

## Australia and the EU in the Indo-Pacific: Is Cooperation towards a Rules-Based Order Possible?

by Milena Selivanov and Nicola Casarini

The regional power shift in the Indo-Pacific poses opportunities and threats to Australia and the European Union. This raises questions as to whether and how the two partners can foster bilateral cooperation in the region, advancing their strategic interests while promoting their values. By first assessing the main tenets of Australia's and the EU's foreign policy in the Indo-Pacific and the current levels of bilateral cooperation, two concrete proposals for Australia-EU cooperation will be advanced for the years ahead.

Despite being economically integrated in the region, Australia has a defensive vision of the Indo-Pacific. Canberra has deepened its relations with nations in the area because they are, and will continue to be, the most important contributors to Australia's economy. Today, more than a half of its trade is with the region. China alone represents 23.8 per cent of Australia's trade, making Beijing Australia's biggest economic

partner.<sup>1</sup> On top of this, Australia has signed several bilateral free trade agreements (FTAs) with nations in the region, including China.

However, due to the rising influence of China in the Indo-Pacific – and the slow erosion of the rules-based system on which Australia's prosperity and security rest – Canberra is now on high alert. The *2017 Foreign Policy White Paper* states that Australia ought to seek stronger alliances both bilaterally and multilaterally.<sup>2</sup> One example, is the revival of the Quadrilateral Security Dialogue, also known as the Quad Initiative, which involves a security

<sup>1</sup> Australian Department of Foreign Affairs and Trade, *Australia's Trade in Goods and Services by Top 15 Partners 2016-17*, <http://dfat.gov.au/about-us/publications/trade-investment/australias-trade-in-goods-and-services/Pages/australias-trade-in-goods-and-services-2016-17.aspx>.

<sup>2</sup> Australian Government, *2017 Foreign Policy White Paper: Opportunity Security Strength*, November 2017, p. 37 and 39, <https://www.fpwhitepaper.gov.au/node/46>.

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## Australia and the EU in the Indo-Pacific: Is Cooperation towards a Rules-Based Order Possible?

alliance between the US, Australia, India and Japan. Canberra is thus seeking to preserve the rules-based regional order by strengthening its security alliances without, however, openly confronting Beijing, given Australia's growing economic ties with the Asian giant.

The EU shares a similar outlook on the Indo-Pacific, notwithstanding Europe's distance from the area of concern. Brussels views the region through an economic prism, but also as a source of potential security risks. The EU does more than a third of its trade with the region, which is more than the share of total trade that the EU has with the US.<sup>3</sup>

Due to its economic importance, the EU has established a number of FTAs with Asian market economies, contributing in this way to strengthen agreed norms and regulations in the Indo-Pacific. This has meant the exclusion of China from Europe's FTAs, even if Beijing is the EU's first trading partner in the region.

The EU is clearly aware of the consequences that regional instability would have on Europe's economic interests. These concerns were laid down in the *Guidelines on the EU's Foreign and Security Policy in East Asia*, first issued in 2007 and updated in 2012. The latest version of the document specifically mentions issues absent in the previous version such as tensions in the South China Sea.<sup>4</sup>

<sup>3</sup> European Commission Directorate General for Trade, *Top Trading Partners 2016*, 23 November 2017, <http://trade.ec.europa.eu/doclib/html/122530.htm>.

<sup>4</sup> Council of the European Union, *Guidelines on the EU's Foreign and Security Policy in East Asia* (11492/12), 15 June 2012, p. 19, <http://data.consilium.europa.eu/doc/document/ST-11492-2012-INIT/en/pdf>.

The intention of the 2012 Guidelines was to align Brussels's position on the region with that of Washington, preparing the ground for the joint EU-US statement on the Asia-Pacific issued by Hillary Clinton and Catherine Ashton in July 2012.<sup>5</sup>

The EU is currently working on a new policy document, which will focus on security cooperation with Asian partners to promote a free and open Indo-Pacific. Europe is particularly concerned that disputes in the South China Sea adversely affect Europe's trade with the region, especially if the situation worsens and there is a blockade to the free flow of goods. The EU has no military force to deploy there, but some member states, including France and the United Kingdom, have already declared a willingness to use their naval assets to support freedom of navigation in the area.

Both Australia and the EU recognize that economic prosperity and regional stability are intertwined in the Indo-Pacific. Their cooperation in the region can build on their already robust bilateral relationship. Australia is among the 20 most important trading partners for the EU.<sup>6</sup> For Australia, the EU accounts for 13.5 per cent of total trade of goods and services and is the biggest foreign investor in the country.<sup>7</sup>

<sup>5</sup> Joint EU-US statement on the Asia-Pacific region, Phnom Penh, 12 July 2012, [https://www.consilium.europa.eu/uedocs/cms\\_Data/docs/pressdata/EN/foraff/131709.pdf](https://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/EN/foraff/131709.pdf).

