

AUSTRALIA

Guardian of the Indo-Pacific

STRATEGIC ANALYSIS REPORT

MAY 2024

Mariana Sotomayor, Melina Sequeira and Regan M. Thomas



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Australia. Guardian of the Indo-Pacific

A Strategic Analysis Report by
Mariana Sotomayor, Melina Sequeira and Regan M. Thomas
May 2024

Center for Global Affairs & Strategic Studies
University of Navarra
Law School - International Relations

Campus Pamplona: 31009 Pamplona
Campus Madrid: Marquesado Sta. Marta 3, 28027 Madrid
<https://www.unav.edu/en/web/global-affairs/>

Cover: HMAS Rankin comes alongside Diamantina Pier, Fleet Base West [RAN]

EXECUTIVE SUMMARY

This strategic analysis report unfolds and subsequently analyzes Australia's multifaceted role as an international actor in the Indo-Pacific amidst an intensifying power competition between the US and China. By analyzing Australia's strategic environment, economic policies, and regional dynamics, this report uncovers the complexity of its position within a rapidly evolving geopolitical landscape.

Four different scenarios are analyzed, each driven by a set of key variables relating to relevant actors within the Indo-Pacific. Ultimately, the status quo is most likely to remain in the Indo-Pacific, as all other scenarios would invoke radical change within the region with high stakes and extreme consequences. The US will continue establishing military ties within the region, while China exercises pressure through its economic power.

Australia's national defense strategy is heavily reliant on its alliance with the US and aims to enhance its military capabilities amidst the growing assertiveness of China. Strategic alliances, particularly with AUKUS and the QUAD, will continue to serve as crucial elements in Australia's defense policy, aiming at deterring potential aggressors and preserving stability in the Indo-Pacific. Australia's strategy of deterrence by denial through the strengthening of its military capabilities underscores the country's efforts to ensure its security and sovereignty against the backdrop of rising regional tensions.

The mutual economic dependency between Australia and China built on Australia's rich endowments in natural resources will continue to define Australia's economic policy toward the Indo-Pacific. Iron ore, the most critical of these minerals, is indispensable for China's industry, placing Australia in a strategic position and affording it leverage in the face of any future conflicts.

Regional dynamics are further complicated by ASEAN's role as a regional stabilizer, China's strategic moves in the Solomon Islands, and the impact of climate change in Oceania. Australia aims to maintain a balance of power in the region, supporting ASEAN's central role in the regional security architecture while navigating the challenges posed by China's expanding influence.

There is potential for China to continue expanding its economic influence in the region through increased foreign investment and economic coercion. If this were to unfold, it would render all other States in the Indo-Pacific fully dependent upon China, thus giving China complete economic control in the region and dominance over strategic waterways such as the South China Sea and the Strait of Malacca. This is unlikely to occur given China's heavy reliance on Australia's strategic materials and critical minerals, which further emphasizes Australia's strategic position.

Furthermore, it is likely that Australia continues to diversify its economic relations within the region to mitigate risks associated with its heavy reliance on China. This strategy may involve strengthening future economic ties with other regional players, such as India and Japan, although its strong economic ties with China are likely to remain due to the volume of their trade.

Escalating tensions in Taiwan could prove detrimental to the region's status quo, affecting Australia directly by threatening its national interests. However, the scenario involving China's possible armed annexation of Taiwan is unlikely to occur in the short term as it would be both economically and militarily unadvisable for China to launch an attack of this magnitude.

Overall, Australia is revealed as a nation at a critical juncture, striving to uphold its security, economic prosperity, and regional stability amidst an intensifying US-China rivalry and evolving challenges in the Indo-Pacific. While the continuance of the status quo appears as the most likely scenario, Australia's pursuit of diversified strategic and economic pathways reflects its proactive approach to adapting to changing regional dynamics. Australia's strategic alliances, economic policies, and engagement in regional diplomacy remain fundamental to its strategic role in shaping the future of the Indo-Pacific.

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INTRODUCTION

Australia's strategic geographical location within the Indo-Pacific provides it with access to diverse trade routes, opening global markets with its massive supply of strategic materials and critical minerals. Situated between the Indian and Pacific Oceans, Australia serves as a key player in maintaining regional stability and fostering economic cooperation amongst various state actors. Moreover, its diverse economy, characterized by a range of industries such as mining, agriculture, services, and technology makes Australia an attractive market for investment and trade. The country's close strategic ties with the United States (US) and economic ties with China underline its significance on the international stage.

Australia's strategic circumstances have radically changed over the past years in response to the changing nature of threats in the Indo-Pacific region. Historically, Australia has maintained a strong strategic alliance with the US, characterized by mutual cooperation across many different fronts. However, China's increasingly assertive character within the region has challenged the US' position as the Indo-Pacific's unipolar leader. The Indo-Pacific has fallen under major power strategic competition, forcing Australia to enact significant reforms to its defense policy.

Australia relies heavily on its security partnership with the US, citing this partnership as a key component of Australia's overall security and defense. Historic cooperation, agreements, and participation in alliances such as AUKUS and the Quadrilateral Security Dialogue (the QUAD) have allowed Australia to share in the US' technological innovations in weapons and intelligence, without which Australia would have significantly reduced security and defense capabilities. With this in mind, this report ponders Australia's capacity to significantly increase its own capabilities within the coming years. Considering clear limitations such as the country's current defense budget, it is unlikely that Australia will succeed in bolstering its defense capabilities without added support from the US and other western allies. Therefore, a strong presence of the US within Australia will remain critical if Australia is to continue to increase its own defense capabilities.

Australia's attempts to significantly increase its capabilities also reflect a clear sense of urgency within the country regarding its strategy of deterrence by denial against China. By increasing

its military capabilities, Australia ultimately aims to dissuade Chinese aggression within the region in both a cost-efficient and timely manner.

The emergence of China as a formidable global force has further reshaped the geopolitical situation of the Indo-Pacific region. Its assertive behavior across the South China Sea and strategic weaving of the Belt and Road Initiative (BRI) signify an expanding sphere of influence, presenting complex challenges to regional stability. Strategically dependent upon the US while economically tethered to China, Australia finds itself at a pivotal crossroads. Therefore, Australia may forge diversified economic pathways within the Indo-Pacific in an attempt to reconcile its strategic interests with the imperatives of an evolving global landscape.

Due to Australia's advantageous geography, it holds some of the world's largest supplies of strategic materials and critical minerals. This supply of natural resources catalyzes technological advancement, national security, and the shift towards sustainable energy sources, paving the way for immense economic growth and potentially positioning Australia as a key player on the geopolitical stage. With its vast reserves and strategic dominance, Australia wields significant leverage in international markets, underscoring the importance of its role in shaping the future of global innovation and security.

However, Australia's vast supply is met by increasing Chinese demand due to China's rapidly growing economy and its gross processing capabilities. As Australia's largest trading partner and one of its largest foreign investors, there is a strong interdependence between the two states that is affected by geopolitical conflicts such as Australia's relation with the US or the looming threat of a Chinese invasion of Taiwan. Heavy reliance on the Chinese market and investment poses a strategic challenge for Australia.

Australia finds itself at a critical juncture, where its economic entanglement with China poses challenges amidst the evolving geopolitical dynamics of the Indo-Pacific region. This scenario underscores the urgency for Australia to seek diversification in its supply chains, aiming to mitigate its reliance on China to increase strategic independence and enhance economic security. Against this backdrop, Japan and India stand out as crucial allies in broadening Australia's trade horizons. Both countries have solid economic infrastructures,

advanced technological capabilities, and a mutual commitment to establishing dependable supply chains for essential minerals and strategic resources. Engaging more deeply with Japan and India presents Australia with an invaluable chance to expand its economic landscape, fortify the resilience of its supply chains, and play a significant role in fostering a more diversified and multipolar regional framework.

Australia's relationship with India will be explored along with these evolving dynamics, highlighting the potential for enhanced trade connections. Simultaneously, Japan plays a significant role as a major consumer of Australia's strategic resources, which underscores its potential as an alternative to China for Australia's economic diversification. Japan's collaboration with Australia, facilitated through the Trilateral Strategic Dialogue alongside the US, further emphasizes the importance of these partnerships in allowing Australia to reduce its economic reliance on China and broaden its economic and security horizons. Moreover, throughout recent years China has been steadily expanding its area of influence in the region, building artificial islets to extend its Maritime zones and territorial waters, as well as signing security and defense agreements with small countries such as the Solomon Islands.

Additionally, the Association of Southeast Asia Nations (ASEAN) is a critical actor in the region, specifically in regards to Indonesia. Until now, all ASEAN countries have remained neutral, following a strategy of strict non-alignment between the US and China. Therefore, ASEAN represents a powerful equilibrium within the region.

Australia also stands at a crucial crossroads of the climate change crisis in Oceania. The region has been significantly affected by rising sea levels and extreme weather, posing serious threats to its people and economies and constituting a global concern which Australia has committed to address. This positions Australia as a key player in shaping the future of the region, which rests largely on its efforts to mitigate climate change.

