructure must be anticipated.

Rogue regimes, such as North Korea, continue to seek out or develop weapons of mass destruction (WMD) – nuclear, chemical, and biological – as well as long range missile capabilities and, in some cases, proliferate these capabilities to malign actors as demonstrated by Iranian ballistic missile exports. Terrorists likewise continue to pursue WMD, while the spread of nuclear weapon technology and advanced manufacturing technology remains a persistent problem. Recent advances in bioengineering raise another concern, increasing the potential, variety, and ease of access to biological weapons.

DEPARTMENT OF DEFENSE OBJECTIVES

In support of the *National Security Strategy*, the Department of Defense will be prepared to defend the homeland, remain the preeminent military power in the world, ensure the balances of power remain in our favor, and advance an international order that is most conducive to our security and prosperity.

Long-term strategic competitions with China and Russia are the principal priorities for the Department, and require both increased and sustained investment, because of the magnitude of the threats they pose to U.S. security and prosperity today, and the potential for those threats to increase in the future. Concurrently, the Department will sustain its efforts to deter and counter rogue regimes such as North Korea and Iran, defeat terrorist threats to the United States, and consolidate our gains in Iraq and Afghanistan while moving to a more resource-sustainable approach.

Defense objectives include:

- 1. Defending the homeland from attack;
- 2. Sustaining Joint Force military advantages, both globally and in key regions;
- 3. Deterring adversaries from aggression against our vital interests;
- 4. Enabling U.S. interagency counterparts to advance U.S. influence and interests;
- 5. Maintaining favorable regional balances of power in the Indo-Pacific, Europe, the Middle East, and the Western Hemisphere;
- 6. Defending allies from military aggression and bolstering partners against coercion, and fairly sharing responsibilities for common defense;
- 7. Dissuading, preventing, or deterring state adversaries and non-state actors from acquiring, proliferating, or using weapons of mass destruction;
- 8. Preventing terrorists from directing or supporting external operations against the United States homeland and our citizens, allies, and partners overseas;
- 9. Ensuring common domains remain open and free;
- 10. Continuously delivering performance with affordability and speed as we change Departmental mindset, culture, and management systems; and
- 11. Establishing an unmatched twenty-first century National Security Innovation Base that effectively supports Department operations and sustains security and solvency.

STRATEGIC APPROACH

A long-term strategic competition requires the seamless integration of multiple elements of national power—diplomacy, information, economics, finance, intelligence, law enforcement, and military. More than any other nation, America can expand the competitive space, seizing the initiative to challenge our competitors where we possess advantages and they lack strength. A more lethal force, strong alliances and partnerships, American technological innovation, and a culture of performance will generate decisive and sustained U.S. military advantages.

NATIONAL DEFENSE STRATEGY

As we expand the competitive space, we continue to offer competitors and adversaries an outstretched hand, open to opportunities for cooperation but from a position of strength and based on our national interests. Should cooperation fail, we will be ready to defend the American people, our values, and interests. The willingness of rivals to abandon aggression will depend on their perception of U.S. strength and the vitality of our alliances and partnerships.

Be strategically predictable but operationally unpredictable. Detering or defeating long-term strategic competitors is a fundamentally different challenge than the regional adversaries that were the focus of previous strategies. Our strength and integrated actions with allies will demonstrate our commitment to deterring aggression, but our dynamic force employment, military posture, and operations must introduce unpredictability to adversary decision-makers. With our allies and partners, we will challenge competitors by maneuvering them into unfavorable positions, frustrating their efforts, precluding their options while expanding our own, and forcing them to confront conflict under adverse conditions.

Integrate with U.S. interagency. Effectively expanding the competitive space requires combined actions with the U.S. interagency to employ all dimensions of national power. We will assist the efforts of the Departments of State, Treasury, Justice, Energy, Homeland Security, Commerce, USAID, as well as the Intelligence Community, law enforcement, and others to identify and build partnerships to address areas of economic, technological, and informational vulnerabilities.

Counter coercion and subversion. In competition short of armed conflict, revisionist powers and rogue regimes are using corruption, predatory economic practices, propaganda, political subversion, proxies, and the threat or use of military force to change facts on the ground. Some are particularly adept at exploiting their economic relationships with many of our security partners. We will support U.S. interagency approaches and work by, with, and through our allies and partners to secure our interests and counteract this coercion.

Foster a competitive mindset. To succeed in the emerging security environment, our Department and Joint Force will have to out-think, out-maneuver, out-partner, and out-innovate revisionist powers, rogue regimes, terrorists, and other threat actors.

We will expand the competitive space while pursuing three distinct lines of effort:

- 1. First, rebuilding military readiness as we build a more lethal Joint Force;
- 2. Second, strengthening alliances as we attract new partners; and
- 3. Third, reforming the Department's business practices for greater performance and affordability.

Build a More Lethal Force

The surest way to prevent war is to be prepared to win one. Doing so requires a competitive approach to force development and a consistent, multiyear investment to restore warfighting readiness and field a lethal force. The size of our force matters. The Nation must field sufficient, capable forces to defeat enemies and achieve sustainable outcomes that protect the American people and our vital interests. Our aim is a Joint Force that possesses decisive advantages for any likely conflict, while remaining proficient across the entire spectrum of conflict.

NATIONAL DEFENSE STRATEGY

Prioritize preparedness for war. Achieving peace through strength requires the Joint Force to deter conflict through preparedness for war. During normal day-to-day operations, the Joint Force will sustainably compete to: deter aggression in three key regions—the Indo-Pacific, Europe, and Middle East; degrade terrorist and WMD threats; and defend U.S. interests from challenges below the level of armed conflict. In wartime, the fully mobilized Joint Force will be capable of: defeating aggression by a major power; deterring opportunistic aggression elsewhere; and disrupting imminent terrorist and WMD threats. During peace or in war, the Joint Force will deter nuclear and non-nuclear strategic attacks and defend the homeland. To support these missions, the Joint Force must gain and maintain information superiority; and develop, strengthen, and sustain U.S. security relationships.

Modernize key capabilities. We cannot expect success fighting tomorrow's conflicts with yesterday's weapons or equipment. To address the scope and pace of our competitors' and adversaries' ambitions and capabilities, we must invest in modernization of key capabilities through sustained, predictable budgets. Our backlog of deferred readiness, procurement, and modernization requirements has grown in the last decade and a half and can no longer be ignored. We will make targeted, disciplined increases in personnel and platforms to meet key capability and capacity needs. The 2018 National Defense Strategy underpins our planned fiscal year 2019-2023 budgets, accelerating our modernization programs and devoting additional resources in a sustained effort to solidify our competitive advantage.

- Nuclear forces.** The Department will modernize the nuclear triad—including nuclear command, control, and communications, and supporting infrastructure. Modernization of the nuclear force includes developing options to counter competitors' coercive strategies, predicated on the threatened use of nuclear or strategic non-nuclear attacks.
- Space and cyberspace as warfighting domains.** The Department will prioritize investments in resilience, reconstitution, and operations to assure our space capabilities. We will also invest in cyber defense, resilience, and the continued integration of cyber capabilities into the full spectrum of military operations.
- Command, control, communications, computers and intelligence surveillance and reconnaissance (C4ISR).** Investments will prioritize developing resilient, survivable, federated networks and information ecosystems from the tactical level up to strategic planning. Investments will also prioritize capabilities to gain and exploit information, deny competitors those same advantages, and enable us to provide attribution while defending against and holding accountable state or non-state actors during cyberattacks.
- Missile defense.** Investments will focus on layered missile defenses and disruptive capabilities for both theater missile threats and North Korean ballistic missile threats.
- Joint lethality in contested environments.** The Joint Force must be able to strike diverse targets inside adversary air and missile defense networks to destroy mobile power-projection platforms. This will include capabilities to enhance close combat lethality in complex terrain.
- Forward force maneuver and posture resilience.** Investments will prioritize ground, air, sea, and space forces that can deploy, survive, operate, maneuver, and regenerate in all domains while under attack. Transitioning from large, centralized, unhardened infrastructure to smaller, dispersed, resilient, adaptive basing that include active and passive defenses will also be prioritized.

NATIONAL DEFENSE STRATEGY

- 1. **Advanced autonomous systems.** The Department will invest broadly in military application of autonomy, artificial intelligence, and machine learning, including rapid application of commercial breakthroughs, to gain competitive military advantages.
- 2. **Resilient and agile logistics.** Investments will prioritize prepositioned forward stocks and munitions, strategic mobility assets, partner and allied support, as well as non-commercially dependent distributed logistics and maintenance to ensure logistics sustainment while under persistent multi-domain attack.

Evolve innovative operational concepts. Modernization is not defined solely by hardware; it requires change in the ways we organize and employ forces. We must anticipate the implications of new technologies on the battlefield, rigorously define the military problems anticipated in future conflict, and foster a culture of experimentation and calculated risk-taking. We must anticipate how competitors and adversaries will employ new operational concepts and technologies to attempt to defeat us, while developing operational concepts to sharpen our competitive advantages and enhance our lethality.

Develop a lethal, agile and resilient force posture and employment. Force posture and employment must be adaptable to account for the uncertainty that exists in the changing global strategic environment. Much of our force employment models and posture date to the immediate post-Cold War era, when our military advantage was unchallenged and the primary threats were rogue regimes.

- 3. **Dynamic Force Employment.** Dynamic Force Employment will prioritize maintaining the capacity and capabilities for major combat, while providing options for proactive and scalable employment of the Joint Force. A modernized Global Operating Model of combat-credible, flexible theater postures will enhance our ability to compete and provide freedom of maneuver during conflict, providing national decision-makers with better military options.

The global strategic environment demands increased strategic flexibility and freedom of action. The Dynamic Force Employment concept will change the way the Department uses the Joint Force to provide proactive and scalable options for priority missions. Dynamic Force Employment will more flexibly use ready forces to shape proactively the strategic environment while maintaining readiness to respond to contingencies and ensure long-term warfighting readiness.

- 4. **Global Operating Model.** The Global Operating Model describes how the Joint Force will be postured and employed to achieve its competition and wartime missions. Foundational capabilities include nuclear; cyber; space; C4ISR; strategic mobility, and counter WMD proliferation. It comprises four layers: contact, blunt, surge, and homeland. These are, respectively, designed to help us compete more effectively below the level of armed conflict; delay, degrade, or deny adversary aggression; surge war-winning forces and manage conflict escalation; and defend the U.S. homeland.

Cultivate workforce talent. Recruiting, developing, and retaining a high-quality military and civilian workforce is essential for warfighting success. Cultivating a lethal, agile force requires more than just new technologies and posture changes; it depends on the ability of our warfighters and the Department workforce to integrate new capabilities, adapt warfighting approaches, and change

business practices to achieve mission success. The creativity and talent of the American warfighter is our greatest enduring strength, and one we do not take for granted.

- Professional Military Education (PME).** PME has stagnated, focused more on the accomplishment of mandatory credit at the expense of lethality and ingenuity. We will emphasize intellectual leadership and military professionalism in the art and science of warfighting, deepening our knowledge of history while embracing new technology and techniques to counter competitors. PME will emphasize independence of action in warfighting concepts to lessen the impact of degraded/ lost communications in combat. PME is to be used as a strategic asset to build trust and interoperability across the Joint Forces and with allied and partner forces.
- Talent management.** Developing leaders who are competent in national-level decision-making requires broad revision of talent management among the Armed Services, including fellowships, civilian education, and assignments that increase understanding of interagency decision-making processes, as well as alliances and coalitions.
- Civilian workforce expertise.** A modern, agile, information-advantaged Department requires a motivated, diverse, and highly skilled civilian workforce. We will emphasize new skills and complement our current workforce with information experts, data scientists, computer programmers, and basic science researchers and engineers—to use information, not simply manage it. The Department will also continue to explore streamlined, non-traditional pathways to bring critical skills into service, expanding access to outside expertise, and devising new public-private partnerships to work with small companies, start-ups, and universities.

