

Institution-building and coalitional diplomacy

Given constraints in the trade and investment spheres, Australia's principal geoeconomic tool has been institution-building efforts. This is somewhat expected, given its middle power status in the Indo-Pacific. International relations scholars have long argued coalition-building with likeminded partners is the *sine qua non* of middle power diplomacy⁹². With the capacity and interest to shape international order, but lacking the heft to execute alone, middle powers often pursue strategic objectives through the creation of cooperative institutions. By exercising power on a collective and institutional basis, Australia is capable of greater influence and leadership than its individual resources would allow. However, Australia's institution-building efforts have also had to respond to the behaviour the region's major powers – particularly the US and China – in order to be effective.

Australia's most commonly-used geoeconomic tool is the negotiation of free trade agreements. For most of the post-war period, Australia has been a 'committed multilateralist' in trade policy, largely working through global-level GATT/WTO processes⁹³. But in the early 2000s, its trade diplomacy shifted towards preferential free-trade agreements (FTAs) negotiated outside the WTO system. This began in the early 2000s, and by 2020 Australia had concluded FTAs with twenty-one economies, predominantly from the Indo-Pacific region (Table 2). In the early stages, economic objectives were dominant in FTA diplomacy, with a focus on securing market access gains in agricultural and services exports⁹⁴. This economic agenda is evident in partner selection, with a preference for major export markets such as the US, Korea, Japan and China. The success of these efforts is reflected in the fact that the 'coverage ratio' of Australia's in-force FTAs now accounts for 81 percent of its total exports.

Table 2 Australia's FTA partners 2020

PARTNER	STATUS	ENTRY INTO FORCE	SHARE EXPORTS 2019
New Zealand	In-force	1980	2.6%
Singapore	In-force	2003	3.1%
Thailand	In-force	2003	1.2%
United States	In-force	2004	3.9%
Chile	In-force	2008	0.1%
ASEAN	In-force	2009	10.5%
Malaysia	In-force	2012	2.3%
China	In-force	2014	38.3%
Japan	In-force	2014	14.8%
Korea	In-force	2014	6.7%
CPTPP	In-force	2018	25.2%
Hong Kong	In-force	2019	1.9%
Peru	In-force	2019	0.0%
Indonesia	In-force	2020	1.6%
PACER Plus	In-force	2020	0.1%
RCEP	Awaiting ratification		72.9%
India	Under negotiation		3.7%
European Union	Under negotiation		3.2%
United Kingdom	Under negotiation		3.9%
Coverage of all in-force agreements			81.1%

Source: DFAT⁹⁵



Strategic objectives became a more prominent in Australia’s trade diplomacy from 2010. As bilateral FTAs had been secured with all major trade partners, strategy shifted from a predominantly economic (market access) agenda to include diplomatic (partnership building) objectives. FTA negotiations with India and Indonesia fit this pattern. Unlike Australia’s previous FTAs, neither were major export markets. However, FTAs were viewed as a key step in building broader diplomatic partnership with these important regional players. Opening negotiations with Indonesia was billed as a key step to advance broader “comprehensive partnership” established between the governments in 2009⁹⁶. Similarly, the India-Australia FTA was promoted as one of the economic components required to realise a bilateral “strategic partnership” that covered a range of defence, diplomatic and regional collaborations⁹⁷.

On the multilateral front, Australia also actively participated in negotiations for two ‘mega-regional’ FTAs: the 12-member Trans-Pacific Partnership (TPP) and ASEAN+6-based Regional Comprehensive Economic Partnership (RCEP) agreements. Economic rule-making, rather than tariff reduction, was the principal focus of these agreements⁹⁸. The US-led TPP was billed as a “21st century” trade agreement, which included a range of regulatory provisions covering areas as diverse as services, investment, e-commerce, intellectual property and environmental standards. RCEP unites the six ‘ASEAN Plus One’ FTAs into a single trade bloc, which would providing a coherent set of trade rules for the region’s economies. These mega-regional trade negotiations demonstrated an Australian focus on collective rule-making, rather than bilateral bargaining, as a means for realising liberalisation preferences.

By combining economic and strategic objectives, Australia’s recent FTAs embody a geoeconomic approach to trade diplomacy.