This report will conduct a three-part analysis divided by factors, with the first detailing Australia's security and defense situation. This cannot be understood without taking into account Australia's heavy military reliance on the US, exemplified through strategic alliances such as the QUAD and AUKUS, as well as the collective deterrence perpetuated by these actors against China. With this, Australia's complicated position between the US and China

will be introduced, as it is in pursuit of both strategic cooperation with the US and economic cooperation with China.

Next, the region's territorial conflicts in the South China Sea and Taiwan will be explained, as well as the need for diversification away from the current economic homogeneity of the regional supply chain of strategic materials and critical minerals. Lastly, Australia's future relationship with other actors in the Indo-Pacific, including India, Japan, and ASEAN with an emphasis on Indonesia, will be analyzed. An improbable black swan scenario regarding a drastic shift in the world order will also be reviewed in order to fully cover Australia's role in the future. Overall, this report aims to argue that the most likely scenario regarding Australia's relations with other actors in the Indo-Pacific is for the current status quo within the region to remain the same throughout the coming years.

GENERAL INFORMATION TABLE¹

Located in Oceania; does not share any land border.	Ranks 16th in terms of total area, counting 7,741,220 sq km.
World's largest net exporter of coal, accounting for 26.5% of global coal exports in 2021 and the world's largest supplier of opals.	Most relevant natural resources: aluminum, coal, iron ore, copper, lithium, tin, gold, silver, uranium, nickel, mineral sands and lead.
Current Prime Minister: Anthony Albanese from the Australian Labor Party	Population is primarily located on the periphery, with the highest concentration of people residing in the east and southeast
World's smallest continent but sixth-largest country in the world.	Ranks 54th in terms of total population, with a total of 26,461,166 (2023 est.)
Indonesia's military spending accounts for 2% of the total GDP (2023 est.).	72% of the population speaks English.
20% of the population is Roman Catholic, followed by a 18.1% of Protestant.	Australia is the 20th largest economy in the world, with a Real GDP of \$1.279 trillion USD (2021 est.)

¹ CIA. 2022. "Australia - the World Factbook." [www.cia.gov. 2022.](https://www.cia.gov/the-world-factbook/countries/australia/)
<https://www.cia.gov/the-world-factbook/countries/australia/>.

I. AUSTRALIA'S STRATEGIC ENVIRONMENT

The central objective of Australia's security and defense strategy is to promote the country's national security, sovereignty, and prosperity. Since the end of World War II, Australia has been guided by manifold strategic papers, white papers, and defense reviews aimed at outlining Defense's contribution to Australian security. Nevertheless, Australia's current strategic circumstances have radically changed in recent years. The US, an important partner with whom Australia has historically enjoyed a strong alliance, is no longer the Indo-Pacific's unipolar leader. China's active pursuit of increasing its influence in the region has caused the Indo-Pacific to fall under major power strategic competition, forcing Australia to reconcile with how to best avoid the possibility of major conflict in the region, the likes of which would directly threaten Australian national interests.

Strategically, the Indo-Pacific has entered a decisive period. Previous years have seen Australia's defense policy approach aimed at deterring potential low-level threats within the country's immediate region. However, this approach is no longer appropriate, as Australia must become much more active in maintaining a regional power balance in the Indo-Pacific. Simply put, the "nature of current and future threats – including coercion in the region, more capable and active regional military forces, and expanding anti-access and area denial capabilities – requires Defence to develop a different set of capabilities."² Therefore, the strategic risks posed to Australia as a result will require the country to implement a new and reformed approach to areas such as defense planning, capability development, acquisition, force posture, and force structure.

The serious nature of the current strategic risks to Australia have also caused the country to abandon the 10-year strategic warning time for a conventional attack against Australia that previously served as the basis for its defense planning. However, due to current threats of "coercion, competition and grey-zone activities directly or indirectly targeting Australian interests,"³ Australia no longer enjoys the privilege of receiving a timely warning ahead of a

² Nicole Brangwin Brangwin and David Watt, "The State of Australia's Defence: A Quick Guide," [aph.gov.au/](https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/rp/rp2223/Quick_Guides/StateofAustraliasDefence) (Commonwealth of Australia, July 27, 2022), https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/rp/rp2223/Quick_Guides/StateofAustraliasDefence.

³ Australian Government, "2020 Defence Strategic Update," [Defence.gov.au](https://www.defence.gov.au/about/strategic-planning/2020-defence-strategic-update) (Australian Government, July 1, 2020), <https://www.defence.gov.au/about/strategic-planning/2020-defence-strategic-update>, pg. 14

conflict occurring. Therefore, it must not only grow its regional military capabilities, but also increase their deployment speed.

Moreover, Australia relies quite heavily on its partnership with the US, seeing the alliance as a central component of Australia's overall security and strategy. Due to Australia's great geopolitical significance to the US, cooperation between the two nations is further strengthened. However, due to its complete dependence upon the US in matters of security and defense, it is highly unlikely that Australia will reach the degree of military sovereignty necessary to significantly increase its own defense capabilities within the coming decades. Furthermore, Australia considers that the US will become an even more vital aspect of the Australian defense strategy within the coming decades,⁴ as close cooperation with the US is vital in order to achieve stability within the Indo-Pacific. Therefore, Australia will continue to nurture this alliance with the US alongside other Indo-Pacific regional partnerships as well.

This heightened US military presence in Australia will not be without its consequences within the following years. The strategic alliance between the two countries is characterized as being a fundamentally unequal partnership, with the US, by virtue of its pure size, shouldering a much larger financial burden than Australia. This fundamental inequality, coupled with the US defense budget sequestration resulting from the Global Financial Crisis, has thus resulted in the US progressively asking more of Australia financially.⁵ Considering the current insufficiency of Australia's budget, the Australian Defense Force (ADF) will likely struggle to comply with further demands from the US without additional resources, posing great economic consequences for the country. Furthermore, Australia will continue to utilize US defense capabilities in an uneven manner, despite possible future political ramifications.

Logistically, however, US military presence in Australia greatly benefits Australia, as it will now gain access to new defense capabilities that it would otherwise have been unable to develop domestically. For example, the US rotational deployment of Marines to Darwin will

⁴ Australian Government, "National Defence: Defence Strategic Review 2023," Defence.gov.au (Australian Government, April 2023), <https://www.defence.gov.au/about/reviews-inquiries/defence-strategic-review#:~:text=The%20Defence%20Strategic%20Review%20sets>, pg. 18

⁵ Nathan Church, "The Australia-United States Defence Alliance," aph.gov.au (Parliament of Australia, 2013), https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook44p/AustUSDefence.

likely benefit the defense relationship between the two countries by allowing for US and Australian forces to train together and strengthen interoperability with one another. "However, the question of how this ongoing (and expanding) deployment will be financed in the long-term remains unresolved, which potentially risks complicating any potential goodwill created."⁶ Furthermore, Australia's ability to balance its own sovereignty with its strategic dependency upon the political will of the US will remain a challenge for both countries within the coming years.

Additionally, China's increasingly assertive character in the Indo-Pacific has motivated Australia to strengthen its strategic alliances with the US and other allies, promoting a joint strategy of deterrence by denial against China. Simply put, this strategy seeks to dissuade Chinese aggression by showing it as unlikely to succeed, thus lowering China's confidence in attaining its objectives.⁷ The strategy deployed by Australia and its allies is also characterized by its sense of urgency, and is widely considered by alliance members as the most practical way to deter Chinese aggression in the Indo-Pacific in a timely and cost-efficient manner.⁸

A. Australia's National Defense Strategy

Considering the changing nature of current and future threats to the Indo-Pacific region, Australia's national defense strategy emphasizes the need for an ambitious, yet necessary reform to defense. This reform includes the update of Australia's strategic policy, as well as the improvement of defense planning and resourcing within the coming years. In its Defense Strategic Review (DSR) of 2023, the Albanese Government identified six clear priority areas where immediate action was required.⁹

The first priority area identified is regarding the acquisition of nuclear-powered submarines to enhance Australian deterrence capabilities. These nuclear-powered submarines come as

⁶ Nathan Church, "The Australia-United States Defence Alliance," [aph.gov.au](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook44p/AustUSDefence) (Parliament of Australia, 2013), https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook44p/AustUSDefence.

⁷ Michael Mazarr, "Understanding Deterrence", Rand.org (RAND Corporation, April 19, 2018), <https://www.rand.org/pubs/perspectives/PE295.html>.

⁸ Ashley Townshend, Tom Corben, and David Santoro, "A New Age for Deterrence and the Australia-US Alliance," [www.usssc.edu.au](https://www.usssc.edu.au/a-new-age-for-deterrence-and-the-australia-us-alliance) (United States Studies Center, December 20, 2022), <https://www.usssc.edu.au/a-new-age-for-deterrence-and-the-australia-us-alliance>.

