

STRATEGY

A S P I

Building whole-of-nation statecraft
How Australia can better leverage subnational
diplomacy in the US alliance



John Coyne, Danielle Cave,
Justin Bassi and Iain MacGillivray

October 2023

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About the authors

John Coyne is Head of ASPI's Northern Australia Strategic Policy Centre, Strategic Policing and Law Enforcement program and Counterterrorism program at ASPI.

Danielle Cave is Director of Executive, Strategy and Research at ASPI.

Justin Bassi is Executive Director of ASPI.

Iain MacGillivray is a former Analyst in ASPI's Washington DC office.

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ASPI
Level 2
40 Macquarie Street
Barton ACT 2600
Australia

Tel Canberra + 61 2 6270 5100
Tel Washington DC +1 202 414 7353
Email enquiries@aspi.org.au
www.aspi.org.au
www.aspistrategist.org.au



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The problem and the solution

What's the problem?

Australia and the US are both federations of states in which power is shared constitutionally between the national and subnational levels of government. However, traditionally, one domain that hasn't been considered a shared power, but rather the constitutionally enshrined responsibility of the national governments, has been international affairs (in the US Constitution through Article I, Section 10 and other clauses and in the Australian Constitution through section 51 (xxix), known as the external affairs power). For this reason, foreign-policy and national-security decision-makers in Washington DC and Canberra have rightly seen themselves as the prime actors in the policymaking that develops and strengthens the US–Australia alliance and all global relationships, with limited power held by subnational governments.

However, in our globalised and digital world, constitutional power no longer means that subnational governments have only narrow roles and influence on the international stage. While national governments will continue having primary responsibility for setting foreign policy, subnational governments have offices overseas, sign agreements with foreign governments, and regularly send diplomatic delegations abroad. Recent events, including the Covid-19 pandemic, have highlighted subnational governments' decisive role in shaping, supporting, adapting to and implementing national and international policy. The pandemic, including post-pandemic trade promotion, demonstrated that the relationships between layers of governments in both federations are essential to national security, resilience, economic prosperity and social cohesion. Another emerging example can be seen in AUKUS, which—across both Pillars 1 and 2—will require deep subnational relationships (both within and between AUKUS partners) to build political, economic and military systems on a scale that few of the participating governments have seen for decades.

Determining the most effective way to align and synchronise national, state and local interests has become only more complex in recent years. Subnational governments in Australia have significantly increased their direct relationships with foreign governments. While they have mostly sought economic benefits, some of their interactions have been inconsistent with national-level policy and even unwittingly supported the strategic objectives of foreign rivals and adversaries.¹

In an age of continuous and concurrent crises, national resilience and preparedness are increasingly crucial for nations such as Australia and the US. A more collective and collaborative approach to statecraft and national security is needed that more strategically engages, and seeks to foster greater synchronisation across, all levels of government. This report argues the Australian federal government should better leverage the opportunities and mitigate the vulnerabilities of subnational diplomacy (the engagement of state and local actors in foreign policy, also known as 'paradiplomacy'²). This will require the federal government to put in place more mechanisms to anticipate, prevent and respond to any inconsistency.

What's the solution?

Subnational governments have vital roles to play in helping to maximise national capability, increase trust in democratic institutions, mitigate security threats and build broader and deeper relationships abroad. At the subnational level in Washington and Canberra, people-to-people, cultural and economic links create the deep connective tissue that maintains relationships, including those vital to the US-Australia alliance, no matter the politics of the day. But that subnational interaction must be consistent with national defence and foreign policy.

The US–Australia alliance and associated partnerships—AUKUS in particular—need grassroots, local-level support that subnational governments can help build and maintain. This is vital, as the building and sharing of economic activity, industrial bases, technological innovation, problem solving and workforce education and skills development that is needed for both countries and AUKUS to thrive will take place not just in Canberra and Washington, but in diverse locations spread throughout cities and remote areas across both large countries.

The US and Australian national governments—both separately and together—should identify how to increase collaboration with subnational levels to harness the power of collective action for economic prosperity and national security. Such collaboration will also help Australia prosecute its overarching global objectives in Washington DC, including keeping a US Government that’s pulled in many directions focused on Australian priorities, such as the security and stability of the Indo-Pacific and on major initiatives such as AUKUS. Encouraging and sharpening that focus is in the interests of Australia’s subnational governments as well.

Australia’s federal system should help facilitate such international engagement and incentivise positive engagement while ensuring that the necessary legislative and policy levers exist to require the subnational layer to conduct essential due diligence that prioritises the national interest. Such an approach doesn’t remove competition between subnational governments (for example, for hosting defence infrastructure projects or international summits), but it ensures that competition, as well as collaboration, is taking place within an agreed and secure framework.

In this report, we make a series of policy recommendations (see page 17) that will support the development of such a framework. While these recommendations focus on Australia, some are relevant for the US Government as well. We recommend the governments of the US and Australia place subnational diplomacy on the AUSMIN agenda, and that the intergovernmental National Cabinet (a forum led by the Prime Minister and involving every Premier and Chief Minister, previously called COAG - the Council of Australian Governments) ensures it continuously scopes out space on its agenda to focus on international affairs and security challenges.