<sup>6</sup> European Commission Directorate General for Trade, *Top Trading Partners 2016*, cit.

<sup>7</sup> Australian Department of Foreign Affairs and Trade, *Australia's Trade in Goods and Services*

## Australia and the EU in the Indo-Pacific: Is Cooperation towards a Rules-Based Order Possible?

Australia and the EU are currently negotiating an FTA, which once concluded, would positively link the two economies. From a security standpoint, the two partners are already cooperating on counter-terrorism and cybersecurity. In 2017, the signing of the EU-Australia Framework Agreement was a crucial step towards further augmenting this relationship.<sup>8</sup>

Brussels and Canberra are members of the Asia-Europe Meeting (ASEM) and the ASEAN Regional Forum (ARF), two dialogue platforms that can be used to promote security cooperation in the region. Alongside multilateral fora, there are additional initiatives that the two partners could undertake.

Australia and the EU could for instance consider establishing a structured mechanism for sharing information on security challenges in the Indo-Pacific, including discussion as to whether Australian and European navies could work together to support freedom of navigation in the area.

The South China Sea is one of the most congested seaways in the world, meaning that instability in the area would severely affect trade flows worldwide. Australia-EU cooperation on the South China Sea would be in line with article 49 of the 2017 Framework Agreement, whereby both actors outlined their commitment to promote “dialogue and cooperation towards the goals of unrestricted access to

by *Top 15 Partners 2016-17*, cit.

<sup>8</sup> European External Action Service (EEAS), *The European Union and Australia Sign Framework Agreement to Deepen Cooperation*, 7 August 2017, <http://europa.eu/!Wj79Wh>.

international maritime markets and trade”.<sup>9</sup> It is noteworthy that France declared in 2016 its willingness to lead European operations in support of freedom of navigation,<sup>10</sup> something coherent with the EU’s stated objective of supporting the rules-based international order. There is therefore some scope for increased cooperation between Australian and European navies.

Another area in which Australia and the EU could cooperate is on screening Chinese foreign direct investments (FDIs) into their respective territories. Coordination could begin in industry areas such as the Australian mining sector. Accounting for 39 per cent of total FDI,<sup>11</sup> this is Australia’s richest source of foreign investment, and a strategic asset that the EU needs access to, as a range of European industries depend on it.

Article 29 of the Framework Agreement could be used to back this form of cooperation, as it encourages exchanging, developing, and promoting “good practices on access

<sup>9</sup> European Commission and EEAS, *Joint Proposal for a Council Decision on the Conclusion of the Framework Agreement between the European Union and its Member States, of the One Part, and Australia, of the Other Part* (JOIN/2016/51), 28 November 2016, <http://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52016JC0051>.

<sup>10</sup> Yo-Jung Chen, “South China Sea: The French Are Coming”, in *The Diplomat*, 14 July 2016, <https://thediplomat.com/?p=89243>.

<sup>11</sup> Australian Department of Foreign Affairs and Trade, *International Investment Australia 2016*, 16 October 2017, p. 8, <http://dfat.gov.au/about-us/publications/Pages/international-investment-australia.aspx>.

## Australia and the EU in the Indo-Pacific: Is Cooperation towards a Rules-Based Order Possible?

to finance”.<sup>12</sup> Both Australia and the EU have received large investments from China, and while this is welcomed, it has also become a risk to their economies, since it is eroding their control over some strategic assets.

The European Commission has recently established a mechanism to screen foreign investments in the EU.<sup>13</sup> The formulation of this mechanism could be used as a basis to cooperate with Europe’s partners where the EU necessitates access to particular sectors such as mining. Increased Australia-EU coordination on Chinese investments would thus ensure fair access to a diverse range of investors, while also promoting financial transparency and good practices.

The two proposals mentioned above could help promote the strategic interests and values of both the EU and Australia. In view of the power shift underway in the Indo-Pacific, there has never been more need for closer cooperation between Brussels and Canberra.

This would not only address joint concerns – and thus bolster their bilateral relationship – but also contribute to advance what is a shared goal for both Australia and the EU: the maintenance and strengthening of a rules-based order in the Indo-Pacific.

<sup>12</sup> European Commission and EEAS, *Joint Proposal for a Council Decision on the Conclusion of the Framework Agreement*, cit.

<sup>13</sup> European Commission, *Proposal for a Regulation establishing a framework for screening of foreign direct investments into the European Union* (COM/2017/487), 13 September 2017, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52017PC0487>.



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