

## **It's time to rethink the role of trade in foreign policy**

By

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Much has been made of the uneasy and often tense security and military side of our China relationship. The economic side of our relationship, driven by our trade surplus, is sadly often taken for granted. Our trade conversation with China is patchy, sketchy and wafer thin and gives little confidence that it has the robustness to withstand a significant falling out over security.

If there is one point where our economy is most at risk, it is that in a security dispute China could turn off the tap on iron ore, stop delivering students to Australian universities, turn away our food, and reject our services. One in five Australian jobs relies on trade and China is our biggest export market. The Government's anticipated budget surplus is made in China. Even a temporary freeze at a time of domestic economic slowdown has the potential to be devastating.

That is why next month's visit to China by the Trade Minister, Simon Birmingham, is crucial to rebalancing our China relationship and reframing the narrative around our economic and trading relationship. If nothing else, developing the ground for a high-level trade dialogue should be a key outcome of the visit. Without it, we have neither the influence nor the leverage to stand up for our economic and trading interests with our biggest export market.

As our policy makers grapple with the security dimensions of the China relationship, Australia needs to be mindful that both the United States and Europe have managed to decouple the security and trade portfolios within their governments. The US Trade Representative is quite different from the Department of State and all the apparatus around security and defence. The Canada experience, where there has been no de-coupling and which so easily could have been the Australian experience, makes for sober reading.

It is worth tracing the trade relationship between Australia and China – and how this has changed over the past 15 years.

Negotiations for the China-Australia Free Trade Agreement (ChAFTA) commenced in 2005. Not long after, President Obama led development of the Trans Pacific Partnership (TPP) Agreement which was part of the so-called 'Pivot to Asia' in 2012.

Chinese trade officials watched TPP negotiations carefully and given that they could not participate, they instead proposed China and the US lead a full review among all 20 APEC economies of how an APEC FTA might be developed. It took two years and was completed in 2014.

The China Australia Free Trade Agreement (ChAFTA) was then signed in 2015. But within two years, key aspects of the Australia-China relationship soured. Active engagement in domestic activities in Australia by some prominent Chinese figures stirred security authorities.

Around the same time, the build-up of civil and military presences in the South China Sea and extension of China's "One Belt One Road" strategy through South Asia became matters of concern to South East Asian governments as well as US and Australian authorities.

Also around this time, Australia pronounced a new security zone concept - the "Indo-Pacific" - extending into the Indian Ocean. This was a strategic rather than a trade concept.

There was an important mistake here. The Asia Pacific trade community fostered in APEC was an economic system, not a strategic defence model.

From this divergence over the past 15 years between security and economic policy, the question to be asked is: Are Australia's trade policy interests with China and beyond being eclipsed?

The TPP was promoted for adoption by Congressional leaders at the end of the Obama term. President Trump rejected it and it remains on the sidelines. Japan then assumed leadership in drawing support for the TPP. The agreement is now the most advanced regional trade agreement in the world.

Australia is actively engaged in negotiations over another free trade agreement (the Regional Comprehensive Economic Partnership – RCEP) with ASEAN, NZ, Japan, Korea, China and India. But the level of liberalization is likely to be low.

The capacity of the Department of Foreign Affairs and Trade (DFAT) to continue to lead trade liberalization in the Asia Pacific region is of concern. The Indo Pacific security perspective is the current policy priority but its nexus with trade policy is unclear. But short of enhancing some military exercises, Australia can have only limited impact on our region.

In both Washington DC and Brussels trade policy is entirely separate from political/military and foreign policy. A review of about 30 nations and entities active in trade policy shows only Australia, Canada and New Zealand run trade and foreign policy in the same institution.

There is also a growing perception the trade policy function in DFAT is becoming under-resourced at the expense of other priorities and the expansion of Austrade. Officials with deep technical knowledge are retiring. A cadre of experts across the diverse and expanding range of

trade policy issues is essential if Australia is to continue to lead and demonstrate expertise in trade negotiations.

Just how far President Trump wants to take the US in his trade dispute with China is unclear and, given our lack of a trade dialogue with Beijing, this represents an economic danger to Australia.

Australia needs a way to talk openly with China – our biggest trading partner - about trade. Differences over security have shut out our officials in Beijing for several years, turning them from players into passengers. As long as we have limited policy and political influence, big parts of our economy remain captive of forces beyond our control. Governments are responsible for strong security and economic outcomes. That is why Senator Birmingham's visit to reset the trading relationship is so important.

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