

## 2019 Goldrick Seminar

### “Maritime Trade and its implications for Australia’s Defence.”

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At the turn of the 20<sup>th</sup> Century, protectionist trade policies shaped the global economy.<sup>1</sup> However, in the wake of two world Wars, the nexus between the free flow of global trade through multilateral agreement and the prospects for peace was recognised by world leaders.<sup>2</sup> Australia’s leadership, participation and influence in the multilateral economic and security architecture that emerged from this realisation underpins our prosperity.

And as Prime Minister Morrison recently highlighted: “*everything else stems from the strength of our economy.*”<sup>3</sup>

Australia’s trade performance contributes very strongly to our economic prosperity. Trade and national security are thus intertwined. This is a whole of government endeavour, involving many different agencies and many in this room.

Increasingly, e-commerce is an important way for Australia to trade with the rest of the world: opening exciting opportunities for Australian businesses and consumers. Around half of Australian businesses are already engaged in the digital economy in some way, and this number will grow in the future. Global powers are competing to shape the new economy and the future of digital trade. The growth in digital trade, however, will be complementary and not replace the ongoing need for the physical transportation of consumer goods, bulk commodities and energy product.

Today we are witnessing a paradigm of a contested and complex strategic environment. We are facing difficult choices in relation to increased great power competition and the prospect of non-aligned regional interests.

The international rules-based system and institutions that help maintain peace and security and guide global cooperation are under strain. In some cases, major powers are ignoring or undermining international law. The resilience of multilateral trade systems is being tested.

Nationalism and protectionism are again on the rise which could create strategic friction, damage economic growth and undermine the rules that support flows of trade and investment. In this context, the 2017 Foreign Affairs White Paper provides the framework that charts a clear course for Australia in this time of strategic change. It articulates a vision for the type of region we want.

- A neighbourhood in which adherence to rules delivers lasting peace.
- Where the rights of all states are respected.
- And where open markets facilitate the free flow of trade, capital and ideas.

### Strategic Alliance

The Indo-Pacific region is one of the key theatres where these pressures are playing out.

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<sup>1</sup> <https://www.dartmouth.edu/~dirwin/docs/The%20Impact%20of%20Federation%20on%20Australias%20Trade%20Flows.pdf>

<sup>2</sup> Trade Liberalization: Cordell Hull and the Case for Optimism, Douglas A. Irwin, July 31, 2008.

<sup>3</sup> <https://www.pm.gov.au/media/speech-institute-public-administration>

- Approximately 80% of global trade by volume is transported by sea - 60 percent of that through Asia - with the South China Sea carrying an estimated one-third of global shipping.<sup>4</sup>
- By 2030, the Indo-Pacific is expected to be home to the world's five largest economies: China, the United States, India, Indonesia and Japan.<sup>5</sup>
- This economic growth brings new opportunities and increased prosperity.
- However, the stability of the Indo-Pacific region, which has underpinned its economic transformation, cannot be assumed, with major power competition now part of the landscape.
- The future balance of power in the region will depend largely on the actions of the US, China and major powers such as Japan and India. But it can be shaped by middle and emerging powers of the Indo-Pacific such as Indonesia, Vietnam, Republic of Korea and, of course, Australia.

Economic growth in the Indo-Pacific benefits all nations, and as such, Australia aims to ensure that, as the region evolves, it evolves peacefully, so that countries can prosecute their interests free from coercive power, and so that economic momentum is sustained.