Strengthen Alliances and Attract New Partners

Mutually beneficial alliances and partnerships are crucial to our strategy, providing a durable, asymmetric strategic advantage that no competitor or rival can match. This approach has served the United States well, in peace and war, for the past 75 years. Our allies and partners came to our aid after the terrorist attacks on 9/ 11, and have contributed to every major U.S.-led military engagement since. Every day, our allies and partners join us in defending freedom, deterring war, and maintaining the rules which underwrite a free and open international order.

By working together with allies and partners we amass the greatest possible strength for the long-term advancement of our interests, maintaining favorable balances of power that deter aggression and support the stability that generates economic growth. When we pool resources and share responsibility for our common defense, our security burden becomes lighter. Our allies and partners provide complementary capabilities and forces along with unique perspectives, regional relationships, and information that improve our understanding of the environment and expand our options. Allies and partners also provide access to critical regions, supporting a widespread basing and logistics system that underpins the Department's global reach.

We will strengthen and evolve our alliances and partnerships into an extended network capable of deterring or decisively acting to meet the shared challenges of our time. We will focus on three elements for achieving a capable alliance and partnership network:

NATIONAL DEFENSE STRATEGY

- 1.1** Uphold a foundation of mutual respect, responsibility, priorities, and accountability. Our alliances and coalitions are built on freewill and shared responsibilities. While we will unapologetically represent America's values and belief in democracy, we will not seek to impose our way of life by force. We will uphold our commitments and we expect allies and partners to contribute an equitable share to our mutually beneficial collective security, including effective investment in modernizing their defense capabilities. We have shared responsibilities for resisting authoritarian trends, contesting radical ideologies, and serving as bulwarks against instability.
- 1.2** Expand regional consultative mechanisms and collaborative planning. We will develop new partnerships around shared interests to reinforce regional coalitions and security cooperation. We will provide allies and partners with a clear and consistent message to encourage alliance and coalition commitment, greater defense cooperation, and military investment.
- 1.3** Deepen interoperability. Each ally and partner is unique. Combined forces able to act together coherently and effectively to achieve military objectives requires interoperability. Interoperability is a priority for operational concepts, modular force elements, communications, information sharing, and equipment. In consultation with Congress and the Department of State, the Department of Defense will prioritize requests for U.S. military equipment sales, accelerating foreign partner modernization and ability to integrate with U.S. forces. We will train to high-end combat missions in our alliance, bilateral, and multinational exercises.

Enduring coalitions and long-term security partnerships, underpinned by our bedrock alliances and reinforced by our allies' own webs of security relationships, remain a priority:

- 1.4** Expand Indo-Pacific alliances and partnerships. A free and open Indo-Pacific region provides prosperity and security for all. We will strengthen our alliances and partnerships in the Indo-Pacific to a networked security architecture capable of deterring aggression, maintaining stability, and ensuring free access to common domains. With key countries in the region, we will bring together bilateral and multilateral security relationships to preserve the free and open international system.
- 1.5** Fortify the Trans-Atlantic NATO Alliance. A strong and free Europe, bound by shared principles of democracy, national sovereignty, and commitment to Article 5 of the North Atlantic Treaty is vital to our security. The alliance will deter Russian adventurism, defeat terrorists who seek to murder innocents, and address the arc of instability building on NATO's periphery. At the same time, NATO must adapt to remain relevant and fit for our time—in purpose, capability, and responsive decision-making. We expect European allies to fulfill their commitments to increase defense and modernization spending to bolster the alliance in the face of our shared security concerns.
- 1.6** Form enduring coalitions in the Middle East. We will foster a stable and secure Middle East that denies safe havens for terrorists, is not dominated by any power hostile to the United States, and that contributes to stable global energy markets and secure trade routes. We will develop enduring coalitions to consolidate gains we have made in Afghanistan, Iraq, Syria, and elsewhere, to support the lasting defeat of terrorists as we sever their sources of strength and counterbalance Iran.
- 1.7** Sustain advantages in the Western Hemisphere. The U.S. derives immense benefit from a stable, peaceful hemisphere that reduces security threats to the homeland. Supporting the U.S. interagency lead,

the Department will deepen its relations with regional countries that contribute military capabilities to shared regional and global security challenges.

- Support relationships to address significant terrorist threats in Africa. We will bolster existing bilateral and multilateral partnerships and develop new relationships to address significant terrorist threats that threaten U.S. interests and contribute to challenges in Europe and the Middle East. We will focus on working by, with, and through local partners and the European Union to degrade terrorists; build the capability required to counter violent extremism, human trafficking, trans-national criminal activity, and illegal arms trade with limited outside assistance; and limit the malign influence of non-African powers.

Reform the Department for Greater Performance and Affordability

The current bureaucratic approach, centered on exacting thoroughness and minimizing risk above all else, is proving to be increasingly unresponsive. We must transition to a culture of performance where results and accountability matter. We will put in place a management system where leadership can harness opportunities and ensure effective stewardship of taxpayer resources. We have a responsibility to gain full value from every taxpayer dollar spent on defense, thereby earning the trust of Congress and the American people.

Deliver performance at the speed of relevance. Success no longer goes to the country that develops a new technology first, but rather to the one that better integrates it and adapts its way of fighting. Current processes are not responsive to need; the Department is over-optimized for exceptional performance at the expense of providing timely decisions, policies, and capabilities to the warfighter. Our response will be to prioritize speed of delivery, continuous adaptation, and frequent modular upgrades. We must not accept cumbersome approval chains, wasteful applications of resources in uncompetitive space, or overly risk-averse thinking that impedes change. Delivering performance means we will shed outdated management practices and structures while integrating insights from business innovation.

Organize for innovation. The Department's management structure and processes are not written in stone, they are a means to an end—empowering the warfighter with the knowledge, equipment and support systems to fight and win. Department leaders will adapt their organizational structures to best support the Joint Force. If current structures hinder substantial increases in lethality or performance, it is expected that Service Secretaries and Agency heads will consolidate, eliminate, or restructure as needed. The Department's leadership is committed to changes in authorities, granting of waivers, and securing external support for streamlining processes and organizations.

Drive budget discipline and affordability to achieve our vision. Better management begins with effective financial stewardship. The Department will continue its plan to achieve full auditability of all its operations, improving its financial processes, systems, and tools to understand, manage, and improve cost. We will continue to leverage the scale of our operations to drive greater efficiency in procurement of materiel and services while pursuing opportunities to consolidate and streamline contracts in areas such as logistics, information technology, and support services. We will also continue efforts to reduce management overhead and the size of headquarters staff. We will reduce or eliminate duplicative organizations and systems for managing human resources, finance, health services, travel, and supplies. The Department will also work to reduce excess property and infrastructure, providing Congress with options for a Base Realignment and Closure.

NATIONAL DEFENSE STRATEGY

Streamline rapid, iterative approaches from development to fielding. A rapid, iterative approach to capability development will reduce costs, technological obsolescence, and acquisition risk. The Department will realign incentive and reporting structures to increase speed of delivery, enable design tradeoffs in the requirements process, expand the role of warfighters and intelligence analysis throughout the acquisitions process, and utilize non-traditional suppliers. Prototyping and experimentation should be used prior to defining requirements and commercial-off-the-shelf systems. Platform electronics and software must be designed for routine replacement instead of static configurations that last more than a decade. This approach, a major departure from previous practices and culture, will allow the Department to more quickly respond to changes in the security environment and make it harder for competitors to offset our systems.

Harness and protect the National Security Innovation Base. The Department's technological advantage depends on a healthy and secure national security innovation base that includes both traditional and non-traditional defense partners. The Department, with the support of Congress, will provide the defense industry with sufficient predictability to inform their long-term investments in critical skills, infrastructure, and research and development. We will continue to streamline processes so that new entrants and small-scale vendors can provide cutting-edge technologies. We will also cultivate international partnerships to leverage and protect partner investments in military capabilities.

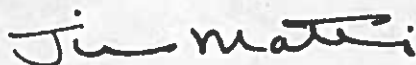
CONCLUSION

This strategy establishes my intent to pursue urgent change at significant scale.

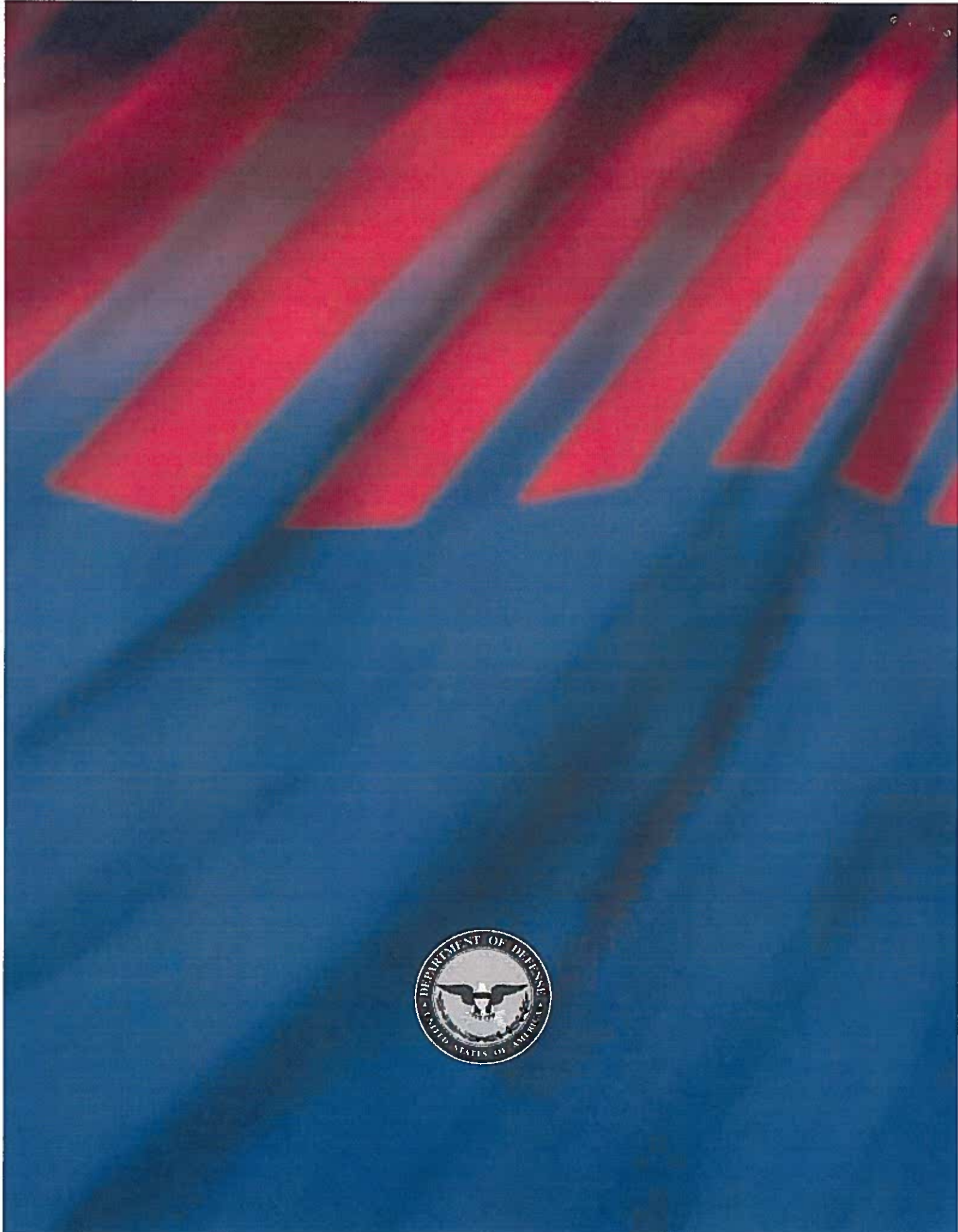
We must use creative approaches, make sustained investment, and be disciplined in execution to field a Joint Force fit for our time, one that can compete, deter, and win in this increasingly complex security environment. A dominant Joint Force will protect the security of our nation, increase U.S. influence, preserve access to markets that will improve our standard of living, and strengthen cohesion among allies and partners.