We recommend Australia establish a branch within the Department of Foreign Affairs and Trade (DFAT) focused on subnational diplomatic coordination and consider appointing an Ambassador for Subnational Diplomacy (the US appointed a special representative for city and state diplomacy in 2022 based in the Department of State). We make a number of other recommendations including that DFAT offer a rotating secondment into each state and territory government, a small team within PM&C be established dedicated to supporting subnational AUKUS engagement and activities and that Australia’s intelligence community continue to build subnational outreach and engagement, including using the 2024 Independent Intelligence Review to explore whether new subnational mechanisms are needed, for example, to support Australia’s preparedness in the face of a crisis.

For Australia, a medium-sized democracy that’s increasingly focused on using all the tools we have at our disposal, a coordinated, whole-of-nation statecraft³ includes better leveraging the opportunities presented by subnational diplomacy.

Introduction

Maintaining long-term and mutually beneficial relationships between nation-states is equal parts art and science. At their core, nation-states use dialogue and communication to influence the decisions and behaviour of foreign governments to their benefit.

National policymakers in both Canberra and Washington DC often consider themselves the sole arbitrators of foreign-affairs, national-security and defence policy. Yet, both nations are federations of states, in which significant power resides in subnational governments. In both countries, the impact of policies and decisions of subnational governments and other institutions isn't limited to domestic affairs, but has the potential to either complement or interfere with the international objectives of the national governments in all fields, from the economic and industrial to the defence and diplomatic.

Covid-19, including pre- and post-pandemic trade-promotion efforts, demonstrated that state governments retain significant importance and power. Despite Covid being a *national* health crisis, the onus in both the US and Australia was on state governments to implement lockdowns, border controls and other public-health measures within their jurisdictions.⁴ From an Australian perspective, there was even a case in the High Court⁵ that at one point pitted the federal government against the state government of Western Australia (WA) in relation to that state's decision to bar not only foreign nationals but Australian citizens from entering WA.⁶ While the federal government withdrew from the case, the court found in favour of the state's right to close and open its border during epidemics, notwithstanding national policy.⁷

Similarly, in the US, each state enacted its own policies for working with federal authorities to implement, restrict or loosen health measures during the pandemic.⁸ While there was some general coordination regarding public safety, a few US states devised their own policies, which illustrated the complex nature of federalism and tensions between legislative jurisdiction and responsibility within the US.⁹

While many Covid-19 examples of national and subnational disagreement were domestically focused, they also affected both US and Australian international relationships, given the impact on matters such as visas, border restrictions, diplomatic relations and global supply chains.

State, county, territory and municipal governments have long engaged in subnational foreign policymaking in trade and investment, aid and industry policy. While each subnational government's success and influence vary, the volume and variety of connections in Australia and the US are increasing¹⁰—a trend highlighted during workshops and meetings on subnational diplomacy that ASPI's Washington DC office held in 2022–23¹¹ (which were supplemented by meetings and dialogues with Australian and US officials in the United States and also with meetings and dialogues undertaken by ASPI across Australian states and territories during that same period). Premiers, governors and mayors across the US and Australia regularly build and maintain relationships with foreign counterparts and entities to develop stronger interlinkages.¹² Economic incentives and opportunities typically drive subnational engagement. Several US and Australian states are active in international economic diplomacy, including through hosting and sending trade missions. Those efforts have the potential to either complement or contradict national-level policymaking and foreign relations.¹³

Such subnational diplomatic efforts extend far beyond economic relationships. Subnational engagement also occurs in the foreign-affairs, national-security and military domains. There appears to be growing recognition,¹⁴ for example through resourcing and initiatives within the US State and Defense departments, of the importance of understanding and engaging at the subnational level. Notably, in Australia, foreign defence actors such as the Singapore Armed Forces, the US Department of Defense, the US Marine Rotational Force—Darwin and INDOPACOM all engage (of course) with their federal counterparts but also with Australian state and territory governments in areas of mutual interest, such as force posture initiatives and military exercises.¹⁵

But subnational diplomacy also creates vulnerabilities for federated states such as Australia and the US, which is why guidance and clear mechanisms are needed. Today, countries such as China, Russia and Iran seek to rewrite the rules-based order to achieve their strategic objectives. Authoritarian regimes see strength and unity of purpose through their own centralising of power across layers of government and by fusing sectors, while they see inherent weakness in the decentralisation of democracy and federalism. They blur the lines between trade, diplomacy and national security—as well as between civil and military activities—and they have long held the view that they operate in that grey space more effectively than their democratic or federated rivals, which not only have national and local elections but also often vast subnational differences that can be exploited both for economic gain and to foster societal division and distrust in democracy.

National governments need to consistently engage subnational levels to ensure widespread understanding that not all economic opportunities are automatically consistent with federal government policy and strategy. Because economic relationships between subnational governments and other nations can lead to decisions and commentary from local leaders that's at odds with what's in Australia's national interest, mechanisms must exist to anticipate, prevent and respond to such inconsistency if and when it arises. The authoritarians' understanding of how our federal systems work is a vulnerability for our defence, foreign and security policies and practices that requires political will and discipline, diplomatic strength, coordination and operational intelligence skill to counter.¹⁶ It also requires governments at all levels to engage with due diligence in full knowledge that, where foreign nations and entities can't influence the decisions of federal governments, they may seek to undermine national policy and trust in federal institutions through engagement (both overt and covert) in economic, political and cultural subnational diplomacy.

