

## Australia's commercial reality jars with the Indo-Pacific narrative

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The 'Indo-Pacific', stretching from the eastern Indian Ocean to the Pacific, is how the Australian government likes to describe the international environment for its foreign policy.

In strategic terms, it encompasses major powers such as India, Indonesia, China, Japan and the United States – a multipolar region that is resistant to the emergence of a new and potentially unfavourable hegemon. There is an economic dimension, too, with a vision of more diversified trade.

According to the Australian government's *India Economic Strategy to 2035*, released in 2018, there are high hopes for our relationship with India.

On the strategic front, Canberra would also be mostly pleased with developments last year. In November, Defence Minister Linda Reynolds made her first official visit to Japan.

The measures Reynolds unveiled with her Japanese counterpart Taro Kono were designed to deepen Australia-Japan defence co-operation, 'consolidating the perception that Tokyo and Canberra now see each other as their most important and reliable security partner after their respective alliances with the United States', according to political analyst Grant Wyeth.

In September, Quadrilateral Security Dialogue (Quad) meetings involving Australia, Japan, the United States and India were [upgraded](#) to the ministerial level. But disappointingly, in the same month, Australia was again not [invited](#) to participate in the Indian-led Malabar naval exercise involving its three fellow Quad members.

However, it has become clear over time, and dramatically so last year, that the Indo-Pacific frame has limited utility in delivering Australia its hoped-for pattern of economic ties. Trade flows are driven by factors exogenous to Australia – notably markets and comparative advantage. The wishes of elected politicians and bureaucrats sitting in Canberra are largely irrelevant.

In 2012, when the Indo-Pacific was starting to make a regular appearance in official government documents, China was the destination for 27.3 per cent of Australia's total goods exports. Among Australia's more substantial regional trading partners, the shares of east Asia excluding China (Japan, South Korea, Hong Kong and Taiwan), south-east Asia (Indonesia, Malaysia, Philippines, Thailand and Singapore), India and the United States were 33.3, 9.5, 4.9 and 3.8 per cent respectively.

Despite fervent championing of the Indo-Pacific, in the 12 months to October 2019, China's share of goods exports leapt more than 10 percentage points to 37.7 per cent. But the shares of East Asia excluding China, south-east Asia, India and the United States all fell to 26.4, 8.8, 3.8 and 3.7 per cent, respectively.

The story is mirrored on the import side of the trade equation. In 2012, China supplied 17.3 per cent of

Australia's goods imports while East Asia excluding China, south-east Asia, India and the United States accounted for 13.2, 16, 1 and 11.8 per cent, respectively.

In the 12 months to October 2019, China's share surged to 25.5 per cent. The shares of East Asia excluding China, south-east Asia and the United States all fell to 12.9, 14.2 and 11.1 percent, respectively. Only the importance of India had risen, but to a still marginal 1.6 per cent.

The evidence is mixed on whether Indo-Pacific countries have sympathy for Australia's preferred economic architecture, headlined by a multilateral rules-based order. Countries like Japan and Singapore have emerged as like-minded, being fellow members of initiatives such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP or TPP-11) and the [Regional Comprehensive Economic Partnership \(RCEP\)](#).

In contrast, the United States has veered in the opposite direction. On his first day in office, President Trump withdrew the United States from the CPTPP's predecessor, the Trans-Pacific Partnership (TPP). Now, [US blocking actions](#) have rendered the WTO's Dispute Settlement Body [unable](#) to provide independent adjudication on new cases.

Developments with India are similarly dismal. Negotiations for an Australia-India Comprehensive Economic Cooperation Agreement launched in 2011 have [stalled](#). And in November, India [opted out](#) when RCEP's 15 members successfully [concluded negotiations](#).

Last November, too, Peter Varghese, author of the Australian government's *India Economic Strategy to 2035*, [admitted](#) that 'the big end of town still doesn't buy the India story'. Varghese's report nominated an aspirational target of tripling Australian exports to India by 2035, to \$US31 billion (\$44.6 billion). It's not trivial, but pales in comparison with the current exports to China of over \$US112 billion.

Strong Australia-China economic ties extend beyond goods trade. In July, a [report](#) by the Australia-China Relations Institute showed that China was set to become Australia's leading international research partner in terms of the number of joint scientific publications produced.

During Australian Prime Minister Scott Morrison's US state visit in September, his audience may have been surprised by his [assessment](#) of China relations. Morrison noted that 'the first thing to do is acknowledge that Australia and the United States come at this from a different perspective'. He added that 'from Australia's point of view, the engagement with China has been enormously beneficial' and led to a comprehensive strategic partnership that Australia hopes to continue.

A foreign policy frame has its uses. But trade trends are a stark reminder that economic reality is not easily moulded to conform to strategic dreams. The tension between Australia's strategic and economic interests will remain, making the practice of foreign policy, particularly vis-a-vis China, an ongoing challenge.

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