While any strategy must be adaptive in execution, this summary outlines what we must do to pass intact to the younger generation the freedoms we currently enjoy. But there is nothing new under the sun: while this strategy will require sustained investment by the American people, we recall past generations who made harsher sacrifices so that we might enjoy our way of life today.

As it has for generations, free men and women in America's military will fight with skill and valor to protect us. To carry out any strategy, history teaches us that wisdom and resources must be sufficient. I am confident this defense strategy is appropriate and worthy of the support of the American people.



Jim Mattis



Asia Pacific

James J. Przystup and Phillip C. Saunders

This chapter examines the strategic challenges the United States confronts in the Asia-Pacific region and argues that the United States should work with allies, partners, and multilateral organizations to build a rules-based regional order that includes China and advances U.S. national interests. This requires sustaining the U.S. rebalance to the Asia-Pacific and intensifying cooperation with other regional actors to shape China's choices. The chapter begins by reviewing the history of U.S. engagement with Asia and describing the range of important U.S. national interests located in the Asia-Pacific region or strongly influenced by developments there. It then reviews major trends shaping the region (including economic dynamism, China's rise, and the U.S. rebalance to Asia) and considers specific security challenges in Northeast Asia, the Korean Peninsula, the China-Taiwan relationship, and in the South China Sea. The authors argue that the United States needs to devote high-level attention to its alliances in Asia, to cooperation with new regional security partners, and to shaping the Asia-Pacific strategic and economic order in favorable directions. These actions will place the United States in a better position to shape China's strategic choices and integrate China within a rules-based regional and global order.

America's engagement with Asia began before the United States existed. In February 1784, the ship *Empress of China* departed New York harbor, arriving in Macau in August of that year. The ship returned the following year with a cargo of Chinese goods that netted a \$30,000 profit. In Federalist Paper No. 4, John Jay referred to American commerce with China and India.

In 1835, before the United States touched the shores of the Pacific Ocean, the U.S. Navy East India Squadron was established. In 1844, China, in the Treaty of Wanghia, granted trading rights to the United States. Two years later, the United States attempted to negotiate a commercial treaty with Japan. The talks ended in failure, but a decade later

Commodore Matthew C. Perry concluded the Treaty of Kanagawa, opening Japan to American goods and providing protection for shipwrecked American sailors engaged in the China trade.

In the last half of the 19th century, U.S. commercial interests expanded rapidly. At the end of the century, U.S. interests expanded beyond trade. In the Treaty of Paris ending the Spanish-American War, Spain ceded the Philippines and Guam to the United States.

Expansion across the Pacific brought the United States into contact with the geopolitics of Asia, focused then on China and the efforts of the imperial powers (France, Germany, Great Britain, Italy, Japan, and Russia) to carve out spheres of influence and commercial privileges in the weakening Qing empire.

Over the past century, the United States has adopted multiple policy frameworks to protect and advance its national interests in the Asia-Pacific region. The Open Door policy toward China represented a unilateral U.S. initiative aimed at rejecting imperial spheres of influence and special privilege and advancing the principle of equality of commercial opportunity. The Open Door evolved into a multilateral framework for managing commercial competition in China. A second Open Door note, issued at the time of the Boxer Rebellion, appealed to the imperial powers to preserve China's territorial and administrative integrity.

President Theodore Roosevelt, playing balance-of-power politics, aligned the United States with Japan to check Russia's efforts to develop an exclusive sphere of influence in Northern China and Korea. Roosevelt's diplomatic intervention in the Treaty of Portsmouth brought the Russo-Japanese war to a close.

In 1920, at the Washington Conference, the United States worked to fashion a multilateral, cooperative framework to preserve China's territorial integrity and the postwar status quo in the Asia-Pacific region. Lacking any enforcement mechanism, the Washington Conference system failed to meet the challenges of rising Chinese nationalism, the great depression, and Japanese unilateralism.

From 1945 through the end of the Cold War and the Barack Obama administration's rebalance to the Asia-Pacific, the United States has relied on bilateral security treaties with Japan, the Republic of Korea (ROK), Australia, the Philippines, and Thailand to protect and advance its security interests. This bilateral "hub and spokes" framework has served as the region's informal security structure, underpinning its remarkable postwar reconstruction and present-day prosperity. Today, the hub-and-spokes framework is evolving to encompass trilateral cooperation among alliance partners and multilateral cooperation involving U.S. allies and strategic partners.

Asia Pacific

The common principle underlying these various policy approaches is the concept of “access”: economic access to the markets of the region to pursue U.S. commercial interests; strategic and physical access to our allies to ensure confidence in U.S. security commitments; and political access to allow for the promotion of democracy and human rights.

At the same time, the United States has championed the evolution of a postwar liberal, open, rules-based international order allowing for the free flow of commerce and capital supported by the Bretton Woods institutions of the World Bank, International Monetary Fund, General Agreement on Tariffs and Trade, and its successor the World Trade Organization. At the same time, the United States has promoted efforts to support international stability and the peaceful resolution of disputes. This principled U.S. commitment has contributed significantly to the stability and prosperity of the Asia-Pacific region today.

U.S. National Interests in the Asia-Pacific Region

The United States has a range of important national interests either located in the Asia-Pacific region or strongly influenced by developments there. These interests include:

- defense of the homeland, U.S. territories, and U.S. citizens
- maintenance of an open, rules-based international order, including resolution of disputes through peaceful means rather than coercion or the use of force
- access to the region and freedom of navigation in the maritime and air domains
- maintenance of a stable balance of power that supports regional stability and promotes economic prosperity joined with opposition to any power or group of powers that would deny U.S. access to the region or threaten U.S. interests
- strengthening U.S. alliance relationships and reinforcing U.S. commitment to security of its allies
- prevention of the proliferation of weapons of mass destruction and missile delivery systems

- promotion of global norms and values, such as human rights, democracy, and good governance.

Defining Trends in the Asia-Pacific Region

The Asia-Pacific region is marked by important opportunities and challenges that require high-level attention. Economic dynamism is increasing the region's weight in world affairs and its importance to U.S. interests. China's rise is part of this positive story, but Beijing is also converting its astonishing economic growth into military power and diplomatic influence that are challenging the regional balance of power and threatening the stability of the existing order. The Obama administration has responded to regional opportunities and challenges via its rebalance to the Asia-Pacific, which sought to increase U.S. diplomatic, military, and economic engagement there. U.S. interests merit increased strategic attention and resources, but the next administration will need to decide how to sustain the rebalance and what adjustments are necessary given the changing global and regional strategic environment and the U.S. domestic political context.

Asia's Economic Dynamism

In 2013, the Asia-Pacific region generated close to \$21 trillion in economic activity, over a quarter of the global economy. China and Japan stand as the world's second and third largest economies, while the 10 countries in the Association of Southeast Asian Nations (ASEAN) have a combined economic output of over \$2.3 trillion.¹ East Asia remains one of the fastest growing regions in the world, with an annual growth rate of 6.8 percent in 2014, accounting for about 40 percent of global growth.² This economic dynamism is increasing the region's overall strategic weight and importance to the U.S. economy.

In 2015, U.S. trade with Asia totaled more than \$1.5 trillion, growing from \$397 billion at the end of the Cold War and \$503 billion at the turn of the century.³ In 2014, U.S. exports to the Asia-Pacific region represented 27.8 percent of total exports, while imports accounted for 37 percent of total imports. Capital goods, excluding automotive, led U.S. exports to the region, amounting to 26.3 percent, while consumer goods, excluding food and automotive, accounted for 32.2 percent of U.S. imports from the region. Meanwhile the U.S. direct investment position in the region amounted to \$738.8 billion, an increase of 6.1 percent over 2013.⁴ The United States remains the single largest investor in the Asia-Pacific region.

Asia Pacific

In 2012, 32 percent of export-related jobs in the United States were tied to the Asia-Pacific region, representing 1.2 million American jobs, an increase of more than 52 percent over 2002. In 2011, 68 percent of all congressional districts exported more than \$500 million to the region, with 39 states sending approximately 25 percent of their exports to the Asia-Pacific region.⁵ Governor-led trade missions target the region's booming economies. Top U.S. trading partners include China (the second largest), Japan (fourth), and South Korea (sixth); if taken as a whole, ASEAN would be the fourth largest U.S. trading partner.⁶

The Rise of China

China's rise is altering the strategic landscape of the region and challenging the existing regional order. In 1980, as Deng Xiaoping began to open China to the market, China had a \$200 billion economy; by 2014, its economy topped \$10 trillion. This remarkable transformation was achieved by adopting market-oriented economic reforms and opening China to foreign trade, investment, technology, and ideas. The result is a China that is firmly integrated into the regional and global economy. China is now more exposed to external economic developments; the 1998 Asian Financial Crisis and 2008 Great Recession both caused significant slowdowns in Chinese growth.⁷ Conversely, China's economy is now big enough and integrated enough that its economic problems can move global trade patterns and U.S. stock markets.

Like other Asian countries, China's economic rise was enabled by an open international trading order and stability in the Asia-Pacific region underpinned by U.S. military power and the U.S. alliance system. A reasonably good working relationship with the United States remains critical for Chinese goals such as sustaining economic growth and maintaining regional stability, but the relationship has become more competitive and many Chinese elites believe that the United States seeks to subvert the Chinese political system and contain China's economic and military potential. As China has become more powerful, and has converted some of its economic gains into military power, it has become less comfortable with the U.S. alliance system and begun to seek more influence within the region and in the international system as a whole.

China's economic growth has reshaped regional trade and investment patterns and greatly increased Beijing's influence. China is now the number one export market for almost all countries within the region and has dramatically expanded its foreign investment across Asia. China has a free-trade agreement (FTA) with ASEAN and is currently pursuing both a China–Japan–South Korea FTA and a broader Regional Comprehensive Economic Partnership agreement. Chinese foreign aid and infrastructure

projects within Asia, some of which are now under the umbrella of Xi Jinping's "One Belt, One Road" initiative, are another source of influence. Beijing has mostly used its economic power as assurance measures and inducements to cooperate with China, but in recent years has become more willing to use more coercive economic measures to punish countries that displease it.⁸

Rapid economic growth has also supported modernization and expansion of the Chinese military, which has enjoyed double-digit budget increases for most of the last 20 years and now has the largest defense budget in the Asia-Pacific region (\$154 billion for 2016).⁹ The People's Liberation Army has been modernizing its forces and developing the joint doctrine, training, and capabilities necessary to win "local wars under conditions of informationization."¹⁰ This modernization effort gives priority to naval, air, and missile forces capable of projecting power beyond China's borders and places increasing emphasis on the maritime, space, and cyber domains. As part of its efforts to deter potential U.S. intervention in a Taiwan contingency, the People's Liberation Army has emphasized the development of antiaccess/area-denial capabilities that would raise the costs and risks for U.S. forces operating near China.¹¹ These capabilities threaten to put at risk the U.S. ability to access its allies, extend deterrence, and meet its regional security commitments. Expanded naval and coast guard capabilities have also supported more assertive Chinese efforts with respect to maritime territorial disputes in the East and South China seas.