This report examines the nature of the US and Australian federations to explore the opportunities and challenges that those modes of government present for diplomacy, economic security and national security. We include sections outlining federalism in both countries, the challenges of federalism and subnational engagement, and the importance of subnational diplomacy to realising AUKUS. The report also includes a range of case studies and policy recommendations. We argue that subnational government participation in foreign affairs, national security and defence will be an increasingly important part of any practical whole-of-nation approach to securing Australian and US national interests, building national resilience and helping to strengthen the US–Australia alliance. State, city and local officials have significant opportunities to shape domestic, international and transnational issues. Federal governments should harness that capability. However, as with all international engagement, it must be done with due diligence and transparency for it to be in the national interest.

Methodology

This report was informed by qualitative research and workshops, roundtables and dialogues hosted by ASPI's Washington DC office and by ASPI staff across Australia in 2022 and 2023. The research and data collection included a December 2022 one-day dialogue titled 'Paradiplomacy, defence and national security: implications for the US–Australia alliance'.¹⁷ That closed-door Track 1.5 event was attended by Australian and US government officials, as well as academic experts on subnational engagement and US foreign policy.

Other inputs into this research included meetings and dialogues with Australian trade offices and US officials in the United States. It also involved regular engagement with representatives of Australian states and territories – in both Australia and Washington DC – to better understand their approaches to subnational diplomacy and their international connections, especially their networks and engagement with the US.

Why understanding subnational engagement is essential

Federalism is a system of government in which ‘sovereignty is constitutionally shared and powers divided between an overarching central government and the governments of a set of constituent units, each of which enjoys a direct relationship with the people.’¹⁸ This diffusion of power between federal, state, city and local governments creates room for policy variety, accommodates diverse viewpoints across the nation, allows subnational governments to tailor policies to local needs and preferences, and encourages the political participation of citizens.

Federalism is simultaneously robust and messy, but democratic accountability underpins its integrity. Local and state policymaking often results in unique decisions due to citizens’ greater participation at those levels and lawmakers’ responsiveness to their demands. Tensions can arise between different levels of government, as power is distributed and competing policy priorities shape agendas. The devolution of power ensures that subnational leaders can tailor policies to meet state, city and local community needs. Still, it comes with an increased risk of local approaches and policies clashing with federal priorities. When occasional differences and disagreements are managed effectively, that can demonstrate the strength of our open societies and national resilience. However, if such differences aren’t managed effectively, that can lead to increased distrust and division.

Federalism in the US and how it informs subnational diplomatic activity

While the US and Australian federal systems share many characteristics, the dispersal of power and responsibilities varies between them. Since the 1960s, the US Government has allowed state governments to shoulder the burden of economic and social policy.¹⁹ Historically, foreign governments have viewed the US national government in Washington DC as their primary point of engagement; an understandable approach given both history and the perceived complexity of the US federal system. But this approach fails to recognise that so much of the power in the US system lies with the 50 states, county officials and big-city mayors’ offices. Federalism in the US can seem chaotic, but it can also be a source of strength when operationalised correctly.

In the US, states have always been essential conduits for policymaking and the providers of on-the-ground implementation:

Many of the most important [US] federal policy changes—including ending slavery; expanding marriage rights, voting rights, and civil rights; changing health-care access, reproductive rights, and welfare coverage; reforming public education; and protecting the environment—were first tried at the state level, making states what US Justice Louis Brandeis called ‘laboratories of democracy.’²⁰

Federalism in the US is politically driven and transactional, as ‘states are focused on security, influence and protecting their autonomy’.²¹ State identity plays a tandem role with national identity, in which dual loyalty between the state and federal government can affect the prioritisation of interests.

Partisanship and party-level identity have recently dominated the state and federal government relationship. Partisan politics determines how the states and federal government work together. That dynamic can divide along cultural, social and ideological lines. However, national security and defence are areas in which there has been more consensus across the political divide at the state and federal levels.²² Dated concepts of national security underpin that consensus, however; for example, the idea that national security is predominantly focused on the use or threat of use of military forces or action and so requires little input from subnational governments. Those concepts must evolve to address how some nations use all the mechanisms of both the private and public sectors to achieve their strategic aims.

State and local politicians increasingly seek out like-minded partners across the globe to partner on issues that might not be the day-to-day priorities of Congress or the White House — ‘states have far more influence than is commonly recognised, and they are poised to build on it in the years to come.’²³ The states will continue to engage in international affairs by brokering agreements and partnerships in critical sectors such as environmental protection, energy and education.

The Biden administration, and parts of the bureaucracy, are increasingly adopting a whole-of-nation approach to foreign affairs, national security and defence.²⁴ There’s a growing recognition, for example, within the US State²⁵ and Defense departments of the value of understanding and engaging at the subnational level, and that has included boosting resourcing for subnational diplomatic efforts and related activities. In 2022, the State Department appointed former Los Angeles Deputy Mayor for International Affairs Nina Hachigian as the first-ever Special Representative for City and State Diplomacy.²⁶ She leads a new subnational diplomacy unit that was also established in 2022.²⁷ In another very practical example of subnational diplomacy, the US Force Posture Initiative Office and representatives from US Indo-Pacific Command regularly engage with Northern Territory (NT) Government officials on matters related to investment and training exercises.