⁹ Anthony Albanese and Richard Marles, "Release of the Defence Strategic Review," Media release, <https://www.minister.defence.gov.au/media-releases/2023-04-24/release-defence-strategic-review>.

part of the AUKUS agreement between Australia, the US, and the United Kingdom (UK), with the countries declaring their intentions to provide Australia with the technology necessary to develop this fleet. The fleet is expected to be built in South Australia before 2030, allowing for Australia to officially join the small group of state actors with nuclear capacity.¹⁰

The second priority area identified is the development of the ADF's long-range strike capabilities. The ADF's ability to hold off an adversary in the north is largely dependent upon the development of guided and long-range strike weapons. This will require the ADF to not only maintain stocks of guided weapons and explosive ordinance, but also to develop its ability to manufacture munitions in Australia, as Australia currently does not boast sovereign design, development, or manufacturing of munitions.¹¹

Global crises, such as the war in Ukraine, further demonstrated the need for the ADF to increase its ability to sustain the necessary materials required for high-end warfare, especially ammunition.¹² Developing a secure supply chain with new manufacturing capabilities is a vital goal for Australia over the coming years, though it remains unclear to what extent Australia will be successful in achieving this goal. In March 2021, Australia announced the Guided Weapons and Explosive Ordnance Enterprise (GWEO), meant to be the "enabling ecosystem to support Defence's inventory of guided weapons and explosive ordnance."¹³ However, the GWEO still appears to be far from reaching its production goal, with its 'strategic partners' (Raytheon and Lockheed Martin) already producing the majority of Australia's guided munitions both onshore and abroad.¹⁴

¹⁰ Nicole Brangwin Brangwin and David Watt, "The State of Australia's Defence: A Quick Guide," [aph.gov.au/ \(Commonwealth of Australia, July 27, 2022\)](https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/rp/rp2223/Quick_Guides/StateofAustraliasDefence), https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/rp/rp2223/Quick_Guides/StateofAustraliasDefence.

¹¹ William Leben, "What's the Plan for 'Sovereign' Munitions for the ADF?," The Strategist (Australian Strategic Policy Institute, November 2, 2022), <https://www.aspistrategist.org.au/whats-the-plan-for-sovereign-munitions-for-the-adf/>.

¹² Richard Marles, "Address to the Sydney Institute Annual Dinner Lecture" (Sydney Institute Annual Dinner Lecture, November 14, 2022), <https://www.minister.defence.gov.au/speeches/2022-11-14/address-sydney-institute-annual-dinner-lecture>.

¹³ Australian Government, "Acceleration of the Sovereign Guided Weapons and Explosive Ordnance Enterprise," [defence.gov.au \(Australian Government, July 14, 2021\)](https://www.defence.gov.au/news-events/releases/2021-07-14/acceleration-sovereign-guided-weapons-and-explosive-ordnance-enterprise-1), <https://www.defence.gov.au/news-events/releases/2021-07-14/acceleration-sovereign-guided-weapons-and-explosive-ordnance-enterprise-1>.

¹⁴ William Leben, "What's the Plan for 'Sovereign' Munitions for the ADF?," The Strategist (Australian Strategic Policy Institute, November 2, 2022), <https://www.aspistrategist.org.au/whats-the-plan-for-sovereign-munitions-for-the-adf/>

The third identified priority area regards the improvement of the ADF's operational ability from northern bases in Australia, as these bases will provide the country with a platform for logistics support and deterrence efforts.¹⁵ The 2023 DSR identified that it is imperative for Australia to remediate this network of northern bases urgently and comprehensively, with priority being placed on the network's series of critical air bases. However, most of these recommendations have not been implemented.¹⁶

The fourth identified priority area is the growth and retention of a defense workforce that is highly skilled, including making fundamental changes to recruitment and workforce management. Defense currently faces significant workforce challenges across all areas of the ADF and the Australian Public Service (APS). Both the ADF and APS workforces are severely lacking, while the contractor workforce has grown to be the largest workforce element of Defense. Moreover, amongst the military services, the Navy faces the largest workforce challenges,¹⁷ which will prove problematic as various Navy capabilities (such as the aforementioned nuclear-powered submarines) play a key role in Australia's defense strategy. Several recommendations are made within the DSR to rectify this issue, including urging Defense to look toward new markets to increase retention and the speed of workforce recruitment, as well as to offer workers highly competitive pay, service conditions, and an optimal workplace culture.¹⁸

The fifth priority area identified is the maintenance of a close partnership with Australian industry so as to improve Australia's capacity to quickly integrate disruptive new technologies into ADF capabilities. Through the rapid translation of emerging and disruptive technologies into military capabilities, Australia aims to provide an asymmetric advantage for the ADF, as "the strategic demand for Defence's capability innovation systems has never been higher."¹⁹ Therefore, Defense calls for the optimization of its science and technology system

¹⁵ Australian Government, "National Defence: Defence Strategic Review 2023," Defence.gov.au (Australian Government, April 2023), <https://www.defence.gov.au/about/reviews-inquiries/defence-strategic-review#:~:text=The%20Defence%20Strategic%20Review%20sets>. pg. 19

¹⁶ *Ibid.* pg. 76

¹⁷ *Ibid.* pg. 57

¹⁸ *Ibid.* pg. 20

¹⁹ Australian Government, "National Defence: Defence Strategic Review 2023," Defence.gov.au (Australian Government, April 2023), <https://www.defence.gov.au/about/reviews-inquiries/defence-strategic-review#:~:text=The%20Defence%20Strategic%20Review%20sets>. pg. 72

through focusing on its strategic priorities and leveraging national and international partners to develop scale.

The last identified priority area is the strengthening of Australia's diplomatic and defense cooperation with key partners within the Indo-Pacific region. The 2023 DSR cites the importance of strengthening engagement with partners in the Pacific and Southeast Asia to promote security, peace, and prosperity within the region. Australia will also continue its work with key regional institutions such as ASEAN and the Pacific Islands Forum.

B. Challenges to Australia's National Defense Strategy

Despite Australia's goal of significantly increasing its own defense capabilities within the coming years, the country suffers from many challenges in the area of security and defense that will pose great obstacles to the realization of this goal.

1. ADF Weaknesses

First, the current structure of the ADF is simply inadequate to respond to the current strategic environment. The ADF lacks a focused force with the capacity to rapidly respond to possible risks and must be capable of promoting an effective strategy of denial. The 2023 DSR states that in order to maximize deterrence efforts, denial, and response options, the ADF must reform so that it acts as an Integrated Force, harnessing effects from maritime, land, air, space, and cyber domains.²⁰ Moreover, the Army is to play a critical role in the Integrated Force, delivering deterrence through the projection of force further into Australia's northern approaches.²¹ The Integrated Force's success is highly dependent upon the Army's capacity to reshape itself toward a more focused mission and with a more enhanced capability.²²

²⁰ Australian Government, "National Defence: Defence Strategic Review 2023," Defence.gov.au (Australian Government, April 2023), <https://www.defence.gov.au/about/reviews-inquiries/defence-strategic-review#:~:text=The%20Defence%20Strategic%20Review%20sets>. pg. 19

²¹ Peter Dean, "Inside the Defence Strategic Review: A Conversation with Secretariat Co-Lead, Professor Peter Dean," Podcast (ANU National Security College, May 25, 2023), <https://podcasts.apple.com/au/podcast/the-national-security-podcast/id1395131021>.

²² Anthony Albanese, "Press Conference - Parliament House, Canberra," Press conference, <https://www.pm.gov.au/media/press-conference-parliament-house-canberra-11>.

Regarding defense, the Army may offer a level of persistence to the ADF, which in turn improves deterrence by showing that Australia could defend itself against a surprise attack. For example, a potential adversary may be successful in pinpointing Australia's ships, planes, and bases, but unsuccessful at uncovering army assets. Furthermore, the Army's contribution to integrated air and missile defense bolsters national resilience.²³ However, this transformation entails major capability tradeoffs, with this "degradation of land power"²⁴ undermining the overall DSR because long-range strike capabilities require the protection of land forces. Along this line, the DSR previews that enhanced Army Reserve brigades will take over the protection and expansion of northern bases into Australia's primary military interest area, thus supporting the ADF's survivability.²⁵ While the Integrated Force proposal to respond to the ADF's shortcomings constitutes a positive step forward, it remains unclear whether this transformation is reasonable or will have net positive effects for Australia's defense capabilities.

2. Defense Budget Shortcomings

Defense also faces severe challenges in relation to both its budget and workforce, constituting another great obstacle for Australia to significantly increase its military capabilities within the coming years. Regarding defense funding, the budget has been growing steadily, with the 2022-2023 funding toward the Department of Defense and the Australian Signals Directorate totaling \$31.74 billion.²⁶ Furthermore, the 2020 Defense Strategic Update reaffirmed and readjusted a 10-year funding model put forth in the 2016 Defense White Paper set to total \$375.56 billion, of which \$176.35 billion would be allocated for defense capabilities.²⁷ The 2020 Defense Strategic Update emphasized that this increase in funding was a direct result of

²³ Alex Bristow and Marcus Schultz, "Army Has a Critical Role in Defence Strategic Review's 'Integrated Force,'" [aspistrategist.org.au](https://www.aspistrategist.org.au) (Australian Strategic Policy Institute, June 22, 2023),

<https://www.aspistrategist.org.au/army-has-a-critical-role-in-defence-strategic-reviews-integrated-force/>.