Countries in Asia have been carefully monitoring China's rise and the potential for a strong China to dominate the region. Aggressive Chinese behavior toward Taiwan and in the South China Sea from 1994 to 1996 created regional alarm about a "China threat," but more restrained Chinese behavior and assurance measures adopted over the period from 1997 to 2008 helped ease regional concerns. During this period, Asian views largely shifted from regarding China as a potential threat to regarding China as an opportunity; this shift was widely interpreted as an indicator of the success of China's Asia policy.¹² Beginning in 2009, however, more assertive Chinese behavior on maritime territorial disputes and other issues dissipated much of the goodwill built by China's charm offensive and revived regional concerns about how a strong China might behave in the future.¹³ These concerns are most acute for countries with maritime or land territorial disputes with China, such as India, Japan, Malaysia, the Philippines, and Vietnam. Chinese policymakers talk about the need to maintain the proper balance between the competing goals of defending Chinese sovereignty (*weiquan*) and maintaining regional stability (*weiwen*); under President Xi Jinping there has been more emphasis

on pursuing territorial claims and less concern about the negative impact on relations with China's neighbors.

In interviews conducted as part of the Institute for National Strategic Studies research project "The Rebalance Beyond 2016," analysts across the region described China's rise as "inexorable." Despite the significant economic and political challenges facing China, they were confident that China will, at worst, muddle through, if not succeed eventually. Looking ahead, interviewees defined a best-case China scenario as one in which the pace of change would slow, allowing countries of the region to adapt and, over time, engage and socialize China toward acceptance and support of the existing regional order. This will require sustained U.S. involvement and coordination with regional allies and partners. For the United States and the Asia-Pacific region, China's rise (and international reactions to that rise) will shape the contours of the international order in the century ahead.

While participating in the postwar Bretton Woods system and benefiting from a stable regional order underpinned by U.S. alliances, China has moved to advance a parallel set of institutions that mostly exclude the United States. These include the Shanghai Cooperation Organization; the initial proposal for an East Asian Summit that would have excluded the United States; and under President Xi, the Asian Infrastructure Investment Bank, the One Belt, One Road Eurasian trade initiative, the Regional Comprehensive Economic Partnership, and the "Asia for Asians" security concept, widely viewed as aimed at U.S. alliances and the U.S. security role in the region. Taken as a whole, China's growing power and willingness to use that power to try to alter regional security arrangements and support new institutions that advance Chinese interests and exclude the United States pose a significant challenge to U.S. interests in the Asia-Pacific.

The U.S. Rebalance to Asia

Upon taking office in January 2009, Obama administration officials proclaimed a U.S. "return to Asia." This pronouncement was backed with more frequent travel to the region by senior officials and increased U.S. participation in regional multilateral meetings, culminating in the decision to sign the ASEAN Treaty of Amity and Cooperation and to participate in the East Asia Summit at the head-of-state level.

The strategic rebalance to Asia built on these actions to deepen and institutionalize U.S. commitment to the Asia-Pacific region. In announcing the rebalance in a November 17, 2011, address to the Australian Parliament, President Obama argued that "Our new focus on this region reflects a fundamental truth—the United States has been, and always

will be a Pacific nation. . . . Here we see the future.” The President noted that Asia is “the world’s fastest growing region,” “home to more than half of the global economy,” and critical to “creating jobs and opportunity for the American people.” He described the rebalance as “a deliberate and strategic decision” to increase the priority placed on Asia in U.S. policy.¹⁴

Then—Secretary of State Hillary Clinton elaborated on the rationale for the rebalance, arguing that “harnessing Asia’s growth and dynamism is central to American economic and strategic interests” and that the United States had an opportunity to help build “a more mature security and economic architecture to promote stability and prosperity.” Given the importance of the Asia-Pacific region, she argued that “a strategic turn to the region fits logically into our overall global effort to secure and sustain America’s global leadership.”¹⁵

While the main objective of the rebalance was to bring U.S. foreign policy commitments in line with U.S. interests, it also responded to China’s increasingly assertive regional policies, especially on maritime territorial disputes. Countries across the Asia-Pacific region urged Washington to play a more active role in regional economic, diplomatic, and security affairs in order to demonstrate U.S. commitment and help maintain regional stability in the face of a more powerful and more active China.

Obama administration officials have stressed that the rebalance includes diplomatic, economic, and military elements, all of which must be applied in a coordinated manner for maximum effect.¹⁶ The diplomatic element has involved enhanced high-level diplomatic engagement, including frequent travel to the region by the President, Secretary of State, and Secretary of Defense. President Obama has participated regularly in Asia-Pacific Economic Cooperation (APEC) and East Asia Summit meetings; had periodic meetings with the leaders of U.S. allies Japan, South Korea, and Australia; and launched a new U.S.-ASEAN dialogue mechanism that included a summit with Southeast Asian leaders at Sunnyslands, California, in February 2016.

American allies and partners in the region have stressed U.S. economic engagement with Asia as a key means of demonstrating U.S. staying power. The Obama administration faced a number of practical and political obstacles in increasing U.S. trade and investment ties with the Asia-Pacific, especially in the context of the global financial crisis. The centerpiece of the administration’s efforts is the Trans-Pacific Partnership (TPP), as “an ambitious, next-generation Asia-Pacific trade agreement” including Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam.¹⁷ The TPP agreement was signed on February 4, 2016, but will not

take effect until all member countries have ratified the agreement. The Obama administration has not submitted the agreement to Congress for approval; once submitted, Congress will have 90 legislative days to approve or disapprove it. TPP is an example of “open regionalism,” meaning that other Asia-Pacific countries willing to meet TPP standards will eventually be able to join the agreement.

The military element of the rebalance includes both increased commitments of U.S. military forces to the Asia-Pacific region and enhanced military and security cooperation with a range of allies and partners. The Navy and Air Force both announced plans to devote 60 percent of overseas-based forces to the Asia-Pacific region, including deployments of advanced systems such as the Littoral Combat Ship and F-35 Joint Strike Fighter. The Army announced plans to align 70,000 troops to Asia missions, while the Marines announced plans for rotational deployments of 2,500 Marines to Australia. Secretary of Defense Ashton Carter described a three-part Department of Defense approach to the “next phase” of the rebalance that includes investing in future capabilities relevant to the Asia-Pacific security environment, fielding key capabilities in quantity, and adapting the U.S. defense posture to be “geographically distributed, operationally resilient, and politically sustainable.”¹⁸ A significant part of the rebalance involves efforts to expand military cooperation with traditional allies such as Australia, Japan, and South Korea, while using exercises and dialogues to reach out to nontraditional partners such as India, Malaysia, and Vietnam.¹⁹

While the President’s remarks set out a comprehensive strategy toward the region, the initial public diplomacy rollout focused on the military aspects, unfortunately playing into the Chinese conceit that U.S. policy is aimed at containing China. Beijing has subsequently gone a step further, blaming the rebalance for increasing tensions in the region even though it was partly a response to regional concerns about increasing Chinese assertiveness.

Asia-Pacific Security Challenges

Asia’s economic dynamism, China’s rising power, and the U.S. rebalance are broad trends that are having a major impact on the Asia-Pacific region as a whole. These trends co-exist with a number of specific security challenges in Northeast Asia, the Korean Peninsula, the China-Taiwan relationship, and the South China Sea, including unresolved territorial disputes, competition to secure natural resources, and freedom of navigation issues that present complex challenges to regional stability and security.

Northeast Asia

Even 75 years after the end of World War II, tensions over the history of Japanese colonialism and aggression continue to complicate Tokyo's relations with Beijing and Seoul. The Japan-China relationship is also marked by conflicting territorial claims in the East China Sea, including disputes over possession of the Senkaku/Diaoyu Islands, an unresolved maritime boundary, and resource competition for fish, oil, and natural gas. Both China and Japan claim the islands (as does Taiwan) and tensions over them have flared periodically since the late 1970s.²⁰ The United States does not take a position on the sovereignty dispute but recognizes Japanese administrative control and has stated that the unpopulated islands are covered under the U.S.-Japan Security Treaty.

In September 2010, a Chinese fishing trawler operating within Japan's exclusive economic zone north of the Senkaku Islands collided with two Japanese coast guard ships. The ships pursued and boarded the trawler, taking into custody the captain and crew. Tokyo took the position that the coast guard's actions were correct, taking place in Japanese waters and based on Japanese law. Beijing's response was to call on Japan to refrain from taking "so-called law enforcement activities" in Chinese waters. To have accepted the legality of the coast guard's action would have been to compromise China's claim to sovereignty over the islands. The rapid deterioration of relations that followed, China's suspension of rare-earth metal exports to pressure the Japanese business community, widespread anti-Japanese demonstrations across China, and small-scale anti-Chinese protests in Japan all underscored the sensitive nature of the territorial issue.

Two years later, in September 2012, the Japanese government purchased ("nationalized") three of the five Senkaku islands from their private-sector owner. Widespread anti-Japanese demonstrations spread across China, and Beijing suspended all high-level political and diplomatic contacts. To assert its claims to the islands, China stepped up patrols of white-hulled paramilitary ships (now consolidated into the Chinese coast guard) into Japan's contiguous zone around the islands, establishing an almost daily presence in the area. Chinese ships also entered Japan's territorial waters in the Senkakus. By the end of 2013, Chinese coast guard ships had entered Japan's territorial waters in the Senkakus 256 times. Of the incursions, 68 took place in the period September–December 2012 and 188 in 2013.²¹ In November 2013, China declared an Air Defense Identification Zone that extended over the Senkaku Islands. The following month the government of Prime Minister Shinzo Abe, in its national security strategy, defined Japan's security environment as "ever more severe."²²

Japan and China also hold conflicting claims over the maritime boundary in the East China Sea. Japan claims a mid-line boundary in the East China Sea, while Beijing's claim is based on the continental shelf and extends beyond the mid-line to the Okinawa trough. In the context of this unresolved boundary, exploration for oil and natural gas has also served as a flashpoint. In June 2008, Japanese and Chinese diplomats reached agreement on the joint development of resources in the East China Sea; implementing details were left to follow-on talks, which have failed to resolve outstanding issues. In June 2013 China began the construction of large exploration platforms on the Chinese side of the mid-line boundary. Tokyo considered the Chinese action to be at odds with the 2008 agreement and an "attempt to change the status quo unilaterally." Beijing's response was to make clear that exploration was taking place within China's sovereign waters, that China and Japan have yet to reach agreement on the maritime boundary, and that China does not recognize Japan's unilateral boundary demarcation. The Japanese press reported that Prime Minister Abe has raised the issue twice with President Xi at the November 2014 and April 2015 meetings.