Federalism in Australia and how it informs subnational diplomatic activity

Australia’s federal system was heavily influenced by the US system and therefore some similar challenges exist but, having been born out of a contrasting historical circumstance, there are also subtle differences relating to the sharing and decentralisation of power between the national and subnational levels.

Australian federalism is informed by a rich history built on the practical and philosophical concerns of integrating the six colonies in the lead-up to their federation in 1901.²⁸ Australia comprises six states and two territories, but the Australian federal system is politically modern.

Australia’s federal system combines the US-style federal structure and the Westminster tradition of responsible government in what’s commonly known as the ‘Washminster system’.²⁹ The Australian Constitution lays out which powers are controlled by the federal government and those that lie beyond the purview of the states, which themselves have no explicit list of powers.³⁰

Federalism in Australia is generally a revenue-sharing and taxation negotiation process between the state and federal governments.³¹ There are numerous formal and informal councils, such as the former Council of Australian Governments (COAG), conferences and, more recently, during the Covid-19 pandemic, a National Cabinet to tackle pandemic-related challenges.³² This is encouraged by joint programs, taskforces, formal and informal agreements and connections between political parties, ministers and bureaucratic counterparts from state and federal authorities. Local governments informally and formally interact with national partners but do so more frequently and formally with state governments. Indigenous groups in Australia currently don’t have a similarly formalised framework of engagement. This isn’t to say that state and territory governments don’t actively engage with traditional owners.

Although there’s a general national emergency-management framework, state and local authorities in Australia coordinate emergency management with their federal counterparts in times of crisis. Resource allocation focuses on preparedness for, response to, recovery from and mitigation of national emergencies. Examples include the 2019 Australian bushfires and the 2022 floods, when federal and state authorities coordinated with local authorities to overcome systemic challenges. Australian and US states also cooperate with each other, and with entities in other nations, to provide human, technical and aerial resources for fighting bushfires and wildfires.

With changes in Australia’s strategic context and the spectre of continuous and concurrent crises (especially disasters and climate change), there’s increased discussion of such issues as resilience, readiness, preparedness and mobilisation. Answers to these policy challenges involve whole-of-nation approaches.

State and local officials and governments have increasingly crucial roles in preparedness and resilience in defence and national security. They possess greater policy agility and capacity to harness multistakeholder collaboration. This is particularly evident in the case of supporting the development of resilient critical multi-user infrastructure, such as ports, roads and rail systems. Financial factors primarily drive Australia's states and territories' interests in these policy areas.

Australian subnational governments regularly engage with international interlocutors, especially on economic and cultural issues. This form of diplomacy includes state-led engagements with US counterparts and regional countries, such as China and India, that provide economic opportunities and that have large diaspora communities in Australia. For example, in October 2023 the Northern Territory Government signed a Memorandum of Understanding with the Kerala State Government, India to develop further economic, social and cultural relationships. Skilled medical professionals from Kerala are critical to the NTs health care system especially in Central Australia.³³

In their diplomatic efforts, Australian states and territories pursue specific political and economic outcomes, sometimes in ways that cut across national priorities. For example, defence, national security and trade generally fall into the bailiwick of the Commonwealth. At the same time, states engage in trade, economic agreements, health, cultural, climate, social policies and responses to natural disasters. During our research, some states and territories reported that they believed that the federal government could better recognise the importance of subnational engagement; for example, they often cited challenges with engaging with the federal government in Canberra prior to international travel. Equally, they also noted that support for their engagement from Australia's embassies was strong during that international travel.

Challenges of federalism and subnational engagement

Federal systems face vertical and horizontal coordination and collaboration challenges, especially in crises. The national government is responsible for administering foreign policy in the US and Australia, but, as the lines between international and domestic policy blur, engagement by subnational government actors on the global stage is increasingly common.

Subnational engagement has become much more than sister-city relationships between metropolises. Today, state and local stakeholders act in ways that affect national strategic interests, introducing the risk that subnational governments may work unintentionally without regard for broader national interests or considering the geopolitical consequences of their policies.

Several challenges exist regarding better state/local–federal defence and national-security engagement. Coordinating federal defence and national-security interests with state economic incentives poses challenges. Subnational diplomatic engagement often appears as a dynamic, fast-tracked and targeted strategy to secure trade and investment opportunities that bring money and employment to local areas, and votes for premiers, governors and mayors. Those advantages risk being offset by the possibility that localised decision-making can obstruct federal efforts to develop and articulate coherent policy positions. Here, policymakers must keep their respective constitutions' nuances in mind. In the defence and national-security space, while federal policymakers assume that arrangements based on local-level politics and economic priorities must align with broader Australian and US strategic priorities, they should recognise the risks inherent in a rapidly changing strategic environment.³⁴ Achieving alignment while remaining cognisant of risk shouldn't require legislation as a first resort but rather collaboration, communication, information sharing and negotiation.

Federalism in liberal democracies means that state and local governments always seek to maximise their interests. The federated systems of the US and Australia, and their diffusion of power between local authorities, states and the federal governments, make them inherently vulnerable to inconsistent and divergent policies, and sometimes political interference from foreign actors.