Participation in the Trans-Pacific Partnership (TPP) was a landmark in Australia’s use of geoeconomics. Launched in 2010, the TPP marked a radical break with previous FTAs in the Indo-Pacific. First, the agreement went beyond existing models for trade reform, by combining traditional market access provisions (i.e. tariff and subsidy reductions) with a range of trade-related regulatory disciplines. Investment, services, e-commerce, intellectual property and financial services were all included. Second, the TPP was multilateral, and intended to build a political coalition of likeminded governments that favoured a more ambitious approach to trade liberalisation⁹⁹. Third, it included and was led by the US, which despite being a major economic partner had hitherto not been substantively engaged with trade diplomacy in the region¹⁰⁰. The TPP was an ideal fit with Australia’s preferences for an ambitious, multilateral and US-engaging regional trade bloc.

Figure 9 Timeline of TPP negotiations

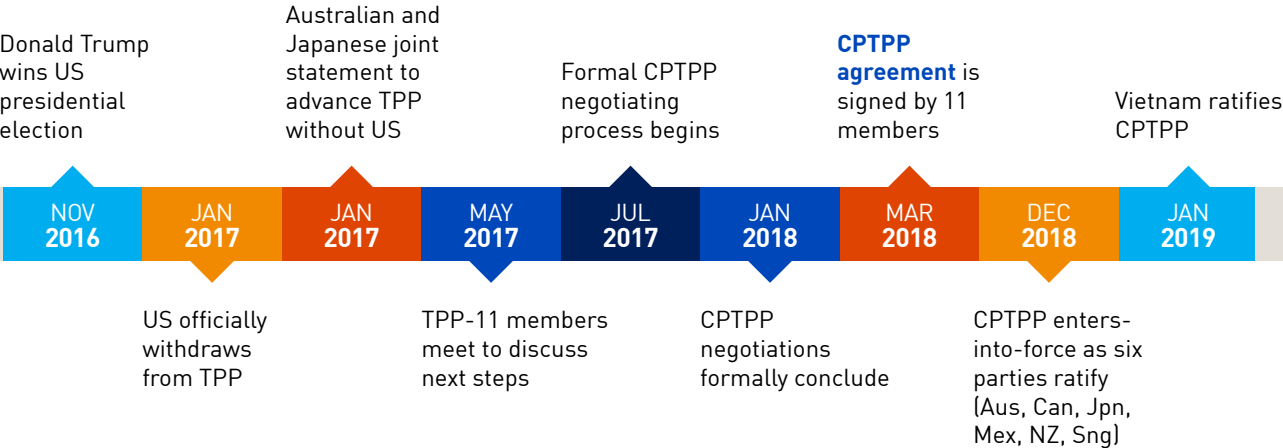


The TPP would ultimately fall victim to domestic US electoral politics. The TPP became a controversial aspect of the 2016 presidential election, with both candidates voicing opposition to the deal. Donald Trump made anti-TPP rhetoric a centrepiece of his campaign, and following his election victory withdrew the US from the agreement with his first executive order as President¹⁰¹. US withdrawal terminally compromised the TPP. As per its entry-into-force requirements, at least six members—accounting for 85 percent of the GDP of the bloc—were required for ratification. As the US accounted for 65 percent of the TPP’s size, withdrawal made it numerically impossible for the agreement to take force. Absent US leadership, in early 2017 many observers concluded the TPP was moribund and would quickly collapse¹⁰².

Defying these expectations, the remaining TPP members quickly began efforts to salvage the agreement. These were led by Australia and Japan, whose Prime Ministers made a joint commitment to work towards finalising the TPP¹⁰³. While initial efforts targeted at the US failed to change the position of the Trump Administration, they were successful in building supportive coalition amongst the other eleven members¹⁰⁴. In a landmark achievement, the remaining parties finalised the Comprehensive and Progressive Agreement for the TPP (or CPTPP) in March 2018 (see Figure 9). The CPTPP did not replace the TPP, but functioned as a ‘bridging’ instrument that enabled its entry-into-force in the absence of the US. It also preserved almost all of the regulatory content of the original agreement, with only a small number of US-requested intellectual property provisions suspended¹⁰⁵.

By working with Japan to create the CPTPP, Australia was able to secure a systemically-important addition to the regional economic architecture without US support or leadership.