²⁴ Andrew Hastie, "Press Conference: Defence Strategic Review," Andrew Hastie MP (Andrew Hastie MP, April 24, 2023), https://www.andrewhastie.com.au/press_conference_defence_strategic_review.

²⁵ Alex Bristow and Marcus Schultz, "Army Has a Critical Role in Defence Strategic Review's 'Integrated Force,'" [aspistrategist.org.au](https://www.aspistrategist.org.au) (Australian Strategic Policy Institute, June 22, 2023),

<https://www.aspistrategist.org.au/army-has-a-critical-role-in-defence-strategic-reviews-integrated-force/>.

²⁶ All dollar amounts hereinafter referred to in USD.

²⁷ Nicole Brangwin Brangwin and David Watt, "The State of Australia's Defence: A Quick Guide," aph.gov.au (Commonwealth of Australia, July 27, 2022),

https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/rp/rp2223/Quick_Guides/StateofAustraliasDefence.

the Indo-Pacific region becoming "more competitive and contested",²⁸ with defense planning therefore needing to be adjusted to focus on Australia's immediate region.

However, despite the steady growth of the defense budget, it is still not enough to allow for Australia to significantly increase its capabilities. This funding line's growth, put forth in 2016 and extended in 2020, is still following a trajectory that was established over seven years ago. The Australian government states that "Australia is facing the most difficult strategic circumstances since the Second World War,"²⁹ yet a bolstered funding line has not emerged based upon this strategic evaluation. Furthermore, lead times for a large portion of major capability acquisitions require years, and in some cases decades, to complete.³⁰

Even before the release of 2023's DSR, the Defense investment program was overcrowded. Many capabilities contained in the fund, such as long-range fires and ballistic missile defense, were either entirely new or replacing existing capabilities with much more expensive upgrades, such as the replacement of 3,600-ton Anzac-class frigates with 10,000-ton Hunter class frigates.³¹ However, no budget adjustment was made to account for the substantial cost difference between these new capabilities and the old ones that they replace, calling into question the capacity of the investment program to deliver promised results. Furthermore, the 2023 investment program was over-programed by 24 percent beyond the forward estimates,³² meaning that the planned expenditure severely exceeded the available budget for that year.

Short-term budget instability also constitutes a large obstacle in Australia's goal to reform and modernize its defense capabilities. Significant risks to long-term funding commitments stem from the Australian Parliament's three-year electoral cycle, where any shifts in funding

²⁸ Nicole Brangwin Brangwin and David Watt, "The State of Australia's Defence: A Quick Guide," [aph.gov.au/ \(Commonwealth of Australia, July 27, 2022\)](https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/rp/rp2223/Quick_Guides/StateofAustraliasDefence), https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/rp/rp2223/Quick_Guides/StateofAustraliasDefence.

²⁹ Australian Government, "Investing in Australia's National Defence," [minister.defence.gov.au/ \(Australian Government, May 9, 2023\)](https://www.minister.defence.gov.au/media-releases/2023-05-09/investing-australias-national-defence#:~:text=Australia%20is%20facing%20the%20most.no%20longer%20fit%20for%20purpose), <https://www.minister.defence.gov.au/media-releases/2023-05-09/investing-australias-national-defence#:~:text=Australia%20is%20facing%20the%20most.no%20longer%20fit%20for%20purpose>.

³⁰ Nicole Brangwin Brangwin and David Watt, "The State of Australia's Defence: A Quick Guide," [aph.gov.au/ \(Commonwealth of Australia, July 27, 2022\)](https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/rp/rp2223/Quick_Guides/StateofAustraliasDefence), https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/rp/rp2223/Quick_Guides/StateofAustraliasDefence.

³¹ Marcus Hellyer, "Defence Budget 2023-24 – Nervous Times Ahead," [australiandefence.com.au \(Australian Defence Magazine, June 12, 2023\)](https://www.australiandefence.com.au/defence/budget-policy/defence-budget-2023-24-nervous-times-ahead), <https://www.australiandefence.com.au/defence/budget-policy/defence-budget-2023-24-nervous-times-ahead>.

³² *Ibid.*

beyond the forward estimates would strongly impact Defense's ability to carry out necessary reforms.³³ Furthermore, rising inflation rates seriously threaten Defense's buying power. Inflation rates for the 2022-23 and 2023-24 years were around six percent per year, almost four percent higher than projected when generating the current funding line. This means that Defense will lose approximately eight to ten percent of its buying power, which will be further exacerbated in those overseas countries with higher inflation rates from which Defense buys much of its equipment.³⁴

Lastly, the DSR has recommended that the delivery period of certain capabilities be accelerated, with forward estimates showing the cost of the DSR to be \$12.41 billion.³⁵ However, \$5.09 billion of this constitutes a budget reprioritization to act as additional funding for key partnerships in the Indo-Pacific which Defense is responsible for finding, effectively putting \$5.09 billion of additional pressure on the budget and begging the question of how these funds will be freed.³⁶ In short, the current budget simply does not appear to be adequate enough to fund increased defense capabilities to a significant degree.

3. Defense Workforce Challenges

The significant workforce challenges faced by Australia also present another large obstacle keeping the country from being able to successfully develop its own military capabilities within the coming years. It was announced in March 2022 that the ADF would be expanded by 30 percent by 2040,³⁷ though many questioned how this feat would be achieved considering the extreme challenges toward recruiting and retaining personnel faced by Defense. Furthermore, even if the ADF manages to reach this recruiting target, another challenge will be the retention of skilled personnel, especially in critical employment areas. For example, Australia's acquisition of a nuclear-powered submarine fleet will require a

³³ Australian Government, "3. Defence Capability Planning in Australia," aph.gov.au (Australian Parliament, 2023), https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Foreign_Affairs_Defence_and_Trade/BipartisanDefAgreement/Report_1/section?id=committees%2Freportjnt%2F024142%2F25719.

³⁴ Marcus Hellyer, "Defence Budget 2023-24 – Nervous Times Ahead," australiandefence.com.au (Australian Defence Magazine, June 12, 2023), <https://www.australiandefence.com.au/defence/budget-policy/defence-budget-2023-24-nervous-times-ahead>.

³⁵ *Ibid.*

³⁶ Max Blenkin, "2023-2024 Defence Budget at First Glance," www.australiandefence.com.au (Australian Defence Magazine, May 9, 2023), <https://www.australiandefence.com.au/defence/budget-policy/2023-2024-defence-budget-at-first-glance>.

³⁷ Australian Government, "Defence Workforce to Grow above 100,000," aph.gov.au (Parliament of Australia, May 10, 2022), <https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p>.

significantly different workforce with new skill sets to operate, posing a clear challenge to recruitment, retention, and training efforts. Moreover, there has been a steady decline in Defense's civilian workforce over the past years, which, combined with a reduced APS workforce, has forced Defense to rely much more on its external workforce in the delivery of major capabilities.³⁸ After analyzing Australia's defense posture, capabilities and challenges, one can better understand Australia's position within this complex landscape. The conduction of a SWOT analysis offers further insights into the internal and external factors influencing Australia's strategic position.

SWOT ANALYSIS

Strengths	Weaknesses
<ul style="list-style-type: none"> - Robust economy - Strategic location - Natural resources abundance - High quality education - Cultural diversity - Advanced health care system - Trade with ASEAN, Japan and India - Domestic political stability - G20 membership - AUKUS membership 	<ul style="list-style-type: none"> - Indigenous inequality - Reliance on commodities exports - Infrastructure strain - High levels of migration - Dependence on US for security matters - Complacency due to isolation - Limited sovereign capacity to respond to external crisis or war
Opportunities	Threats
<ul style="list-style-type: none"> - Increase in renewable energy usage - China-US increasing investment in order to counterbalance one another - Infrastructure development - Expansion into the tourism economy - QUAD's involvement in the region - Leverage of US interoperability - Relationship with ASEAN - Trade opportunities in North-East Asia: Japan, South Korea, and Taiwan - Growing ties with India - Antarctica and the Southern Ocean - Untapped natural reserves 	<ul style="list-style-type: none"> - Climate change - US-China rivalry - Aggressive Chinese investment - Taiwan's issue - Chinese behavior in South China Sea - Heavy reliance on US and consequently a US retreat from ideational leadership - Transnational security concerns - Large-scale unregulated movement of people throughout Southeast Asia

Authors' creation

³⁸ Nicole Brangwin Brangwin and David Watt, "The State of Australia's Defence: A Quick Guide," [aph.gov.au/ \(Commonwealth of Australia, July 27, 2022\)](https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/rp/rp2223/Quick_Guides/StateofAustraliasDefence), https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/rp/rp2223/Quick_Guides/StateofAustraliasDefence.

C. Strategic Alliances

Australia has formed several strategic alliances and partnerships with various state actors throughout the world in order to promote peace, security, and prosperity throughout the Indo-Pacific region.