Although the US and Australian federal governments have taken a firm stance on China, unilateral measures by subnational governments have introduced unpredictable variables for the national governments. At times, state leaders promote state interests despite conflict with national-level authorities—as when former California Governor Jerry Brown travelled to Beijing to discuss climate action with Xi Jinping following former President Donald Trump’s decision to pull out of the Paris Agreement.³⁵ In October 2018, the Australian state of Victoria signed a memorandum of understanding (MoU) with the government of the People’s Republic of China (PRC) on China’s Belt and Road Initiative, reportedly without consultation with the Australian Government.³⁶ Those cases underscore how subnational diplomacy can collide with national foreign policy. Moreover, they highlight ‘some of the political and constitutional challenges that a federal system confronts when trying to manage relations with the PRC in the “New Era” of Xi Jinping’.³⁷ In large part due to China’s use of subnational diplomacy, the Australian Government rapidly introduced the Australia’s Foreign Relations (State and Territory Arrangements) Bill 2020. Under the legislation the Victorian MoU was found to be inconsistent with national foreign policy.³⁸ This is an example of where legislation can be used to ensure consistent outcomes across federal systems. Such legislative sticks are often a last resort, but they are an important last resort, to be used after consultation and compromise have failed.

Challenges also arise in Australia when subnational governments prioritise economic opportunities that conflict with national-security concerns through trade and investment relations with foreign states. Beijing has systematically successfully competed for investment opportunities across all Australian states and territories, often without federal government oversight.³⁹ The March and April 2023 delegations to China led by then Victorian Premier Dan Andrews and then WA Premier Mark McGowan demonstrated China’s adept use of subnational diplomacy, at a time when its bilateral relations with Australia remained complicated. In subsequent reporting, it was highlighted that Andrews took no journalists with him on his four-day trip, and he didn’t raise the arbitrary detention of Australians Cheng Lei (she was released 11 October 2023)⁴⁰ or Yang Hengjun while in Beijing (Cheng Lei’s family lives in Victoria).⁴¹

The opportunities presented by subnational engagement

It's easy to read the first sections of this report as a cautionary tale. However, subnational diplomacy has brought untold value to Australia and the US. In developing this paper, ASPI identified many useful subnational-engagement case studies that lessons can be drawn from - both opportunities and challenges - and some of these are outlined below. Each example demonstrates potential opportunities for incorporating state and local governments into the defence and national-security framework to build resilience and secure the future of the US–Australia alliance.

The importance of subnational diplomacy to realising AUKUS

Arguably, the next great collaboration between Australia and the US will be one co-led by both government and industry—something AUKUS is enabling. It's at the industry level where we see subnational governments performing key roles, often aligning with bidders for federal defence contracts to establish local manufacturing facilities or other local outcomes such as through land, environmental and zoning policies. They're also obviously the primary providers of the social infrastructure needed for such ecosystems to thrive.

From an Australian and US perspective, state and territory governments will be vital enablers for the AUKUS pillars and the implementation of Defence's 2023 Defence Strategic Review. South Australia's support for defence industry has been critical to its success and will be essential for future growth in investment, infrastructure and workforce. The NT Government has supported US force posture initiatives and Defence projects, proactively investing in much-needed infrastructure such as its Darwin ship lift and marine industry park. Moreover, all Australian state and territory governments will continue to be responsible for creating the social infrastructure (including schools, hospitals and housing) needed for AUKUS and the implementation of the Defence Strategic Review. In the US, private shipyards must do much of the heavy lifting for building and maintaining the submarines that are being planned as a part of AUKUS Pillar 1. Many private shipyards are based in Connecticut, Virginia and Washington state shipbuilding communities. Of particular importance, state and territory authorities in both countries are critical partners for the US and Australian federal governments in maintaining a social licence for AUKUS.

States in the vanguard of critical-mineral development and supply-chain resilience

Critical minerals are another economic sector that illustrates the vital role of subnational diplomacy. Critical minerals are essential to modern technologies, economies and national security, and the security of critical-minerals supply chains has become a global strategic issue as their importance has grown.⁴²

The US and Australian federal governments have actively pursued strategic policies to develop the security of their critical-minerals and rare-earths supply chains. In Australia, state and territory governments own the minerals in their jurisdictions. Therefore, mines are developed and regulated through the states and territories. Implementing the necessary projects to bring federal critical-mineral policy alive, including offtake agreements and finance, sits squarely with subnational governments. Numerous Australian rare-earths and critical-minerals companies in Australia are working with the WA, NT and Queensland governments to develop their states into critical-minerals hubs. A key element of this activity is engagement with foreign governments. For example, the NT Government actively engages with the Korean and Canadian governments (including through regular trade delegations and official visits from the NT's chief and deputy chief ministers) to promote investment and to de-risk projects through regulatory assurances on environmental, social and corporate governance.⁴³

State governments are leading the charge for Australia to mitigate global reliance on critical minerals sourced from China.⁴⁴ With continued investment at this level, it will be possible for Australia and the US to diversify their supply chains, especially in an era when critical minerals and access to them are a priority for strategic and defence concerns. For the US, which is seeking to meet its need for secure and resilient critical-mineral and rare-earth supply chains, engagement with Australia's subnational governments is essential (see box).