We are committed to working with our partners across the region to strengthen political, security and economic architecture and to help build regional norms.<sup>6</sup>

Australian and US interests in the region are very clearly aligned. During the recent AUSMIN dialogue, our Foreign and Defence Ministers, along with the US Secretaries for State and Defence, set a path forward for the Australia-US alliance to build a secure, prosperous future. Our joint efforts will focus on:

- **Indo-Pacific prosperity and stability.** Working together to support a secure, reliable and affordable supply of energy, including cooperation and coordination for capacity building on maritime security issues with Indo-Pacific countries and in the Indian Ocean.
- **Enhancing Southeast Asian engagement.** Supporting the implementation of ASEAN's Indo-Pacific Outlook, including practical projects in areas of maritime security and economic development.
- **Stepping up Pacific engagement.** Supporting the implementation of the Boe Regional Security Declaration.
- **Reaffirming our global partnership.** Preserving freedom of navigation and regional maritime security in the vital sea lanes.
- **Deepening Defence cooperation.** Increasing security cooperation with partners in the region through joint training and exercise opportunities.

These commitments underscore our shared priorities in the Indo-Pacific and the role of US global leadership in prosecuting Australia's national interests. Without strong US political, economic and security engagement in the region, power is likely to shift more quickly and it will be more difficult for Australia to achieve the levels of security and stability we seek.

## Safeguarding maritime trade – Trade Disputes

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<sup>4</sup> The United Nations Conference on Trade and Development (UNCTAD) – Review of Maritime Transport 2018

<sup>5</sup> PWC Report – The World in 2050

<sup>6</sup> Speech by Foreign Minister Payne – *Australia-US Dialogue on Cooperation in the Indo-Pacific* 29 January 2019

Economic growth, underpinned by the prospects for increased seaborne trade is bright. However risks such as increased inward-looking policies and the rise of trade protectionism are of concern. An immediate concern are the trade tensions between China and the United States, the world's two largest economies as well as those seen between Canada, Mexico, the United States and the European Union. Trade tensions have increased global policy uncertainty and undermined confidence, investment, manufacturing output, trade and economic growth.<sup>7</sup>

Australia's position on trade disputes promoting protectionism is based on key principles:

- a commitment to open markets with trade and investment relationships based on rules, not coercion;
- an approach which builds resilience and sovereignty;
- respect for international law and the peaceful resolution of disputes, without the threat or use of coercive power; and
- a commitment to cooperation and burden-sharing within strong and resilient regional architecture.

### **Safeguarding maritime trade – Multilateral Fora**

Australia's multi and bilateral relationships and memberships of multi-national fora are key to achieving our aims. Our work through the multilateral mechanisms provides the impetus for balancing great power competition; guarding against protectionism, and builds robust support for open economic settings.

Our approach in multilateral organisations, such as The World Trade Organisation and the G20, seeks to reinforce the strength, accountability and effectiveness of these institutions, to leverage the relative strength of each in pursuing collaborative interests.

Regionally, Southeast Asia is the locus of major power competition in the Indo-Pacific. [50% of our exports and 37% of our imports passed through the South China Sea in 2017.]<sup>8</sup>

Australia is committed to working with our partners across the region to strengthen political, security and economic architecture and to help build regional norms.

- we are intensifying our commitment to ASEAN, a key partner in shaping a multi-polar order.
- We support ASEAN's leadership — particularly in its role as convenor of the region's most important forums, including the ASEAN Regional Forum and the East Asia Summit.
- We engage with other important regional institutions, including the Pacific Islands Forum and the Indian Ocean Rim Association; as well as 'mini-lateral' groupings such as the Trilateral Strategic Dialogue between Australia, the US and Japan, and the Quadrilateral Group.

Stability and prosperity in our region is enabled by the efforts of these important institutions.

### **Safeguarding maritime trade – Freedom of Navigation**

For Australia, a nation reliant upon the maintenance of safe, secure and open sea lanes for the preservation of trade, our position is clear - all states have a right to expect safe passage of their maritime trade consistent with international law.

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<sup>7</sup> UNCTAD – Review of Maritime Transport 2018

<sup>8</sup> DFAT Talking Points – South China Sea: Australia's position

Through diplomacy, we strive to ensure international law, especially UNCLOS, is respected and implemented to protect freedom of navigation and uphold the sovereign rights of coastal states in their exclusive economic zones.