1. AUKUS

On 16 September 2021, Australia, the US, and the UK announced the formation of AUKUS, a security and defense cooperation agreement under which the US and UK will share with Australia advanced defense technologies. Despite still being in its early stages, AUKUS aims to act as a "trilateral technology accelerator between the governments of the three nations with a ruthless focus on increasing the military power of each."³⁹ While the agreement is wide-ranging, perhaps the most notable inclusion is the Exchange of Naval Nuclear Propulsion Information Agreement (ENNPIA), which allows for the US and UK to share the necessary technology to allow for Australia to develop a fleet of nuclear-powered submarines (though it remains important to keep in mind that these are not nuclear-armed vessels). The ENNPIA will also call for the US and UK to provide training to Australia regarding the building, operation, and support of nuclear-powered submarines.⁴⁰ Beyond nuclear-powered submarines, the agreement also includes sharing artificial intelligence, quantum computing, and cybersecurity capabilities, among others.⁴¹ Additionally, AUKUS Pillar II added the trilateral delivery of capabilities such as undersea warfare and hypersonics to this agreement.⁴²

³⁹ Michael Shoebridge, "What Is AUKUS and What Is It Not?," *Australian Strategic Policy Institute* (Australian Strategic Policy Institute, December 2021), <https://ad-aspi.s3.ap-southeast-2.amazonaws.com/2021-12/What%20is%20AUKUS%20and%20what%20is%20it%20not.pdf?VersionId=uAcnyOeum5lvEdiJYxSRW5SubMT2AMIV>. pg. 4

⁴⁰ Australian Government, "Treaties Committee Supports First AUKUS Agreement," aph.gov.au (Parliament of Australia, December 17, 2021), https://www.aph.gov.au/About_Parliament/House_of_Representatives/About_the_House_News/Media_Releases/Treaties_Committee_supports_first_AUKUS_agreement.

⁴¹ Salvador Sánchez Tapia, "Aukus: La Alianza Que Abiertamente Militariza La Relación Con China," *Global Affairs and Strategic Studies* (Universidad de Navarra, September 20, 2021), <https://www.unav.edu/web/global-affairs/aukus-la-alianza-que-abiertamente-militariza-la-relacion-con-china>.

⁴² Australian Government, "National Defence: Defence Strategic Review 2023," [Defence.gov.au](http://defence.gov.au) (Australian Government, April 2023), <https://www.defence.gov.au/about/reviews-inquiries/defence-strategic-review#:~:text=The%20Defence%20Strategic%20Review%20sets>. pg. 72

In short, the signing of this agreement signifies the express interest of the US and UK in strengthening of Australia's military capabilities so as to deter against threats in the Indo-Pacific region, with a large focus put on increased levels of deterrence against China in particular. The agreement can also be seen as the product of the US' work to continue creating a multifaceted regional security architecture in the Indo-Pacific, marking a stark shift in US global strategy. Indeed, through empowering its trusted ally in the Indo-Pacific to strengthen its military capabilities, the US may direct its attention and resources elsewhere in the world. Furthermore, this new "inner Anglosphere core"⁴³ has shifted the Indo-Pacific's regional order, which may see potential consequences such as an escalation of the arms race, increased regional tensions, or the subversion of institutions promoting nuclear non-proliferation.

Australia also holds a significant stake in this agreement. As a historically reliable ally for the US, the signing of this agreement has implied a "profound strategic reorientation of Australian national security, which abandons previous policies in which closer economic ties with China and rapprochement with the Asian giant played an important role."⁴⁴ Therefore, for Australia, the signing of this agreement can be seen as an open militarization of the country's relationship with China, forcing Australia to abandon its anti-nuclear stance and to strengthen itself militarily.

China initially responded to this agreement with irritation, viewing it as a hostile and targeted containment attempt against it perpetuated by the US, UK, and Australia. Moreover, the signing of this agreement has further reaffirmed China's armament plans in some capacity as it seeks to offset the military might now exercised by the AUKUS alliance.

2. *The QUAD*

Another important strategic alliance for Australia is the QUAD, an informal strategic forum for cooperation formed by India, US, Japan and Australia. Its origins date back to 2004, after the Indian-Ocean tsunami occurred. In 2007, its first meeting was held as a more formal alliance, but it crumbled shortly after due to the fear of a negative reaction from China.

⁴³ Manqing Cheng. 2022. "AUKUS: The Changing Dynamic and Its Regional Implications." *European Journal of Development Studies* 2 (1): 1–7. <https://doi.org/10.24018/ejdevelop.2022.2.1.63>.

⁴⁴ Salvador Sanchez Tapia. 2021. "Aukus: La Alianza Que Abiertamente Militariza La Relación Con China." *Global Affairs and Strategic Studies*. September 20, 2021. <https://www.unav.edu/en/web/global-affairs/aukus-la-alianza-que-abiertamente-militariza-la-relacion-con-china>.

Eventually, the QUAD resurfaced in 2021 despite China's claims of the grouping being an attempt to contain it.⁴⁵

The QUAD's main goal is to effectively counterbalance China's dominance in the Indo-Pacific region. Therefore, its members have been exerting pressure within the region during past years and cooperating in different areas, including health and infrastructure, cybersecurity, counterterrorism, environmental issues, and military exercises. Although the QUAD has no military dimension, the lack of a specific mandate leaves the alliance free to act as it pleases in the face of issues of any kind.

One specific military exercise undergone by members of the QUAD is the Malabar Exercise, a multilateral naval wargaming exercise which has been held between the US, Japan and India since the end of the cold war. Australia reincorporated this exercise in 2020, with the most recent one being held in Sydney in 2023.⁴⁶ From a geopolitical perspective, this exercise is a way for the QUAD members to exercise deterrence toward China and promote the idea of a free and open Indo-Pacific. Nevertheless, there is no mention of China in any of the QUAD's official statements.

Due to the Indo-Pacific being of great strategic importance in the struggle between the US and China, the QUAD acts as a key mechanism within the region, bringing together like-minded democracies in order to maintain the status quo within the Indo-Pacific. All members of the QUAD exercise a joint strategy of deterrence against China in pursuit of maintaining a peaceful and open Indo-Pacific, aiming to maintain the region's strategic sea routes free of any military or political influence.⁴⁷ Therefore, some questions have arisen regarding whether the QUAD will ever evolve toward a military alliance, though it appears unlikely, with the joint military exercises carried out characterized as a soft power approach to deterrence against China. Additionally, Australia, Japan and India are all powerful regional

⁴⁵ Sheila Smith. 2021. "The Quad in the Indo-Pacific: What to Know." Council on Foreign Relations. May 27, 2021. <https://www.cfr.org/in-brief/quad-indo-pacific-what-know>.

⁴⁶ Aishwarya Sanjukta Roy Proma. 2023. "The Malabar Exercise 2023: Evolving Dynamics of QUAD in the Indo-Pacific." The Geopolitics. August 31, 2023. <https://thegeopolitics.com/the-malabar-exercise-2023-evolving-dynamics-of-quad-in-the-indo-pacific/#:~:text=The%20Malabar%202023%20naval>.

⁴⁷ Australian Government. 2023. "The Quad." Australian Government Department of Foreign Affairs and Trade. 2023. <https://www.dfat.gov.au/international-relations/regional-architecture/quad>.

actors, allowing for the US to more easily exert influence over the region through this partnership.

Dependent upon the US for security matters for many decades, Japan has become more assertive and autonomous on issues of security and defense in recent years. A main goal is to maintain both regional peace and maritime order, thus requiring close cooperation with other members of the QUAD. Japan has also collaborated on the ASEAN Outlook on the Indo-Pacific (AOIP),⁴⁸ which aims to boost equilibrium in the region. It is likely that due to Japan's change of behavior regarding defense issues, its cooperation with Australia will also increase within the coming years.

Furthermore, a stable Indo-Pacific means national security and economic prosperity for Australia, which can be achieved through enhanced multilateral security arrangements. The QUAD is especially beneficial to Australia, not only for its function but also what it represents. First, the QUAD connects East and West, as well as the global North and the global South. Moreover, the QUAD has allowed Australia to create new bilateral security arrangements with other member states, representing an overall strategic counterweight to China.

D. Australia's Strategy of Deterrence by Denial

Australia is firmly aligned with the US in a strategic ambit, with both countries recognizing the need for a collective approach to deterrence and defense of the Indo-Pacific. To achieve this goal, expanding defense cooperation between the countries (alongside other regional allies such as Japan) is essential, which will also support the credibility of collective deterrence. Both the US and Australia support deepening their strategic planning cooperation on Indo-Pacific security flashpoints. Moreover, both countries are in agreement that "efforts to resource strategy of conventional deterrence by denial need to proceed with far greater urgency,"⁴⁹ taking into account the increased assertiveness of China in the region.

⁴⁸ ASEAN. 2019b. "ASEAN Outlook on the Indo-Pacific."

https://asean.org/asean2020/wp-content/uploads/2021/01/ASEAN-Outlook-on-the-Indo-Pacific_FINAL_22062019.pdf.

⁴⁹ Ashley Townshend, Tom Corben, and David Santoro, "A New Age for Deterrence and the Australia-US Alliance," www.ussc.edu.au (United States Studies Center, December 20, 2022),

<https://www.ussc.edu.au/a-new-age-for-deterrence-and-the-australia-us-alliance>.