Defence engagement with subnational diplomacy: the NT, the US Defense Department and strategic fuel reserves

In September 2021, Crowley Solutions, a US-based logistics company, won the competitive tender from the US Defense Department for the East Arm fuel-storage facility in Darwin, which by the end of 2023 is expected to hold 300 million litres of military jet fuel.⁴⁵ This strategic fuel reserve will be used as a forward-deployed strategic storage facility to support US defence activities in northern Australia and the broader Indo-Pacific.⁴⁶ After signing a long-term lease for the land and securing approval from the NT Government, the Crowley project will have created around 400 jobs during construction. It will create 20 additional full-time jobs when completed.⁴⁷ The project is a prime example of how state governments and industry can use their resources to enable the development of strategic and logistical nodes to meet US and Australian military requirements.⁴⁸

The collaboration between the Defense Department, the NT Government and industry partners symbolises the benefit of subnational diplomacy to defence and national-security priorities. NT Government support has expedited the development of this project, demonstrating how subnational governments can facilitate investment to build strategic assets that benefit the US and Australia simultaneously.

The US and Taiwan: securing semiconductor supply chains

A mature example of how subnational relations can secure mutual economic and security interests in critical technology areas can be found in the relationships between Phoenix, Arizona, Taiwan and the US Government.

Taipei and Phoenix have been sister cities since 1979,⁴⁹ following the Eisenhower administration's post-World War II 'People-to-People' diplomacy program.⁵⁰ In 2019, as Taipei and Phoenix celebrated their 40-year sister-city relationship, Phoenix's Democratic mayor reportedly met Taiwan Semiconductor Manufacturing Company (TSMC) executives during a trip to Taiwan to celebrate the relationship.⁵¹ Within two years, TSMC had begun the construction of a fabrication plant worth a reported US\$12 billion in Phoenix, reportedly lured to Arizona by 'business-friendly taxes, a skilled workforce and existing support programmes for overseas companies'.⁵²

US federal government policy—through the CHIPS Act—then incentivised TSMC to triple its investment to US\$40 billion in 2022,⁵³ demonstrating how federal governments can leverage subnational diplomacy and investment to support national-security investment priorities. Arizona's 2023 opening of a trade and investment office in Taiwan to manage economic collaboration and foreign industry investment further illustrates the depth and utility of subnational governments in building and maintaining critical economic, cultural and political relationships.⁵⁴

TSMC's decision to invest in Phoenix was driven by many factors. In addition to economic and tax incentives, they included the opportunity to enter into a public-private partnership with Arizona State University. The university is a significant source of highly skilled graduates in engineering fields, and this public-private partnership supports TSMC's manufacturing activities.⁵⁵

The plant's economic value remains despite complications, including recent reports that the beginning of manufacturing operations has been delayed from 2024 to 2025.⁵⁶ Such delays aren't surprising in such an advanced industry, especially as the Phoenix plant was TSMC's first mega-site development outside of Taiwan.⁵⁷ Differences between Taiwanese and US business culture and construction standards have further contributed to the delay. Those problems aren't unique to this type of venture, and, in part, reflect its significant scale.

This significant subnational engagement that was, at least partially, facilitated by the longstanding sister-city relationship between Taipei and Phoenix exemplifies how long-term business and cultural exchanges between cities in different countries can be used to support shared economic and security priorities. More specifically, this example demonstrates:

- how past choices to deepen subnational ties may produce positive outputs for broader economic and national security in the future
- how the complementary relationships between subnational and federal policies and the federal government can stimulate and incentivise advantageous subnational policies and relationships
- how an 'ecosystem' of subnational relations evolves through repeated and regular cultural and business exchanges between local counterparts that build and foster trust, particularly when such ecosystems are being built where a strong and longstanding positive bilateral relationship already exists (given their sharper economic and commercial focus, subnational governments can often secure funding and bring about action faster than federal governments).

Australia and the US should seek to learn lessons from these types of economically driven and security-enabling subnational partnerships, both from their success and the challenges they have faced (and may continue to face). Those lessons could help inform future approaches and the development of similar ecosystems, especially in the critical technology space and with the potential opportunities presented by AUKUS Pillar 2.

The way forward

Disunity and misalignment between federal and state governments on foreign affairs, national security and defence form a broad challenge with which federal governments will have to continuously contend. Such misalignment is in no one's interest, as it breeds distrust and it confuses the populace about national policy priorities. Disunity also heightens the effectiveness of anti-US–Australia alliance, anti-national-security and anti-AUKUS misinformation and disinformation campaigns that can gain traction, especially online.

For the US and Australia, building a shared understanding of national-security objectives and risks across federal, state and local governments can mitigate external efforts to influence and divide. Operating at a granular level helps provide social licence for projects such as AUKUS that need not only state and federal authorities to work together but also significant investment and material capability to achieve their aims.⁵⁸

Globalisation is here to stay, as is subnational governments' engagement with the outside world, including foreign governments. Nurturing priorities and ensuring that state and local leaders are brought into and can contribute to national security and defence is essential to combat both policy misalignment and malign influence from regional actors.

To deal with the challenges posed by malign actors in the global international order, governments in the US and Australia must bring the local and the global together. If strategic adversaries such as China, Russia and Iran can target the vulnerabilities of our federal systems, the US and Australia must act to mitigate those risks. To prevent foreign rivals from taking advantage of the openness of the Australian and US federal systems, increased effort within both countries is required to align federal, state and local governments on the economic and security benefits of intergovernmental integration. Federal policy must incentivise state leaders not to fall victim to approaches that undermine national policies. Instead of dictating a national-security message, the default position should be for US and Australian federal-level foreign policymakers to collaborate with and synchronise, not control, subnational diplomacy efforts. Unity of purpose is best achieved by accepting the nature of each country's federated model and Constitution, maximising the potential for federal governments to use a range of new policy levers.