North Korea

North Korea, as it has for decades, remains the most destabilizing element in the Asia-Pacific security environment. Pyongyang's growing nuclear and missile arsenal poses a direct threat to U.S. national security interests. Senior U.S. defense officials have stated that North Korea, within a decade, will be able to deploy intercontinental ballistic missiles capable of reaching U.S. territory in the Pacific and the homeland itself.²³

North Korea's estimated 1.2 million-man conventional army also continues to pose a direct threat to the Republic of Korea, a treaty ally of the United States. North Korean provocations, such as the sinking of the ROK navy's warship *Cheonan*, in March 2010, the shelling of Yeonpyeong Island in November 2010, and the August 2015 incident at the demilitarized zone (DMZ), risk escalation into a wider conflict. Pyongyang remains committed to the unification of the Korean Peninsula on its terms.

Diplomatic efforts to address North Korea's nuclear program have a long history. Beginning in 1991, then–Undersecretary of State Arnold Kanter met with North Korean diplomats in New York and proposed the basic tradeoff that has marked diplomatic efforts since: abandonment of North Korea's plutonium-based nuclear program in exchange for an array of security guarantees and economic benefits. The initiative eventually played out into the 1994 Agreed Framework, which offered Pyongyang two light water reactors, a security guarantee, and moves toward normalized relations. Profound distrust on both sides gradually

unraveled the accord, which collapsed in 2002 when the George W. Bush administration discovered that Pyongyang was secretly pursuing uranium enrichment as an alternative path to the bomb.

In September 2003, China launched the Six Party Talks to reduce the risk of unilateral U.S. military action and to keep denuclearization of North Korea on the security agenda. The talks produced the September 19, 2005, agreement, yet another attempt at a grand bargain. The Six Party Talks collapsed in December 2008 when North Korea failed to produce details of its nuclear activities that would verify compliance with the agreement. Efforts to revive the Six Party Talks have proved unavailing.

In 2009 the Obama administration attempted to break the diplomatic deadlock, offering to extend an open hand to North Korea. North Korea answered with ballistic missile and nuclear weapon tests. Nevertheless, the administration continued to pursue a diplomatic opening to Pyongyang, which resulted in the February 29, 2012, Leap Day agreement, a mini-grand bargain in which the United States would provide food in return for North Korea's freezing of its missile and enrichment programs. Pyongyang responded with another ballistic missile test.

In 2012 the nuclear and missile programs were enshrined in North Korea's revised constitution. Today, under the leadership of thirty-something Kim Jong-un, North Korea is pursuing *byungjin*, a two-track policy aimed at sustaining its nuclear weapons and missile programs and simultaneously promoting economic growth—in short, guns *and* butter. Pyongyang has made very clear that it has no interest in surrendering its nuclear program, even for an economic windfall. Instead it seeks international recognition as a nuclear weapons state.

Uncertainties about the long-term life expectancy of the regime under Kim Jong-un, including the prospect of instability or regime collapse, raise daunting security challenges.²⁴ China might intervene to prop up a failing regime, prevent a refugee crisis from spilling over its borders, or secure North Korea's weapons of mass destruction. Similar conditions could prompt the ROK to cross the 38th parallel in an effort to unify the peninsula or the United States to intervene to secure North Korea's weapons of mass destruction. The prospects for strategic miscalculation in a fast-moving, dynamic environment are extremely high, especially given the absence of substantive dialogue between the United States and China about contingency responses.

China-Taiwan

The political dispute between Mainland China and Taiwan remains an unresolved legacy of the Chinese civil war. The People's Republic of China

(PRC) claims Taiwan as an inherent part of Chinese territory. While pursuing a policy of unification through peaceful development, Beijing has refused to renounce the use of force if Taiwan should pursue *de jure* independence. Even as economic integration has deepened to the point where Mainland China is now Taiwan's number one export market and the main destination for Taiwan investment, political trends have continued to diverge.

On the mainland, the narrative of a “century of humiliation” at the hands of foreign powers makes Taiwan reunification a benchmark goal for Chinese nationalism and a domestic political third rail where top leaders have little room to compromise. Conversely, democratization and social changes on Taiwan have reduced the political dominance of the mainlanders who fled the Communist takeover in 1949 and produced a population with less sense of a Chinese identity and little desire for closer political relations with Mainland China, much less unification with a country led by a Communist government. Despite an increasing sense of an identity separate from the Mainland, the pragmatic population on Taiwan prefers to maintain the political status quo and avoid pro-independence actions that might provoke hostile PRC responses.

U.S. policy is based on three communiques signed with the People's Republic of China and the 1979 Taiwan Relations Act. U.S. policy recognizes the PRC government as the sole legal government of China, acknowledges the Chinese position that there is but one China and that Taiwan is part of China, and maintains cultural, commercial, and other unofficial relations with the people on Taiwan. At the same time, U.S. policymakers have clearly and consistently stated that the United States does not support Taiwan independence. The Taiwan Relations Act provides the legal basis for U.S. unofficial relations with Taiwan and enshrines a U.S. commitment to assist Taiwan in maintaining its defensive capability. It also states that peace and stability in the Western Pacific area “are in the political, security, and economic interests of the United States, and are matters of international concern” and that U.S. policy is to “maintain the capacity of the United States to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of the people on Taiwan.”

U.S. policy is focused on maintaining a framework within which the two sides of the strait can work out their political differences rather than on achieving specific outcomes. Accordingly, the United States insists on peaceful resolution of cross-strait differences, opposes unilateral changes to the status quo by either side, and encourages cross-strait dialogue to help advance a peaceful resolution. This approach has helped the United States cooperate with the PRC on a range of global, regional, and bilat-

eral economic and security issues while maintaining robust unofficial ties with the people on Taiwan. However, the growing imbalance in economic and military power between China and Taiwan poses challenges for the viability of this policy framework, especially as Chinese military modernization expands the coercive tools available to PRC leaders.

Contentious cross-strait relations improved considerably from 2008 to 2016 under Taiwan President Ma Ying-jeou, whose willingness to endorse the so-called 1992 consensus (which he interpreted as “one China, separate interpretations”) reduced tensions and permitted a major expansion of cross-strait economic ties, establishment of direct air and sea links, and the signing of 23 cross-strait agreements. Ma resisted pressure from Mainland China to engage in talks on political issues or to define Taiwan’s status more precisely. Although this period saw stability and a significant expansion in cross-strait contacts, many on Taiwan claimed that the economic benefits went largely to politically connected big businesses and that the Ma administration did not stand up enough for Taiwan’s interests.

Opposition Democratic Progressive Party candidate Tsai Ing-wen won a decisive victory in January 2016 elections; her party won control of the legislature for the first time and she took office as president on May 20, 2016. Mainland China is suspicious of Tsai because of her party’s pro-Taiwan independence stance and her service in former president Chen Shui-bian’s government, although she has pledged not to challenge the status quo and has made subtle policy adjustments to reassure Beijing that she will not take pro-independence actions that might disrupt stability.²⁵

Nevertheless, Mainland China officials have insisted that Tsai explicitly acknowledge that Taiwan is part of China and endorse the 1992 consensus, a concession she is unwilling (and perhaps unable) to make. A March 2016 Center for Strategic and International Studies delegation to China and Taiwan concluded that China is deliberately setting the bar high because it wants Tsai’s term in office to be considered a failure. To that end Beijing has severed semi-official cross-strait dialogue mechanisms, reduced the flow of tourists to Taiwan, and may take additional actions to curtail Taiwan’s international space, including by inducing some of Taiwan’s 21 diplomatic allies to shift recognition to the PRC. Beijing’s strategy appears to be to blame Tsai for a downturn in cross-strait relations that damages Taiwan’s economy, and to hope that Taiwan voters choose a candidate committed to improving cross-strait relations in the 2020 election.

This all suggests that cross-strait relations will enter a period of greater turbulence with Beijing seeking to depict Tsai as challenging the status

quo by refusing to endorse the 1992 consensus and Tsai and her government looking to Washington for support in the face of increasing Chinese pressure. At the same time, Beijing knows that any attempt to resolve the Taiwan issue with force would have extremely high costs and risks (including the likelihood of U.S. military intervention) and would severely damage China's relations with the United States and other major countries in the region.

South China Sea

In contrast to the East China Sea, competing territorial claims and maritime boundaries in the South China Sea involve multiple parties. The disputes center on three sets of overlapping claims. China, Taiwan, and Vietnam all claim the Paracel Islands, which China occupied in 1974 during the last days of the Republic of Vietnam. China, the Philippines, and Taiwan claim Scarborough Shoal, site of a 2012 dispute between Beijing and Manila. China, Taiwan, and Vietnam claim all the land features in the Spratly Islands, while Brunei, Malaysia, and the Philippines each claim a number of specific features. China has not clarified the exact nature or legal basis of its claim to land features and adjacent waters inside the “nine-dash line” that it inherited from the Republic of China. The nine-dash line overlaps with part of Indonesia's exclusive economic zone claim, including part of the Natuna natural gas field.

In 2002, the member states of ASEAN and China adopted the “Declaration on the Conduct of Parties in the South China Sea” to address conflicting claims. In the document, the parties:

- reaffirmed “their respect for and commitment to the freedom of navigation in and overflight above the South China Sea as provided for by the universally recognized principles of international law, including the 1982 UN [United Nations] Convention on the Law of the Sea”
- undertook “to resolve their territorial and jurisdictional disputes by peaceful means, without resorting to the threat of or use of force”
- undertook “to exercise self-restraint in the conduct of activities that would complicate or escalate disputes and affect peace and stability including, among others, refraining from . . . inhabiting . . . the presently uninhabited islands, reefs, shoals, cays, and other features and to handle their differences in a constructive manner.”²⁶

Finally, the parties reaffirmed that “the adoption of a code of conduct in the South China Sea would further promote peace and stability” and agreed “to work, on the basis of consensus, toward the eventual attainment of this objective.”

A binding code of conduct today stands as a distant vision, and much has transpired that is at odds with the spirit of the Declaration of Conduct. Claimants have used a variety of tactics to reinforce their claims, with a significant increase in activity since 2009.²⁷ Tactics to assert sovereignty include patrols by coast guard and naval forces, occupying land features, enforcing fishing regulations in disputed waters, oil and natural gas exploration, harassment of military ships and aircraft operating in disputed areas, and using legal means (such as the case the Philippines brought against China in the International Tribunal of the Law of the Sea). None of the claimants has clean hands, but China has been the most active in using military and paramilitary means to assert its claims, including by coercion of other claimants.²⁸ Since 2009 China has become more assertive in enforcing its claims, including harassment of U.S. military ships and aircraft operating legally in international waters or within China’s exclusive economic zone. In May 2014 China deployed an oil rig into waters in the Paracels claimed by Beijing and Hanoi, raising tensions and setting off collisions between Chinese and Vietnamese coast guard ships and virulent anti-Chinese demonstrations in Vietnam.

In 2013 China began land reclamation projects in the South China Sea on several low-tide elevations, geologic features that do not extend above water at high tide. China’s efforts at land reclamation were not unprecedented: Malaysia, the Philippines, Taiwan, and Vietnam have also engaged in such projects since the 1980s. The U.S. Department of Defense *Maritime Security Strategy* notes that, in the period from 2009 to 2014, Vietnam “was the most active claimant in terms of both outpost upgrades and land reclamation,” adding “approximately 60 acres of land at 7 of its outposts and [building] at least 4 new structures as part of its expansion efforts.”²⁹

However, China’s land reclamation activities dwarf those of other claimants. By June 2015 China’s land reclamation projects totaled “more than 2,900 acres, or 17 times more land in 20 months than the other claimants combined over the past 40 years, accounting for approximately 95 percent of all reclaimed land in the Spratly Islands.” In comparison Vietnam had reclaimed “a total of approximately 80 acres, Malaysia, 70 acres; the Philippines 14 acres; and Taiwan, 8 acres.”³⁰ Beijing’s position remains that “China has indisputable sovereignty over the Nansha islands and their adjacent waters,” with “sovereignty and relevant rights . . . formed over the long course of history and upheld by successive Chinese

governments.”³¹ In October 2015 President Xi pledged that China would not “militarize” the islands that it had constructed, but the exact nature of this commitment is vague and most observers expect China to use the airfields and port facilities that it is building for both military and civilian purposes.