The cornerstone of the US approach to promoting security in the Indo-Pacific is integrated deterrence by denial. This strategy aims to deny China against the military superiority, speed, and surprise required to launch a forceful alteration of the status quo in the region.⁵⁰ However, it remains unclear how willing—and able—Australia and Japan will be to adapt their defense forces to comply with a collective force structure.

Meanwhile, Australia is interested in achieving a greater degree of self-reliant deterrence effects, as the worst case scenario for Australia is the "prospect of an adversary establishing a presence in [its] near region from which it can target Australia or isolate [it] from [its] partners and allies."⁵¹ This could occur if China attempted to stretch US military resources through the horizontal escalation of a conflict.

It is widely asserted that the idea of Australia being capable of single-handedly inflicting sufficient harm against a power of China's caliber is ridiculous.⁵² However, this asymmetry in military might could be neutralized if Australia can show China that "the costs of operations exceed the value to be gained by prosecuting them."⁵³ With this in mind, Australia may be able to hold China's forces at risk from a great distance, with the prospect of launching an attack on Chinese military bases in the South China Sea and the South Pacific being seen as an effective deterrence strategy.

It remains important to note that certain incompatibilities exist between the US and Australia's respective positions on deterrence against China. Some US circles question the true extent of the commitment and durability of Australian and Japanese forces in the face of conflict, especially in regards to a Taiwan contingency. Additionally, in the wake of the

⁵⁰ *Ibid.*

⁵¹ Marcus Hellyer and Andrew Nicholls, "Impactful Projection": Long-Range Strike Options for Australia," [aspi.org.au/](https://www.aspi.org.au/) (Australian Strategic Policy Institute, December 12, 2022), <https://www.aspi.org.au/index.php/report/impactful-projection-long-range-strike-options-australia>.

⁵² Paul Dibb and Richard Brabin-Smith AO, "Deterrence through Denial: A Strategy for an Era of Reduced Warning Time," [aspi.org.au/](https://www.aspi.org.au/) (Australian Strategic Policy Institute, May 22, 2021), <https://www.aspi.org.au/report/deterrence-through-denial-strategy-era-reduced-warning-time>, pg. 14

⁵³ Euan Graham, "Editors' Picks for 2023: 'Australia's Deterrence Strategy and the Question of Targeting China,'" *The Strategist* (Australian Strategic Policy Institute, January 4, 2024), <https://www.aspi.org.au/editors-picks-for-2023-australias-deterrence-strategy-and-the-question-of-targeting-china/>.

conflict in Ukraine, most Australians insist on the establishment of clear risk thresholds to command alliance action in a multitude of different scenarios.⁵⁴

The US and Australia also have different views regarding the extent to which US involvement will be necessary in continuing with a strategy of deterrence by denial. On the one hand, the US believes that its role in the region should be restricted to setting theater, preparing for military challenges, and ultimately strengthening deterrence against China. Australia, on the other hand, believes that the US must play a major shaping role, affecting regional alignment and exerting influence over key countries. It is, however, important to note that in crisis scenarios, risk perceptions between the US and Australia seldom align perfectly, partly due to Australia's increased vulnerability to Chinese coercion as a middle power.⁵⁵

II. AUSTRALIA'S ECONOMIC POLICY TOWARD THE INDO-PACIFIC

The ascent of China as a global superpower significantly influences the geopolitical landscape of the Indo-Pacific region. China's more assertive diplomacy, expansive territorial claims in the South China Sea and along its border with India, and its growing global and regional footprint through the BRI all present new challenges to the region. With Australia's strategic interests in the hands of the US and its economic interests primarily in those of China, it will likely continue to look for economic alternatives in the region to decrease dependence on China.

The Australia-China bilateral relationship, deeply rooted in trade and cultural ties, is underscored by the significant impact of the 2015 China-Australia Free Trade Agreement (ChAFTA), which has notably enhanced Australia's position in the Chinese market, spurred economic growth, and created employment opportunities. As Australia's primary trading partner, accounting for 26 percent of its global goods and services trade in the fiscal year (FY) 2022-23, China's importance to Australia extends beyond mere economic figures. This reliance places Australia in a delicate situation amidst regional tensions, particularly due to its strategic alliance with the US. China's reliance on Australian iron ore, coal, and other strategic materials and critical minerals—driven by advantageous deals rather than political affiliations—alongside the dependence of other Asian states on these Australian resources, grants Australia leverage on the international stage despite potential market and global uncertainties.⁵⁶

However, to capitalize on its potential as a key supplier, Australia faces the challenge of attracting significant capital and foreign investment to develop its mining and processing capabilities. Efforts to diversify investment sources away from Chinese state-owned entities

⁵⁴ Ashley Townshend, Tom Corben, and David Santoro, "A New Age for Deterrence and the Australia-US Alliance," www.ussc.edu.au (United States Studies Center, December 20, 2022), <https://www.ussc.edu.au/a-new-age-for-deterrence-and-the-australia-us-alliance>.

⁵⁵ Ashley Townshend, Tom Corben, and David Santoro, "A New Age for Deterrence and the Australia-US Alliance," www.ussc.edu.au (United States Studies Center, December 20, 2022), <https://www.ussc.edu.au/a-new-age-for-deterrence-and-the-australia-us-alliance>.

⁵⁶ Australian Government Department of Foreign Affairs and Trade, "China Country Brief," Australian Government Department of Foreign Affairs and Trade, July 2022, <https://www.dfat.gov.au/geo/china/china-country-brief>.

toward partners like the US and potentially Japan and India reflect a strategic endeavor to build secure and resilient supply chains. This strategy aims not only to reduce dependency on any single country, but also to enhance Australia's role in the global market for these essential materials.

The relationship's complexity is further nuanced by ideological disparities, with Australia's preference for a democratic China differing starkly from the current authoritarian regime. Such a shift toward democracy in China could potentially diminish Australia's need for its strategic relationship with the US, highlighting Australia's desire for China's success in economic reforms and a constructive regional role. Therefore, a possible black swan scenario would be that of China undergoing a regime change, and thus becoming less authoritarian. A primary point of contention between China and Western actors is that of conflicting ideologies. A regime change in China would open the door for Australia to justify closer alignment with China, as the two countries would no longer be in ideological conflict. As a result, China would continue its rise to global superpower status with the political support of Australia and other such actors, thus changing the global political system entirely. In this scenario, it is also likely that the US, despite being more closely aligned with China on an ideological front, would still oppose China's rise to power, as it would threaten the US' status as the world's first global superpower. However, due to the immense improbability of China undergoing a regime change within the coming years, this scenario is not viable for further exploration.

Nonetheless, Australia advocates for an Indo-Pacific strategy rooted in the rule of law, underscoring the importance of US strategic involvement for regional stability. The evolving geopolitical landscape, marked by increasing global multipolarity and China surpassing the US in economic size by purchasing power parity, emphasizes the dynamic and intricate nature of international relations in the region. This backdrop of global shifts and ideological contrasts underlines Australia's strategic navigation through its ties with China, balancing economic benefits against broader geopolitical and ideological considerations.⁵⁷

⁵⁷ Peter Varghese , "The Indo Pacific and Its Strategic Challenges: An Australian Perspective" (The University of Queensland, to the Institute of South East Asian Studies, January 8, 2019), <https://www.uq.edu.au/about/chancellor/speeches-and-articles/indo-pacific-and-its-strategic-challenges-australian-perspective>.

A. Sino-Australian Mutual Economic Dependence

Australia is identified as a country with immense natural wealth in strategic materials and critical minerals, whose vastness leaves significant natural reserves of these resources untapped and underexplored, fostering great economic opportunity.⁵⁸ As one of the largest suppliers of many of Earth's critical minerals and strategic materials, Australia's significance cannot be overstated in fueling economic growth, technological progress, national security, and the global transition towards renewable energy. These indispensable resources underpin high-tech industries, facilitating everything from the manufacturing of consumer electronics to serving as crucial components for renewable energy solutions and batteries for electric vehicles. They are also essential in producing military equipment and communication technologies.⁵⁹ Australia's commanding supply position imbues it with considerable geopolitical influence, as mastery over these supply chains offers significant international leverage.

This influence is particularly significant as the world strives to reconcile the escalating demand for these materials with the necessity for sustainable development. Ensuring a secure, responsible, and diversified supply of these minerals and materials emerges as a crucial endeavor for the global community, underlining Australia's pivotal role in the future prosperity and security of nations worldwide. Australia is the largest producer of lithium, the third-largest producer of cobalt and fourth-largest of rare earths yet it is a processing minnow. It aims to become, by 2030, a globally significant producer of processed critical minerals.⁶⁰

Australia's supply dominance not only highlights its strategic importance in global economic and security frameworks but also underscores its potential to influence the sustainable and equitable distribution of these critical resources across the globe.