Australia also deployed multilateral diplomacy to shape Chinese infrastructure diplomacy. This was achieved through membership in the newly-formed Asian Infrastructure Investment Bank (AIIB). Proposed by the Chinese government in 2013¹⁰⁶, the AIIB is a new multilateral development which specialises in financing infrastructure projects in Asia. Announced at the same time as the BRI, the AIIB reflected China’s intentions to use infrastructure investment as a basis for its economic diplomacy with Indo-Pacific partners. Unlike the bilaterally-oriented BRI, however, it offered a multilateral and rules-based architecture for China’s infrastructure diplomacy efforts. Significantly, it was also the first time the Chinese government proposed, led negotiations for, and secured the presidency and headquarters of, a formal intergovernmental body of any kind¹⁰⁷.





The AIIB proved controversial. Several critics alleged it was a ‘revisionist’ attempt to change the international financial system and undermine existing governance standards¹⁰⁸; and/or a financing vehicle for the contentious BRI program¹⁰⁹. The US and Japanese governments declined membership; and during 2014 the Obama Administration lobbied partners against joining on the grounds the AIIB would fail to uphold good governance standards¹¹⁰. However, these US lobbying efforts failed to sway the Australian government. In March 2015, Australia joined with Korea and sixteen western European governments in accepting Chinese invitations to become founding members. These western country members – including four of the G7, fourteen of the G20, and twelve of the twenty-seven EU states¹¹¹ – greatly increased the international legitimacy of the AIIB, and conferred a degree of prestige for China’s diplomatic efforts¹¹².

Australia and its European partners were far from passive participants in the setup of the AIIB.

Founding membership allowed these governments to participate in the drafting of the AIIB’s *Articles of Agreement*, which were completed in May 2015. These governments had a decisive impact on governance arrangements, securing provisions which ensured the new bank would conform to agreed international best practices for development financing (see Box 3). These provisions each involved compromises on initial Chinese proposals, which were agreed to accommodate the requests of the western country members¹¹³. As a result, the AIIB now embodies similar functionally, identical loan practices and governance standards to established multilateral development banks such as the World Bank and Asian Development Bank. The AIIB has since expanded to 76 member states, and by the end of 2019 had extended USD 12 billion in loans or technical support to 63 infrastructure projects in the region¹¹⁴.

Active engagement with the AIIB provided Australia an effective mechanism to shape China’s infrastructure diplomacy. Concerns regarding the strategic implications of the BRI – particularly around transparency and financial sustainability for small economies – precluded bilateral engagement through a BRI MoU. But by engaging multilaterally through the AIIB, Australia was able to draw on a wider political coalition to shape Chinese infrastructure investment in more amenable ways. Responding to earlier concerns about AIIB governance, the Australian Treasurer would comment: “*We are absolutely satisfied that the governance arrangements now in place will ensure there is appropriate transparency and accountability in the bank*”¹¹⁷. This outcome would have been impossible without the pool of diplomatic resources offered by European partners.

Working with a likeminded coalition through multilateral diplomacy enabled Australia to shape the form of Chinese geoeconomics.

The success of institution-building efforts demonstrate that Australia can effectively engage in geoeconomics. Australia’s medium-size and liberal policy settings may constrain Australia’s responses when working on its own. But by collaborating with like-minded partners, and formalising cooperation through international institutions, it has proven highly capable of shaping geoeconomic contests. It has used bilateral FTAs to build partnerships with a diverse range of Indo-Pacific governments, led an international coalition to resurrect the TPP following US abandonment, and contributed to efforts to improve the transparency of China’s AIIB. Indeed, its most effective responses to adverse geoeconomic behaviour by the US and China have come through international coalitions. This record – of weak individual, but strong *collective* responses to geoeconomics – affirms the utility of coalition-based strategies for a middle power like Australia.



Box 3 International best practices in the AIIB

GLOBAL MEMBERSHIP:

At commencement of operations, the AIIB included 21 members from outside the Indo-Pacific region. This has since risen to 32 extra-regional members.



COMMERCIAL BEHAVIOUR:

The AIIB will only issue USD-denominated loans, which are made at commercial (rather than concessional) rates.



GOVERNANCE POLICIES:

The AIIB developed a formal set of transparency and social safeguard policies; and adopted an open and competitive procurement policy which emphasises efficiency, value-for money and transparency.



VOTING STRUCTURE:

China relinquished an earlier claim to hold a formal veto power, and agreed to a voting structure under which no member holds a veto over formal loan decisions.



INSTITUTIONAL PARTNERSHIPS:

the AIIB signed a co-financing agreement with the World Bank, and cooperative MoUs with twelve other development banks.



Source: Wilson¹¹⁵ and AIIB¹¹⁶