U.S. policy has been to avoid taking sides in the sovereignty disputes, but to stress the importance of respect for international law and peaceful resolution of disputes without coercion. China’s successful use of incremental salami tactics to expand its effective control of disputed maritime territory in the South China Sea has brought this approach into question, as Beijing has been able to “work around” the United States to gradually expand its naval and coast guard presence and power projection capabilities while avoiding the use of lethal force. More recently, the United States has adjusted its policies to increase security assistance to help improve maritime domain awareness of U.S. allies and partners and has also reinvigorated its Freedom of Navigation program, which challenges excessive or illegitimate maritime claims.³²

U.S. Policy Responses: Sustaining the Rebalance

U.S. policies must take the broad trends of Asia’s economic dynamism, China’s rising power, and the U.S. rebalance into account even as they grapple with specific regional security challenges. We believe the correct strategy is to work with U.S. allies, partners, and multilateral organizations to build a rules-based regional order that includes China and advances U.S. national interests. This requires sustaining the U.S. rebalance to the Asia-Pacific and intensifying cooperation with other regional actors to shape China’s choices and make it pay a price for aggressive actions that violate international rules and norms.

For over a half century, the U.S. system of bilateral security alliances (with Australia, Japan, the Philippines, the Republic of Korea, and Thailand) has served as the informal security architecture of the Asia-Pacific region, underpinning stability and enhancing economic prosperity. Although most countries in the region share concerns about how China is using its power (and especially about its aggressive pursuit of its maritime territorial claims), they are reluctant to choose between China (a critical economic partner) and the United States or to participate in security cooperation aimed against China. Given the diversity of the region in terms of political culture and security interests, a formal alliance system such as the North Atlantic Treaty Organization has been widely recognized as impractical.

The best approach is to build on the existing bilateral alliance system by encouraging increased cooperation between U.S. allies, engaging other regional security partners, and shaping the evolution of regional organizations through active U.S. participation. U.S. policymakers must recognize China is a powerful country that is also attempting to reshape the regional order in directions favorable to its interests. An open, rules-based regional order that includes the United States will be more attractive to Asia-Pacific countries than Chinese-backed alternatives.

Strengthening Alliances

To address the security challenges in 2017–2021 and beyond, a critical first step for the next administration is to focus on strengthening the bilateral alliance structure. This starts with the U.S.-Japan Alliance.

Japan. For over half a century, the alliance with Japan has served as the foundation of U.S. strategy toward the Asia-Pacific region and an integral element of U.S. global strategy. Elements of the Seventh Fleet based in Yokosuka, Japan, were among the first U.S. units to support coalition efforts in the Persian Gulf War in 1991 and Operation *Enduring Freedom* in 2001.

Under the government of Prime Minister Abe, Japan has taken steps to enhance security cooperation with the United States. In December 2013, the Abe government released Japan's first-ever national security strategy, which defined Japan as a "Proactive Contributor to Peace" in support of international stability and security. The document set out three objectives for Japan's security policy: to strengthen deterrence, to strengthen the Japan-U.S. Alliance, and to strengthen the rules-based international order. In July 2014 a decision by the Japanese government cabinet reinterpreted Japan's constitution to allow for the exercise of the right of collective self-defense.

In April 2015 the Obama administration and the Abe government released the Revised Guidelines for Defense Cooperation. The new guidelines aim to enhance U.S.-Japan Alliance cooperation by providing for an Alliance Coordination Mechanism; closer operational coordination; a whole-of-government, upgraded bilateral planning mechanism; seamless coordination of efforts "to ensure Japan's peace and security in all phases, from peacetime to contingencies"; and defense equipment and technology cooperation as well as cooperation in space and cyberspace. The limiting geographic reference to "Situations in Areas Surrounding Japan" in the 1997 guidelines was omitted, theoretically expanding the scope of alliance-based security cooperation.

Of increasing concern to Japan is the potential for “gray zone” activities, attempts to change the status quo by force or coercion such as China’s frequent incursions into Japan’s sovereign waters and air space that could cause “unexpected situations” and challenge the alliance in response. In April 2014 President Obama made clear that Article 5 of the alliance extends to the Senkaku Islands given Japan’s administrative control. To strengthen deterrence, it is critical for the new administration to be seen actively planning and exercising with Japan’s Self-Defense Forces to deal “seamlessly” with gray zone situations that could arise in the Senkaku Islands.

With respect to North Korea’s growing missile threat, Japanese strategists are concerned with the potential for “decoupling,” the result of a North Korea inclined to engage in provocations, confident that its nuclear arsenal would preclude a U.S. response. Japanese strategists are also concerned with the deterrence challenge posed by China at both the regional and strategic levels.

Implementation of the new defense guidelines, in particular the U.S. commitment “to extend deterrence to Japan through the full range of capabilities, including U.S. nuclear forces” and to continue forward deployment in the Asia-Pacific region will be critical to sustaining Japanese confidence in the alliance. Implementation of the guidelines will be a critical test both of the new administration’s commitment to the alliance and to the rebalance.

Across the region, the strength of the U.S.-Japan Alliance as well as the U.S. commitment to the defense of the Republic of Korea are widely perceived as a barometer of the U.S. security commitment to the Asia-Pacific region.

The Republic of Korea. For over 60 years, the U.S alliance with the Republic of Korea has succeeded in deterring North Korea from again attempting to unify the Korean Peninsula by force of arms. The resulting armed peace has allowed for a political evolution to take place in which the Korean people have transformed an authoritarian political system into a vibrant democracy, while allowing the native energies of the Korean people to flourish and develop a dynamic market economy with an international presence.

At the same time, the threat posed by North Korea to the security of the ROK and the broader international community remains. The sinking of the ROK navy corvette *Cheonan* in March 2010 and the shelling of Yeonpyeong Island in November 2010 and the August 2015 landmine incident at the DMZ underscore North Korea’s continuing hostility.

While North Korea's conventional capabilities have continued to degrade, the threat posed by its nuclear weapons and missiles is increasing at an accelerating pace. Since the September 19, 2005, Six Party Talks agreement on denuclearization, North Korea has conducted five nuclear tests (in October 2006, May 2009, February 2013, January 2016, and September 2016). The UN Security Council imposed sanctions after the first four tests and is currently considering additional sanctions. Meanwhile North Korea continues to develop and test a ballistic missile arsenal. In October 2014, U.S. Forces Korea (USFK) commander General Curtis Scaparrotti, USA, cautioned that North Korea may have developed a miniaturized nuclear warhead and mated the warhead to missiles capable of striking U.S. territory.

North Korea's evolving nuclear and missile capabilities raise issues related to deterrence and defense, affecting both the ROK and Japan.³³ Defense planners are concerned that "newly nuclear states often are more assertive at the conventional level because of their confidence in being able to deter a strong adversary response with their nuclear means."³⁴ To address this potential risk, the ROK and the United States reached agreement on a Counter-Provocation Plan in March 2013. The plan was employed during the August 2015 DMZ landmine incident. Updating the Counter-Provocation Plan to deal with the evolving threats posed by North Korea will be an important alliance management instrument for the new administration.

Enhancing missile defense will also be a critical alliance issue for the new administration. In July 2016 the United States and the ROK agreed to deploy the Terminal High Altitude Area Defense (THAAD) system to the ROK. The deployment will defend against North Korean missile attacks and open the door to the development of an interoperable U.S.-ROK-Japan multilayered missile defense system that would enhance defense and deterrence in Northeast Asia. China, however, has expressed concerns that the U.S. deployment of the THAAD system in South Korea could put China's nuclear deterrent at risk and aggravate tensions on the peninsula. In July 2014 President Xi Jinping reportedly told President Park Geun-hye that THAAD deployment on the peninsula "went against China's security interests."³⁵ After the deployment decision, China expressed "firm opposition" and has applied economic and diplomatic pressure on the ROK to reconsider. U.S. and ROK policymakers will need to stand firm in the face of Chinese pressure.

Meanwhile, efforts to implement the September 19, 2005, Six Party agreement on the denuclearization of North Korea remain on diplomatic life support. In April 2009 North Korea announced its withdrawal from

the Six Party Talks and subsequently made clear that its nuclear arsenal will not be used as a bargaining chip to secure economic benefits.

The next administration should take the long view with respect to North Korea—not all problems will be solvable within its term in office. An effective policy will aim to strengthen deterrence and defense of the ROK, maintain the external pressure of economic sanctions, and keep the door open to dialogue and diplomacy.

To deal with the possibility of instability or regime collapse, the next administration should work to closely coordinate U.S. and ROK objectives, endstates, and policy responses and, at the same time, make every effort to bring China into the conversation. To date China has considered such official-level discussion to be premature.

The Philippines. In 1992, after the Philippine senate rejected an extension of the basing agreement, the United States closed Clark Air Base and the Subic Bay Naval Base and withdrew its military forces from the Philippines. U.S. military assistance resumed after 9/11, directed to support Manila's counterterrorism efforts in Mindanao and the southernmost islands.

As Philippine concerns about China have increased, Manila has become more willing to expand security cooperation. In 2011, the United States agreed to support programs aimed at enhancing its maritime security capabilities. In 2012, the Balikatan joint exercise took place off Palawan Island, near the contested Spratly Islands in the South China Sea. The United States also transferred two former Coast Guard ships to the Philippines. In 2014, Washington and Manila signed the Enhanced Defense Cooperation Agreement, aimed at “addressing short-term capability gaps, promoting long-term modernization, and helping maintain and develop additional maritime security, maritime domain awareness, and humanitarian assistance and disaster relief capabilities.”³⁶ During his visit to the Philippines in 2014, President Obama made clear that the U.S. commitment “to defend the Philippines is ironclad and the United States will keep that commitment because allies never stand alone.” Obama reiterated the “ironclad commitment” formulation during his 2015 visit to the Philippines. Despite new Philippine President Rodrigo Duterte's recent remarks questioning the value of security cooperation with the United States, U.S. policymakers should exercise patience and remain focused on the long-term interests of both countries.

Moving Beyond the Hub-and-Spokes Alliance System

Since the turn of the century, the U.S. alliance structure has been evolving from the Cold War bilateral hub-and-spokes construct toward a

more open architecture that includes increased cooperation between U.S. allies and active efforts to engage other regional security partners. The United States has supported increased bilateral security cooperation between U.S. allies, most notably between Australia and Japan and Japan and the Philippines; trilateral cooperation among Australia, Japan, and the United States and among Japan, the ROK, and the United States; and quadrilateral engagement involving the Australia, India, Japan, and the United States. Exercises that began in the context of U.S. bilateral alliances have expanded to include a wide range of regional participants, including China (which participated in the 2014 and 2016 Rim of the Pacific exercises).