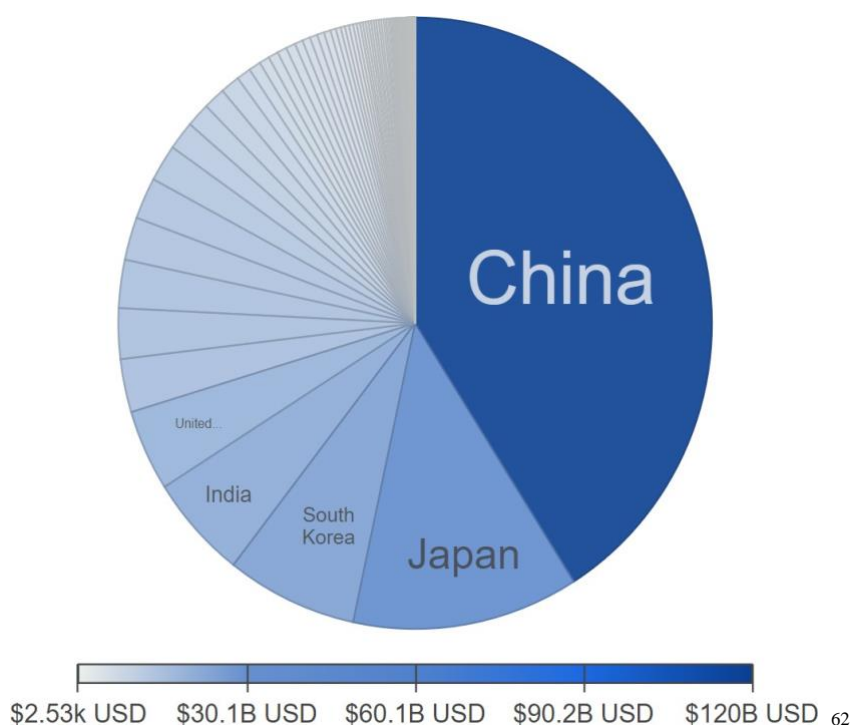
⁵⁸ John Coyne and Henry Campbell, "The Road to Critical Mineral Security Leads through Australia," Australian Strategic Policy Institute, September 23, 2023, <https://www.aspi.org.au/opinion/road-critical-mineral-security-leads-through-australia>.

⁵⁹ Madeleine King and Anthony Albanese, "Australia-Japan Strengthen Critical Minerals Cooperation," <https://www.minister.industry.gov.au/ministers/king/media-releases/australia-japan-strengthen-critical-minerals-cooperation>.

⁶⁰ "Can Australia Break China's Monopoly on Critical Minerals?," The Economist, June 20, 2023, <https://www.economist.com/asia/2023/06/20/can-australia-break-chinas-monopoly-on-critical-minerals>.

As one of the world's leading producers of strategic materials and critical minerals, with significant reserves of iron ore, liquid natural gas, coal and other rare Earth minerals, Australia's advantage over other nations stems not only from its richness in natural resources, but also from its relatively stable economic conditions, which enables a robust legislative framework and low sovereign risk. In 2020-21, Australia's iron ore exports to China were worth \$125 billion, or 74 percent of total merchandise exports to the country; LNG was worth \$10.8 billion; and coal was worth \$2.2 billion. The value of Australian agricultural, forestry, and fisheries exports to China in 2020-21 was \$11.12 billion, accounting for 7 percent of merchandise exports to the country.⁶¹ However, to realize its potential, Australia requires more capital and foreign investment to develop its critical minerals sector.

Australian Exports by Country



Source: Trading Economics; UN COMTRADE Database

⁶¹ Richard McGregor, "Chinese Coercion, Australian Resilience," Lowy Institute, October 20, 2022, <https://www.lowyinstitute.org/publications/chinese-coercion-australian-resilience>.

⁶² Trading Economics. 2023. "Australia Exports by Country." Tradingeconomics.com. 2023. <https://tradingeconomics.com/australia/exports-by-country>.

1. The Indispensable Nature of Australia's Natural Resources

The nation's economic and trade relations with China, its largest trading partner, highlight the interconnectedness of global trade, particularly in the realm of raw materials and processed goods. More than two-thirds of Australia's export revenue in 2023 came from mining strategic materials and critical minerals. Australia's goods and services exports to China totalled \$203.5 billion in 2022-23, up 13 percent compared to FY 2021-22. Of Australia's total exports that year, the highest number of strategic materials and critical minerals went to China.⁶³

China has the processing monopoly on the global market supplying nearly 90 percent of processed rare-Earth minerals. Given this, Australia relies heavily on Chinese processing for minerals such as lithium. This monopoly is driving countries of the Indo-Pacific to seek to diversify away from China, which would lead to a restructuring of resource-based geopolitics. However, China has built its strategic minerals dominance over two decades and it is unlikely it will lose this position in the near future. China currently controls the critical minerals and rare earth marketplace as it is the leading global producer of twenty-nine commodities.⁶⁴ In 2020, Australia exported 886 million tons of iron ore and China was by far the largest market, making up 82.9 percent of total exports with the second and third largest importers, Japan and South Korea, accounting for a mere 6.6 percent and 6.0 percent respectively. Given this, it is economically infeasible for Australia to attempt to remove China from the global critical mineral supply chain.⁶⁵

a. Chinese Foreign Investment

As previously mentioned, in order to tap into its full potential as a supplier of strategic materials, Australia is heavily reliant on foreign investment. China is the sixth-largest foreign direct investor in Australia accounting for 4.0 percent of total foreign direct investment (FDI). In recent years, Chinese investment has broadened from mainly mining to sectors such

⁶³ Geoscience Australia, "Critical Minerals at Geoscience Australia," www.ga.gov.au, May 5, 2022, <https://www.ga.gov.au/scientific-topics/minerals/critical-minerals>.

⁶⁴ "Minerals - Backbone of the Economy," *World Mining Data*, n.d., <https://www.world-mining-data.info/wmd/downloads/PDF/WMD2023%20Backbone.pdf>.

⁶⁵ Richard McGregor, "Chinese Coercion, Australian Resilience," Lowy Institute, October 20, 2022, <https://www.loyyinstitute.org/publications/chinese-coercion-australian-resilience>.

as infrastructure, services and agriculture,⁶⁶ with China's dominance in the sector and large FDI posing a strategic challenge for Australia.⁶⁷

China's strategic investments and acquisitions into the Australian strategic materials industry demonstrate its desire to secure and influence the commodities market critical to its growing industrial sector. In a landmark move in 2008, Xiao Yaqing, then chairman of Chinalco,⁶⁸ spearheaded a \$14 billion investment to acquire a nine percent stake in Rio Tinto, Australia's largest iron ore producer. This strategic investment was not only one of China's largest corporate deals, but also a clear attempt to disrupt the potential merger between BHP,⁶⁹ and Rio Tinto, thereby preventing a consolidation that could decrease Beijing's bargaining power. Despite facing setbacks in directly influencing global iron ore prices, China has been relentless in its efforts to establish its own iron ore trading platform. Investments in projects like CITIC's Sino Iron venture with Australian businessman Clive Palmer illustrate a determined yet challenging journey to China's overreliance on Australian iron ore.⁷⁰

Despite these efforts, Australia has demonstrated notable resilience against China's attempts to establish its own iron ore trading platforms, which aim to undermine Australia's dominance in the iron ore market. Australian mining firms, while offering minimal support to these initiatives, have effectively maintained their market position, leveraging their production capacity, quality of resources, and established global trading relationships.

2. Geopolitical Impact on Economic Relations

Geopolitics play a pivotal role in shaping the economic relations between Australia and China, casting a long shadow over their bilateral trade. Their relations are influenced by a complex web of strategic interests, regional security dynamics, and global power shifts. Australia's alignment with Western values and its strategic partnerships, particularly with the US, often clash with China's ambition to expand its influence in the Indo-Pacific region and

⁶⁶ Australian Government, Department of Foreign Affairs and Trade, "China Country Brief," Australian Government Department of Foreign Affairs and Trade, July 2022, <https://www.dfat.gov.au/geo/china/china-country-brief>.

⁶⁷ "Can Australia Break China's Monopoly on Critical Minerals?," The Economist, June 20, 2023, <https://www.economist.com/asia/2023/06/20/can-australia-break-chinas-monopoly-on-critical-minerals>.

⁶⁸ ('China Aluminium')

⁶⁹ Australia's second largest iron ore producer

⁷⁰ Richard McGregor, "Chinese Coercion, Australian Resilience," Lowy Institute, October 20, 2022, <https://www.lowyinstitute.org/publications/chinese-coercion-australian-resilience>.

beyond. These geopolitical tensions manifest in economic actions, such as trade restrictions and investment scrutiny, affecting the flow of goods and services between the two countries. As Australia attempts to balance its economic dependence on China for exports of strategic materials and its geopolitical alliances, their relationship is subject to fluctuations driven by broader political and security considerations.

a. China-Australia Trade Disputes

Trade disputes between China and Australia, emphasized by China's imposition of restrictions on key Australian exports such as coal, copper, sugar, cotton, wine, and barley, have underscored the nuanced interplay of economic leverage and political diplomacy on the global stage. These restrictions were instigated in 2020 as retaliation for former Australian Prime Minister Scott Morrison's initiative to press China on its responsibility for the COVID-19 outbreak and Canberra's subsequent banning of BRI projects, critical to Xi Jinping's geopolitical strategy.⁷¹

However, towards the end of 2023, the economic landscape in the region saw a significant shift; most trade barriers were dismantled, marking a period of eased tensions and resumed leader-level meetings between the two countries. This period has been widely interpreted as a 'reset' in bilateral relations. This change reflected a realization within the Australian government that the pursuit of a COVID-19 inquiry was counterproductive, compounded by the adverse reaction from the Chinese-Australian community to rhetoric perceived as anti-Chinese rather than specifically critical of the Chinese government.⁷²

The economic coercion exercised by China in 2020, targeting Australian exports, unfolded with unexpected consequences for both nations. China, cut off from Australian coal, experienced 'brown-outs' across many cities due to the unavailability of high-quality Australian coal for coal-fired power plants. The shift away from Australian coal not only impacted China's energy grid but also its industrial capabilities, given the essential role of coal in China's steel-making operations. By 2020, China's purchases of Australian coal had plummeted from \$13.7 billion in 2019 to close to nothing in 2022, illustrating the immediate

⁷¹ John Quiggin, "Australia and China Turn a New Leaf in Economic Relations | East Asia Forum," East Asia Forum, December 23, 2023,

<https://eastasiaforum.org/2023/12/23/australia-and-china-turn-a-new-leaf-in-economic-relations/>.