Australia will continue to exercise our rights to freedom of navigation and overflight, consistent with long-standing policy, and conduct cooperative activities with other countries consistent with international law.<sup>9</sup>

Australia's recent decision to commit forces to protect trade flow through the Strait of Hormuz is consistent with this position.<sup>10</sup>

## **Future Trends**

When we consider how rapidly changes can impact geopolitics, international security, world trade and business, consider that this year marks the thirtieth anniversary of the Berlin Wall coming down, bringing about the symbolic end of the Cold War.

We are seeing a new, multi-polar, world economic configuration emerging.<sup>11</sup> It poses many challenges but also opens many new opportunities for both our economy and our security. These global trends will have profound impacts on maritime trade requirements; natural resource exploitation; an emerging shift of geopolitical configurations, increasing demand on our national security architecture and increasing demand for sustainable energy sources.

Some of the key global trends emerging; the underlying factors which drive them; where they seem headed; and how they might interact to affect the world in the future are:

- **Demography**

- The unequal distribution of population growth/aging population/location of population (Asia, Latin America)/Urbanisation.

- **Economy**

- With rising population comes rising economy and rising consumerism
- Manufactures will seek to take advantage of lower transport costs associated with larger mega vessels – including alterations to production to make the most efficient use of container space.

- **Resources**

- As the population, economy and prosperity increase, so will the demand for resources such as fossil fuels, renewables, food and water.
- Increased competition for offshore energy and resources

- **Environment**

- Improvements in ship technology, structure and materials will lead to the proliferation of megaships. We are seeing this in both the container and cruise industries, starting to limit port access.
- Greener shipping. Reducing carbon footprint. LNG. Solar and wind.

## **Emerging trends and issues**

- Technology for monitoring ship operations and performance. Ships will soon have a complete network of sensors to monitor all aspects of operations, inviting nefarious cyber influence.

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<sup>9</sup> Foreign Affairs White Paper

<sup>10</sup> PM release of 21 Aug 2019

<sup>11</sup> Lloyds Maritime Trends to 2030

- Space – Australia is committed to strengthening international rules and norms that apply to space, including commercialisation and military uses of space.
- Critical Minerals - Global demand for our resources has broadened in recent years to include critical minerals used in a range of emerging high-tech applications across a variety of sectors. Australia is a world leader in the exploration, extraction, production and processing of critical minerals (rare earth and other minerals such as lithium and titanium). Both the supply of critical minerals and the resiliency of supply chains, will be essential to economic prosperity and national security. And all will depend on maritime trade.

### **Challenges for Foreign Policy**

The emerging trends and issues will provide a need to develop policy options designed to preserve our economic prosperity, values (people/Social Cohesion), democratic institutions (influence, status, alliance)

- Maritime boundaries (global commons, resources)
- International rules based order (Protection of Sea lines of communication, strategic choke points and cyberspace)
- Counter Foreign Interference of port infrastructure and systems
- Environmental policies
- Assistance with emerging powers to increase their stake in the international system (eg multilateral fora)

### **Conclusion**

Great power competition is heating up, established international rule based orders are under stress and future trends affecting global trade will test our policy responses. Australia's economic and security interests are closely intertwined and we need to be innovative in the way we think about and respond to the new dynamic forces at play both regionally and globally.

In this era of strategic competition, Australia's foreign policies must prepare the country to seize opportunity and manage risk. Australia's open economy improves our competitiveness, generates more and better paying jobs, gives us access to new ideas and technology, supplements our pool of domestic savings and lowers prices for consumers and producers. Australia is more prosperous and our regional trade is secure because of the strong relations we have with Allies, Southeast Asian countries and ASEAN.

By working with partners in coalitions and leveraging the resources and expertise of international organisations we seek to shape balance in our region, favourable to those interests. This is achieved by deepening regional and global economic integration in a way that maximises growth through open trade and investment on fair and open market-based principles that are transparent and non-discriminatory, with predictable regulatory systems.<sup>12</sup>

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<sup>12</sup> Foreign Affairs White Paper