At the same time, the United States has developed Comprehensive Partnerships with Indonesia, Malaysia, and Vietnam and a Strategic Partnership with Singapore. Japan and Australia, both U.S. allies, have developed similar partnerships with Indonesia, Malaysia, Singapore, and Vietnam. These non-alliance partnerships help to enhance broad-based regional security cooperation and contribute to stability.

Australia, Japan, and the United States are focusing on maritime issues in Southeast Asia and the South China Sea, including maritime capacity-building, maritime domain awareness, joint training and exercising, and port calls. In 2013 the United States committed \$156 million (2014–2015) to support maritime capacity-building in Southeast Asia, including \$18 million to Vietnam.³⁷ In November 2015, the White House announced its intention to enhance capacity-building efforts by committing more than \$250 million over the 2015–2016 period, focused on Indonesia, Malaysia, the Philippines, and Vietnam.³⁸

In November 2015 Japanese and Vietnamese ministers of defense agreed to strengthen defense cooperation, including joint maritime exercise and a 2016 port call at Cam Ranh Bay by Japan's Maritime Self-Defense Force. Earlier, in 2006, Japan, making strategic use of its Official Development Assistance program, sent three patrol boats to Indonesia and in 2012 transferred 10 Japanese Coast Guard ships to the Philippines. Similarly, Australia has used the Pacific Patrol Boat Program to donate aging Australian ships to South Pacific and Southeast Asian neighbors.

One of the most difficult regional security issues is maritime territorial disputes, which are sensitive domestic political issues (but not existential interests) for all the claimants. China's efforts to use military and paramilitary means to expand its effective control of disputed territories and waters pose a challenge to key U.S. interests and principles such as peaceful resolution of disputes, respect for international law, and freedom of navigation. The United States should continue to resist pressure

to take sides in sovereignty disputes and maintain an even-handed approach. However, when countries, including China, take actions that we view as inconsistent with international law, the United States should impose costs, including via official statements, diplomatic efforts to organize opposition to illegal or destabilizing actions, and enhancing security cooperation with regional allies and partners. The United States must maintain its military capabilities and be willing to act to assert its own interest in freedom of navigation, including by military activities that challenge excessive maritime claims. If carried out on a routine basis, there will be less need to publicize each freedom of navigation operation.

Enhancing the rebalance's focus on maritime capacity-building in Southeast Asia will be an important benchmark of the next administration's commitment to regional stability and security. At the same time, given the diversity and complexity of the Asia-Pacific region, alliances and partnerships should not be viewed as being exclusively threat-centric. They can also play an important role in building regional order by strengthening cooperation in dealing with nontraditional security issues, thereby enhancing confidence among states. Efforts to work with allies and partners in enhancing regional security cooperation will strengthen U.S. political and diplomatic leadership in the region.

Shaping the Asia-Pacific Order

Scholars have long argued that the Asia-Pacific region lacks the web of multilateral organizations that have facilitated European integration. Explanations for Asia's under-institutionalization include the region's economic and cultural diversity, mutual suspicions between countries, and the impact of Cold War political divisions. In 1967, the governments of Indonesia, Malaysia, the Philippines, Singapore, and Thailand came together to create ASEAN. For over two decades, ASEAN stood as the lone multilateral institution in the region. However, recent decades have seen the creation of new regional organizations and meetings that may become building blocks for a new regional order.

As the Cold War was ending in 1988, Malaysia's Prime Minister Mohammed Mahathir advanced the concept of an East Asia Economic Caucus that would exclude the United States. U.S. opposition doomed the caucus, but in 1989 Australia, with strong U.S. support, established the Asia-Pacific Economic Cooperation to advance regional trade liberalization. With the establishment of APEC, Asian multilateralism gathered momentum. In 1993, ASEAN created the ASEAN + 3 (China, Japan, South Korea) format, followed by the ASEAN Regional Forum in 1994, the East Asian Summit in 2005, and the ASEAN Defense Ministers Meeting Plus in 2010—ASEAN + Australia, China, India, Japan, New Zea-

land, the ROK, Russia, and the United States. In addition, the annual Shangri-la Dialogue sponsored by the International Institute for Strategic Studies in Singapore has served as a high-level multilateral forum for the discussion of political and security issues.

In 2008, the Bush administration appointed the first U.S. Ambassador to ASEAN, a clear recognition of the growing importance of ASEAN and of the region's expanding multilateral, diplomatic, economic, and security forums. One explicit goal of the rebalance was to increase the U.S. ability to help shape the emerging multilateral architecture in the Asia-Pacific region. The Obama administration has paid particular attention to high-level participation in the region's multilateral institutions and dialogues, with the President, Secretary of State, and Secretary of Defense regularly attending meetings in Asia. Countries across the region have welcomed the Obama administration's sustained high-level attention, but are concerned whether the next administration will place an equally high priority there. U.S. interests would be best served by continued high-level U.S. participation and active U.S. engagement in efforts to shape the regional order.

The Trans-Pacific Partnership

The priority that almost all Asia-Pacific governments place on economic growth means that trade and investment agreements are a critical aspect of international relations in Asia and important building blocks for the emerging regional order. If the United States is not actively engaged, other countries will be allowed to shape regional economic rules, norms, and standards in ways that may work against U.S. interests. The centerpiece of the Obama regional economic agenda has been the Trans-Pacific Partnership, a "gold-standard" free trade agreement. Ten countries reached agreement on the deal in October 2015, but Congress will need to approve the agreement in an up-or-down vote.

Ambassador Michael Froman, the U.S. official in charge of negotiating the agreement, told a Center for Strategic and International Studies audience:

TPP is a critical part of our overall Asian architecture. It is perhaps the most concrete manifestation of the President's rebalancing strategy toward Asia. It reflects the fact that we are a Pacific power and that our economic well-being is inextricably linked with the economic well-being of this region. . . . TPP's significance is just not economic, it's strategic—as a means of embedding the United States in the region.³⁹

Asia Pacific

Similarly, Assistant Secretary of State for East Asian and Pacific Affairs Daniel Russel cast TPP as a “strategic agreement . . . the economic leg and ‘crown jewel’ of the Obama Rebalance Strategy . . . one that convincingly demonstrates that sustained engagement by the U.S., as a Pacific nation, is shaping an open, prosperous, rules-based region.” Russel went on to state, “That’s why TPP is worth as much to Defense Secretary Carter as a new aircraft carrier, as he recently said.”⁴⁰

In interviews across the region over the past 2 years, political leaders, diplomats, and military officials all underscored the strategic importance of TPP as a benchmark of long-term U.S. commitment to the region and the cornerstone to securing a rules-based, open international trading order in Asia. Failure to enact TPP would be viewed as a sign of U.S. strategic withdrawal from the region. Beyond TPP, negotiations with the European Union on the Trans-Atlantic Trade and Investment Partnership (TTIP) will provide the next administration an opportunity to structure a rules-based trade and investment order that includes more than one-third of global gross domestic product. Taken together, TTIP and TPP provide the United States an opportunity to shape a rules-based international economic order that advances its long-term economic and strategic interests.

China Policy: Managing a Mixed Relationship

One of the most difficult policy challenges will be dealing with China, which has the ability to affect a range of U.S. global, regional, and domestic interests. The U.S.-China relationship is marked by a mix of cooperation and competition; the policy challenge is to maximize cooperation in areas where common interests exist, while competing successfully in areas where U.S. and Chinese interests are opposed. Both countries have a strong interest in maintaining an effective bilateral working relationship in order to pursue important global, regional, and domestic goals. High-level leadership will be needed on both sides to keep the competitive and cooperative aspects of the relationship in balance.⁴¹

Cooperation is important for the United States because China has become an important global actor, with the ability to influence the effectiveness of global institutions such as the UN Security Council and World Trade Organization. On some issues, such as climate change and dealing with North Korea’s nuclear and missile ambitions, progress is impossible without cooperation with China. While Chinese leaders view some aspects of global institutions as unfair and are not interested in shoring up U.S. hegemony, they like a rules-based global economic system and view the United Nations as the most legitimate institution of global governance.⁴² China has been one of the biggest beneficiaries of

the open global trade system established by the United States after World War II, which facilitated its economic rise. Beijing seeks to wield greater influence within global institutions, and where possible to work with other countries to adjust international rules and norms to better reflect its own interests and perspectives. Nevertheless, China remains reluctant to take on the costs, risks, and commitments necessary to play a global leadership role; its actions are usually focused on defending narrow Chinese interests rather than aspiring for global leadership. Given that China's main interest in most parts of the world is to maintain stability and secure access to resources and markets, its interests will often be relatively compatible with those of the United States.⁴³

U.S. and Chinese interests are less aligned at the regional level, where there is increasing competition for influence. Over the last decade Beijing has become more critical of the U.S. alliance system, arguing that it reflects Cold War thinking and emboldens U.S. allies to challenge Chinese interests. The U.S. rebalance to the Asia-Pacific and increased U.S. regional security cooperation have stoked Chinese fears of U.S. encirclement or containment. Beijing's proposed alternatives emphasize nontraditional security cooperation and the importance of resolving disputes through peaceful dialogue. Beijing has resisted making any binding commitments that might restrict its military capabilities or ability to employ military power to defend its core interests. Its increasing military capabilities and more assertive approach to maritime territorial disputes have heightened regional concerns about how a strong China will behave, leading most countries to improve their security ties with the United States. If the United States emphasizes its alliances, expanding security cooperation with other partners, and active engagement with regional multilateral institutions, it will be able to deal with Chinese regional security initiatives and actions from a position of strength and successfully resist Chinese efforts to erode the U.S. alliance system.

Although cooperation with China is important, U.S. policymakers should be careful to resist Beijing's efforts to create a U.S.-China condominium or "G-2"-like arrangement. Such an arrangement would be unlikely to last and would probably require unacceptable compromises to accommodate China's so-called core interests (including accepting China's territorial claims to Taiwan and in the South China Sea and East China Sea). Accepting a Chinese sphere of influence or giving the appearance of siding with Beijing against U.S. allies would damage U.S. credibility and compromise the U.S. position in the Asia-Pacific region.

The next administration will have the opportunity to develop a new label for the U.S.-China relationship to replace Beijing's preferred formulation of a "new type of major country relationship." It will be important

to adopt a label that reflects the importance of the U.S.-China relationship but does not suggest that the United States values its relationship with China above its relationships with its treaty allies.

China's more assertive regional behavior is partly the product of misreading global power trends (including the mistaken assessment that the 2008 global financial crisis marked a fundamental shift in the relative balance of power between the United States and China). Current Chinese Communist Party efforts to tighten political control over the Chinese population and restrict the flow of information into China reflect increasing concerns about domestic stability in the face of slowing economic growth. China's successful economic model needs to be adapted to place more weight on markets and domestic demand, but there are widespread concerns that the political system may not be able to push through the necessary reforms. Moreover, past efforts to stimulate the economy in the wake of the financial crisis have created debt burdens at various levels of the Chinese financial system that increase the risk of a major financial crisis.

Although an economic collapse that brings down the Chinese regime is unlikely, the next U.S. President will likely face a Chinese leadership more focused on maintaining domestic stability and less inclined to engage in provocative international behavior. This will heighten the importance of a cooperative working relationship with the United States to give China the space to deal with its internal problems and should give U.S. policymakers more leverage. China will continue its military modernization and regional infrastructure investments through the Asian Infrastructure Investment Bank and One Belt, One Road initiative but may have fewer resources to devote to these efforts. Chinese leaders are unlikely to engage in provocative international behavior to divert attention from domestic problems but will be concerned that other countries may seek to exploit a distracted Chinese leadership.⁴⁴ The result may be an increased interest in stabilizing maritime territorial disputes and avoiding challenges to Chinese sovereignty claims. This approach might also spill over into more interest in engaging with the Democratic Progressive Party on Taiwan to work out an acceptable formulation for cross-strait relations.