Federal governments must find ways to include subnational governments in foreign-affairs and national-security conversations and allow them to find synergies between economic opportunities and defence and national-security priorities. A particular focus must be on securing access to alternative sources of capital, including direct foreign investment.

Work is already underway to achieve this. In 2018, for example, then Prime Minister Malcolm Turnbull actively engaged American governors and municipal leaders to work around challenging engagement with his direct counterpart on specific topics, such as climate change.⁵⁹ Such approaches and linkages must also become standard for the national security and defence sectors. Enhanced subnational linkages would support a more consistent and practical approach to the challenges that the US and Australia face in aligning their respective industrial bases, supply chains and workforce planning.

Australia's states and territories approach policymaking with a clear-eyed focus on their economic and social geography. In the case of defence, the federal government might own the physical and policy space 'inside the wire' of Defence's bases and training areas. However, all activities beyond that physical and policy space require that the federal government engage with subnational governments on public, social and economic infrastructure created or overseen by them. Literally thousands of decisions are made every day across local bureaucracy, which then brings those officials into contact with foreign governments (and foreign companies, including some that are partially or fully state owned or state linked). Those decisions might not directly affect

national diplomatic objectives very often, but there's always potential that some will. Because they essentially 'own' the geographical space, states' and territories' engagement with a restructured approach to diplomacy would most definitely need the right incentives, as noted in this report.

Generally, national–subnational negotiation and alignment can be problematic. Australia's governments do their best when a crisis materialises, when everyone can collaborate and synchronise to meet a common purpose. When that's absent, negotiations are difficult, and states and territories tend to underinvest effort, time and suitably senior people in those negotiations. The key for Washington's and Canberra's federal policymakers is finding the right incentives for success. Otherwise, structures might have the right purpose but won't necessarily change behaviours, as hoped.

This report makes the argument that there's a need to conceptualise national policymakers' understanding of what diplomacy in 2023 and beyond means. Australia's economic and political system is based on people, businesses, non-government organisations and all levels of government being self-interested actors. Those dynamics determine untold numbers of decisions daily and underpin the real strengths of our economic and political systems. Here, there's possibly a need to develop a more nuanced or segmented view of diplomacy, from the 'big D' diplomacy of genuine national self-interest that's fundamental to national security and economic progress, down into diplomacy connected to investment and trade flows, and then the cultural connections built on the back of successful migration flows over decades.

Conclusion and Policy Recommendations

Subnational governments' participation in foreign affairs, defence and national security will be an increasingly important dimension of whole-of-nation approaches to securing national interests, building national resilience and strengthening the US–Australia alliance. The characteristics of the federal system should be more soundly understood and used as foreign policy tools within the alliance. Subnational collaboration and diplomacy can aid mutually beneficial political, economic and social activities and develop national resilience in the face of the challenges that Australia and the US will face in the coming decades.

More importantly, subnational governments are a valuable conduit to overcome bureaucratic hurdles in building necessary defence architecture in Washington DC and Canberra, which will be particularly vital for realising the full potential of AUKUS. This is why utilising the benefits of the federal system - while remaining fully cognisant of its vulnerabilities - to foster a network of close economic, political and civil-society ties between subnational governments in the US and Australia is essential for regional security and the broader alliance framework.

Some of the below recommendations are specific to the US-Australia relationship (and some are specific to AUKUS), but most are broader and would benefit Australia's overall approach to subnational diplomacy.

While most recommendations focus on what the Australian federal government and its agencies can do, the onus is not one way. States and territories need to more proactively and continuously engage their federal counterparts and stakeholders – especially through DFAT state and territory offices – before, during and after engagement with foreign governments. This is not limited to overseas visits (where often the states and territories are already engaging Australia's embassies and offices overseas) but also highly relevant to their engagement with foreign diplomats in Australia whose job is to influence Australia's political class to the benefit of their home government. This is why we see active engagement from Ambassadors seeking to influence new state and territory government leaders early in their terms (for example, two weeks after becoming the new premier of Victoria, Jacinta Allan met with the Chinese Ambassador who stated that 'Victoria has long been at the forefront of cooperation with China.' The new Victorian premier said 'our relationship with China is deeper than just trade – it's a partnership built on respect, trust and friendship and one that benefits all Victorians in every sector').⁶⁰

- 1. AUSMIN:** The US and Australia should place subnational diplomacy on the AUSMIN agenda. This would help ensure a collaborative approach is taken within each country, and between the US and Australia. It should cover the whole-of-nation effort required to use national capability, promote national resilience and counter foreign interference most effectively. This should include identifying national and collective means to mitigate malicious actors' efforts to undermine the alliance and shared US–Australian interests through subnational diplomacy.
 - Where appropriate, the US and Australian governments should seek to bring in senior representatives from subnational governments to join select AUSMIN related discussions and activities (such as 1.5 track dialogues).
- 2. New subnational diplomacy branch in DFAT and new Ambassador:** the government should consider establishing a new branch within DFAT focused on subnational diplomatic coordination to synchronise and support Australian state and territory engagement with foreign governments. This branch would support DFAT state offices and subnational governments engaging in diplomatic activities.