Conclusion

Over the next 4 years, the United States will be challenged to maintain its leadership of a rules-based order in the Asia-Pacific region. U.S. diplomacy must play a leading role in strengthening our alliances, partnerships, and regional institutions that widely share the U.S. commitment

to a rules-based order as the foundation of regional peace and stability. The engagement of the highest levels of U.S. leadership with the region will be critical. Allies, partners, and potential challengers will all judge the regular presence of the President, Secretary of State, and Secretary of Defense in the region as a key indicator of U.S. commitment.

The U.S. bilateral alliances with Australia, Japan, the Philippines, the Republic of Korea, and Thailand remain the foundation of our strategic presence in the Asia-Pacific region and need appropriate high-level attention. At the same time, the alliance structure is evolving toward a more open system, with new security partnerships forming across the region. This has been most noticeable in Southeast Asia, where Australia, Japan, and the United States are all engaged in maritime capacity-building with states bordering on the South China Sea. The United States should expand bilateral and multilateral security cooperation with its allies and partners and support their efforts to promote regional security cooperation. Given U.S.-China regional competition, initiatives from other countries may sometimes be the best means of moving forward.

The United States is best positioned to deal with China if it has devoted sufficient attention to its regional alliances, partnerships, and participation in multilateral organizations. The U.S. President will need to engage directly with his Chinese counterpart in order to keep both governments focused on a cooperative agenda and to manage the more competitive aspects of the relationship. The relationship with Beijing will be challenging, but Chinese internal economic and political problems are likely to give U.S. policymakers more leverage. Chinese leaders will remain suspicious about U.S. intentions to contain China. U.S. policymakers should stress that the United States supports open, rules-based regional and global organizations, which will require China's active participation and support if they are to achieve their goals and, at the same time, can help generate international pressure on China to be a constructive participant.

As it has since the turn of the century, U.S. trade and investment in the region will continue to expand. The U.S. economic presence is the ultimate foundation of long-term U.S. presence and commitment. Providing a rules-based order for commerce and investment and, in turn, sustained economic growth is the focus of the Trans-Pacific Partnership. Legislation to provide for U.S. accession is now before Congress. There are many competing studies on the effect of TPP on U.S. growth and employment, and political leadership will be faced with a truly historic decision in terms of U.S. participation. U.S. accession to TPP will be viewed as a test of U.S. leadership and commitment to a trade and investment rules-setting agenda.

Notes

¹ The Association of Southeast Asian Nations (ASEAN) is made up of Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), the Philippines, Singapore, Thailand, and Vietnam.

² The World Bank, “East Asia Pacific Economic Update, October 2015: Staying the Course,” available at <www.worldbank.org/en/region/eap/publication/east-asia-pacific-economic-update>.

³ U.S. Census Bureau, “Trade in Goods with Asia,” available at <www.census.gov/foreign-trade/balance/c0016.html>.

⁴ U.S. Census Bureau, “U.S. Direct Investment Abroad for 2012–2014,” September 2015, available at <http://bea.gov/scb/pdf/2015/09%20September/0915_outward_direct_investment_detailed_historical_cost_positions.pdf>.

⁵ East-West Center, “Asia Matters for America,” available at <<http://www.asiamatters-foramerica.org/overview>>. Note that the Asia Matters for America project includes 40 countries as comprising the Asia-Pacific region.

⁶ Walter Lohman, Olivia Enos, and John Fleming, *2014 Asia Update: What's at Stake for America*, Special Report No. 158 (Washington, DC: The Heritage Foundation, October 8, 2014), available at <www.heritage.org/research/reports/2014/10/asia-update-whats-at-stake-for-america-2014>.

⁷ China's official growth statistics for 1998 and 2008 do not fully reflect this slowdown, which was partly offset by large economic stimulus packages.

⁸ Bonnie S. Glaser, “China's Coercive Economic Diplomacy—A New and Worrying Trend,” *PacNet* 46 (Honolulu, HI: Center for Strategic and International Studies, July 23, 2012).

⁹ Christopher Bodeen, “China's Military Spending Increase to Be Smallest in 6 Years,” Associated Press, March 4, 2016.

¹⁰ State Council Information Office, “China's Military Strategy,” May 2015, available at <<http://eng.mod.gov.cn/Database/WhitePapers/>>.

¹¹ See *Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2015* (Washington, DC: Department of Defense, 2015).

¹² David Shambaugh, ed., *Power Shift: China and Asia's New Dynamics* (Berkeley: University of California Press, 2006); Evelyn Goh and Sheldon W. Simon, eds., *China, the United States, and Southeast Asia: Contending Perspectives on Politics, Security, and Economics* (New York: Routledge, 2008).

¹³ See David Shambaugh, *China Goes Global: The Partial Power* (New York: Oxford University Press, 2013); Phillip C. Saunders, “China's Role in Asia: Attractive or Assertive?” in *International Relations of Asia*, ed. David Shambaugh and Michael Yahuda, 2nd ed. (Lanham, MD: Rowman and Littlefield, 2014), 147–172.

¹⁴ “Remarks by President Obama to the Australian Parliament,” Canberra, Australia, November 17, 2011, available at <www.whitehouse.gov/the-press-office/2011/11/17/remarks-president-obama-australian-parliament>.

¹⁵ Hillary Clinton, “America's Pacific Century,” *Foreign Policy* 189 (November–December 2011), 56–63.

¹⁶ For an analysis of the origins of the rebalance, see Phillip C. Saunders, “China's Rising Power, the U.S. Rebalance to Asia, and Implications for U.S.-China Relations,” *Issues and Studies* 50, no. 3 (September 2014), 19–55.

¹⁷ See the fact sheets from the U.S. Trade Representative's Office, available at <www.ustr.gov/tpp>; Jeffrey Schott, Barbara Kotschwar, and Julia Muir, *Understanding the*

Przystup and Saunders

Trans-Pacific Partnership (Washington, DC: Peterson Institute for International Economics, 2013).

¹⁸ Ashton Carter, "Remarks on the Next Phase of the U.S. Rebalance to the Asia-Pacific," McCain Institute, Arizona State University, Tempe, AZ, April 6, 2015, available at <www.defense.gov/News/Speeches/Speech-View/Article/606660>.

¹⁹ For a recent overview of these activities, see Admiral Harry B. Harris, Jr., commander, U.S. Pacific Command, statement before the Senate Armed Services Committee hearing on U.S. Pacific Command Posture, February 23, 2016, available at <www.armed-services.senate.gov/imo/media/doc/Harris_02-23-16.pdf>.

²⁰ For the Japanese position, see Ministry of Foreign Affairs of Japan, "Fact Sheet on the Senkaku Islands," November 2012, available at <www.mofa.go.jp/region/asia-paci/senkaku/fact_sheet.html>; for the Chinese position, see State Council Information Office, "Diaoyu Dao, an Inherent Territory of China," September 2012, available at <http://news.xinhuanet.com/english/china/2012-09/25/c_131872152.htm>.

²¹ Japan Ministry of Defense, available at <www.mod.go.jp/e/publ/w_paper/pdf/2014/DOJ2014_3-1-1web_1031.pdf>.

²² *National Security Strategy* (Tokyo: Ministry of Defense, December 17, 2013), 1, available at <www.cas.go.jp/jp/siryou/131217anzenhoshou/nss-e.pdf>.

²³ See *Annual Report to Congress 2015*.

²⁴ For an analysis of future scenarios, see Phillip C. Saunders, James J. Przystup, and David F. Helvey, "North Korea 2025: Alternate Futures and Policy Challenges," CSCMA Event Report, February 2, 2016, available at <<http://inss.ndu.edu/Portals/82/Documents/conference-reports/2015-Korea-Symposium-Event-Report.pdf>>.

²⁵ Alan D. Romberg, "The '1992 Consensus'—Adapting to the Future?" *China Leadership Monitor*, no. 49 (Winter 2016), available at <www.hoover.org/sites/default/files/clm49ar.pdf>.

²⁶ ASEAN, "Declaration on the Conduct of Parties in the South China Sea," November 4, 2002, available at <www.asean.org/?static_post=declaration-on-the-conduct-of-parties-in-the-south-china-sea>.

²⁷ See Christopher D. Yung and Patrick McNulty, *An Empirical Analysis of Claimant Tactics in the South China Sea*, INSS Strategic Forum 289 (Washington, DC: NDU Press, August 2015).

²⁸ *Ibid.*

²⁹ *Asia-Pacific Maritime Security Strategy* (Washington, DC: Department of Defense, August 21, 2015), available at <www.defense.gov/Portals/1/Documents/pubs/NDA442015-1300-FINALFORMAT.PDF>.

³⁰ *Ibid.*

³¹ "Foreign Ministry Spokesperson Lu Kang's Regular Press Conference on October 27, 2015," Ministry of Foreign Affairs of the People's Republic of China, October 27, 2015, available at <www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/t1309625.shtml>.

³² *Asia-Pacific Maritime Security Strategy*.

³³ In Japan, North Korea's growing missile arsenal raises similar questions regarding missile defense and deterrence.

³⁴ Brad Roberts, *Extended Deterrence and Strategic Stability in Northeast Asia*, NIDS Visiting Scholar Paper Series, No. 1 (Tokyo: National Institute for Defense Studies, August 9, 2013), available at <www.nids.go.jp/english/publicationvisiting/pdf.01.pdf>.

Asia Pacific

³⁵ Chang Se-jeong and Ser Myo-ja, “Xi Pressed Park on Thaad System,” *Korea JoongAng Daily*, February 6, 2015, available at <<http://koreajoongangdaily.joins.com/news/article/article.aspx?aid=3000595>>.

³⁶ Available at <www.gov.ph/2014/04/29/document-enhanced-defense-cooperation-agreement>.

³⁷ “Resourcing the Pivot to East Asia and the Pacific FY 2015 Budget Priorities,” May 20, 2014, House of Representatives Subcommittee on Asian and Pacific Affairs, Committee on Foreign Affairs, 4.

³⁸ “Fact Sheet: U.S. Building Maritime Capacity in Southeast Asia,” available at <www.whitehouse.gov/the-press-office/2015/11/17>.

³⁹ Remarks by Ambassador Michael Froman at the Center for Strategic and International Studies, Asia Architecture Conference, September 22, 2015, Washington, DC.

⁴⁰ Remarks of Daniel Russel, Assistant Secretary of State, Bureau of East Asian and Pacific Affairs, at the Asia Society, New York City, November 4, 2015.

⁴¹ See Phillip C. Saunders, *Managing Strategic Competition with China*, INSS Strategic Forum 242 (Washington, DC: NDU Press, July 2009).

⁴² Thomasingar, “China’s Vision of World Order,” in *Strategic Asia 2012–2013: China’s Military Challenge*, ed. Ashley J. Tellis and Travis Tanner (Washington, DC: National Bureau of Asian Research, 2012), 342–373.

⁴³ Phillip C. Saunders, “Implications: China in the International System,” in *The Chinese People’s Liberation Army in 2025*, ed. Roy Kamphausen and David Lai (Carlisle Barracks, PA: Strategic Studies Institute, 2015), 301–333.

⁴⁴ John Speed Meyers and Phillip C. Saunders, “Will China Start a Diversionsary War?” unpublished manuscript, April 2015.