- The Foreign Minister and DFAT should also consider appointing an Ambassador for Subnational Diplomacy. This role would engage closely with the states and territories, promoting the importance of a collective and coordinated foreign policy. The federal government should consider both senior public servants for this role but also be open to the fact that the best person might be someone from the states and territories (who has experience engaging at both the federal and subnational level). Where appropriate this Ambassador could join select, high level state and territory delegations on overseas trips. This new position could also play an important domestic public diplomacy role, helping to explain key decisions to stakeholders in the states and territories, including industry and the public.
3. **Secondments into state governments:** DFAT should offer secondments into the state and territory governments. These could be one-year rotating secondments in which DFAT officers already undertaking a posting to a state office (DFAT has offices in every Australian capital city⁶¹) could spend their first year seconded into the state government into a relevant international team (given limited resourcing this recommendation is not to create new DFAT positions in each state or territory, but rather to extend already existing domestic postings by 1-year). After that year, those officials would then move to their positions in the DFAT state office, bringing new perspectives, relationships and a deeper understanding of how the states and territories engage globally back into the department.
 4. **New team in PM&C focused on subnational AUKUS engagement:** the government should consider creating a new, small team within the AUKUS policy area of PM&C's International & Security Group dedicated to supporting, streamlining and better synchronising subnational AUKUS activities and engagement. This team would obviously work closely with other relevant departments and agencies, most particularly the Department of Defence which should offer to second staff to set up this team.
 5. **National Cabinet and building a focus on foreign affairs and security:** The federal government should continue to look for opportunities to inform and synchronise efforts with the states and territories, including at the Ministerial and Prime Minister level. In order to understand what is and isn't in Australia's national interest, the states and territories need regular, high quality advice and information on new and ongoing global developments and security challenges, both at home and abroad. The federal government has unique access to such advice through its policy departments and intelligence agencies. Led by the Prime Minister, the intergovernmental National Cabinet forum (previously COAG - the Council of Australian Governments) continues to be an important platform to share information and exchange views on international and security developments.
 - While the National Cabinet agenda remains heavily domestically focused, it's important that dedicated space be scoped out on the agenda to focus on international affairs and security challenges. We should also expect that emerging challenges like climate security and the impacts of cyber and critical technologies on Australia (including Artificial Intelligence), will need more time on this agenda in the months and years to come.
 6. **Subnational intelligence outreach:** Over the last few years, some of Australia's intelligence agencies have boosted efforts to engage and brief the states and territories on the growing variety of security threats, originating domestically and globally, that Australia now faces. This has been a welcome development and should continue, with opportunities to embed more regular engagement and mechanisms explored. In our engagement and research that informed this report, one gap we saw was a lack of awareness amongst state and territory advisors and public servants of the diversity and complexity of security challenges that Australia faces.
 - Australia's next Independent Intelligence Review, due to be delivered in 2024, provides a unique opportunity to explore whether a standardised mechanism is needed (both annually or bi-annually, as well mechanisms that would be used during a crisis). Exploring and potentially setting up such a subnational intelligence mechanism – which would need to involve a two-way flow of information –

would help boost intergovernmental resilience and provide an avenue to streamline communication and information sharing with the states and territories. Such a two-way mechanism would also be essential to enhance Australia's preparedness in the face of a crisis.

- New premiers and chief ministers should receive a high level intelligence briefing (by DG ONI and DG ASIO) when they begin their new role.
 - It is also important that premiers and chief ministers seek ongoing briefings, before, for example, they attend major meetings with foreign governments (whether ahead of overseas visits or before meeting Ambassadors in Australia). This should become regular and seen as routine by premiers and chief ministers, in particular before any interaction with government officials and diplomats from countries whose strategic objectives do not always meet Australia's and/or with whom we have complex relationships, which includes China, Russia and Iran.
- 7. Training:** Australian and US government training programs, including pre-posting training and relevant graduate (diplomatic, trade and defence, for example) and onboarding programs, should include a greater focus on subnational and national intergovernmental linkages to support a more consistent and practical approach to industrial bases, supply chains, workforce planning and security threats. Such training is particularly important for the many departments and agencies that post officials overseas to Australian embassies.
- In Australia, DFAT should explore whether they need greater scope (which might have to come through refreshed or updated policies which outline this engagement) to engage more closely with state and territory governments on subnational activities.
- 8. Legislative and policy levers:** National governments should maintain legislative and policy levers, such as the *Australia's Foreign Relations (State and Territory Arrangements) Act 2020*, as a necessary last resort to be available in case of an inconsistency between the subnational and national levels that can't be addressed through consultation and compromise. A collaborative first approach with the safety net of legislative powers is the best approach to ensure that foreign, defence and security policies are prioritised in the national interest.

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Acronyms and abbreviations

DFAT	Department of Foreign Affairs and Trade
MoU	memorandum of understanding
NT	Northern Territory
PM&C	Department of the Prime Minister and Cabinet
PRC	People's Republic of China
TSMC	Taiwan Semiconductor Manufacturing Company
WA	Western Australia

Building whole-of-nation statecraft
How Australia can better leverage subnational
diplomacy in the US alliance