⁷² *Ibid.*

impact of the trade barriers.⁷³ However, the resumption of coal purchases marked the beginning of a thaw in trade relations. Despite these challenges, Australia's trade profile underwent a remarkable transformation. By 2022, Japan and South Korea's markets nearly matched that of China's for Australian exports, signifying a diversification effort that reduced Australia's economic dependence on China.⁷⁴

Political and ideological differences between Australia and China have long underpinned their bilateral relations, with Australia's concerns over human rights, governance, and China's assertive regional posture clashing with China's geopolitical ambitions. These differences, accentuated by Australia's legislative actions against perceived foreign interference, the exclusion of Huawei from its 5G network, and a tightening of Chinese investment, set the stage for one of the most targeted campaigns by China against an individual country.⁷⁵

Despite China's significant trade measures against Australia, including discriminatory tariffs and informal bans on a range of exports, the total value of Australian goods purchased by China still rose by 16.6 percent from 2019 to 2022. This increase was driven by the soaring prices of iron ore, a commodity vital to China's steel industry, and illustrative of the complex nature of international trade disputes and their resolution amidst overarching political rifts. In the future, Australia will aim to entrench its position as an indispensable supplier of key commodities to China. This scenario highlights Australia's strategic pivot towards market diversification, an essential move in mitigating the impacts of economic coercion and reinforcing the importance of resilience in the face of geopolitical tensions.⁷⁶

b. Could Brazil Serve as an Alternative Supplier for China?

Australia's iron ore sector, crucially spared from Beijing's coercive trade policies, owes its resilience to the duopolistic nature of the global seaborne iron ore market, where Australia and Brazil emerge as primary competitors. In 2020, China imported 1.1 billion tons of iron ore, relying on Australia for 66 percent of its supply, with Brazil trailing at 21 percent. This stark reliance is contrasted by Australia's logistical advantage; Australian ships can reach Chinese ports in approximately 18.7 days, significantly faster than the 52.7 days from

⁷³ David Uren, "Why China's Coercion of Australia Failed," *The Strategist*, April 27, 2023, <https://www.aspistrategist.org.au/why-chinas-coercion-of-australia-failed/>.

⁷⁴ *Ibid.*

⁷⁵ *Ibid.*

⁷⁶ *Ibid.*

Brazil.⁷⁷ This geographic advantage not only solidifies Australia's position as the preferred supplier but also highlights the impracticality of Brazil as an effective alternative, owing to the extended delivery times that could disrupt China's industrial operations.

Furthermore, Australia's prominence extends into the liquified natural gas (LNG) market, its second-largest export to China, which stood at a value of \$16 billion in 2019. Australia's contribution to China's LNG imports ranged between 43 to 45 percent from 2017 to 2020, reinforcing its indispensable role in meeting China's escalating energy demands. Despite the growing competition from Qatar, which aggressively seeks to expand its share in the Chinese market through significant investments and strategic partnerships, Australia's substantial market share, bolstered by the recent spike in LNG spot prices, remains relatively secure against geopolitical strains.

Brazil's inability to bridge the gap as an alternative source of iron ore for China is further compounded by its lesser volume of exports and the logistical disadvantages. In 2020, Brazil exported 334 million tons of iron ore, of which 72 percent was destined for China. However, the significantly longer transit times make Brazil a less viable option to meet the immediate and large-scale demands of China's steel industry. Australia's unrivaled capacity to supply both iron ore and LNG—key components of China's industrial and energy sectors—underscores a complex interdependence that transcends geopolitical tensions, ensuring Australia's continued dominance in these crucial export markets despite existing diplomatic frictions.

c. The Taiwan Factor

Australia's approach to Taiwan is characterized by a balance between adhering to its One-China policy⁷⁸ and maintaining unofficial contacts to promote economic, trade, and cultural interests. Canberra is aware of the catastrophic implications a conflict over Taiwan would have on Australia's economy and security, emphasizing the necessity of a cautious yet

⁷⁷ Richard McGregor, "Chinese Coercion, Australian Resilience," Lowy Institute, October 20, 2022, <https://www.lowyinstitute.org/publications/chinese-coercion-australian-resilience>.

⁷⁸ Australia does not formally recognize Taiwan as a country and only maintains unofficial ties with Taiwan.

strategic engagement with the situation, with an emphasis on the maintenance of the status quo.⁷⁹

The elections of Taiwan's more independence-leaning Democratic Progressive Party to the Presidency in 2016, 2020 and most recently in January, presents a complex scenario not only for China but also for international stakeholders, particularly the US, which maintains a strong One-China policy. While President Joe Biden has expressed vocal support for Taiwan, the stability of this stance is uncertain, especially with regards to the upcoming US elections. Should the elections result in a change in US administration, the current level of support could potentially diminish, altering the dynamics of US-Taiwan relations and, by extension, affecting global geopolitical responses to any crisis involving Taiwan.

Australia, as one of the US' most important and reliable allies, finds itself in an unpredictable position amidst these uncertainties. Australia could find itself in a difficult position in the event of a US decision to defend Taiwan, as publicly stated by President Biden. Even without direct military involvement in support of Taiwan, Australia risks economic repercussions from China, highlighting the delicate balance it must navigate between its alliance with the US and its economic ties with China.⁸⁰ However, as has previously been established, China's economic ties with Australia are deeply interconnected in crucial and strategic sectors, questioning the efficacy of any future attempts of economic coercion or retaliation by China.

Regardless, it appears increasingly unlikely that China will opt for a military invasion of Taiwan in the short term.⁸¹ The discussion of speculative timelines for "reunification" highlights a broader strategic patience and unpredictability in China's approach toward Taiwan. Instead of direct military action, China is more likely to employ a combination of diplomatic pressure, economic leverage, and media influence to sway public opinion and political outcomes in Taiwan in its favor. These non-military tactics align with a strategy of "winning without fighting", and underscore China's long-term objectives to integrate Taiwan without sparking a potentially catastrophic conflict. While the threat of a full-scale military

⁷⁹ Australian Government, Department of Foreign Affairs and Trade, "China Country Brief," Australian Government Department of Foreign Affairs and Trade, July 2022, <https://www.dfat.gov.au/geo/china/china-country-brief>.

⁸⁰ Richard McGregor, "Australia's Caution on Taiwan May Not Last," Brookings, March 29, 2023, <https://www.brookings.edu/articles/australias-caution-on-taiwan-may-not-last/>.

⁸¹The "short term" refers to a span of 2 to 5 years

invasion remains a possibility in the distant future, the current trajectory suggests a focus on gradually increasing pressure on Taiwan to achieve reunification objectives through less confrontational means.⁸²

In light of these concerns, Australia explores avenues to support Taiwan's integration into the global economic framework, such as backing its membership in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) or establishing a bilateral free-trade agreement, actions that align with Australia's trade interests while navigating the delicate political dynamics. The Australian government's official stance firmly opposes any attempts by Beijing to alter the status quo in the Taiwan Strait, reflecting a commitment to stability and peace in the region.⁸³

Public sentiment in Australia, as captured by opinion polls, shows a preference for non-military responses to any potential aggression towards Taiwan, favoring economic sanctions against China, arms supplies, or naval interventions over troop deployments.⁸⁴ This cautious approach to foreign policy has become more pronounced following the Labor Party's victory in the May 2022 Australian elections, with the subsequent shift in leadership bringing a more guarded public discourse on Taiwan.⁸⁵

Trade relations between Australia and Taiwan have blossomed into a robust economic partnership, underpinning the significance of maintaining the status quo amidst geopolitical tensions. In FY 2022-23, Taiwan emerged as Australia's seventh largest two-way goods and services trading partner, with trade totaling \$41.5 billion. This trade exchange highlights the complementary nature of the Australian and Taiwanese economies, with Australia supplying essential resources and primary products while importing high-technology goods from

⁸² David An, "China's Possible Invasion of Taiwan – Part II: 2025, 2030s, 2049, or 2050," Global Taiwan Institute, April 10, 2019, <https://globaltaiwan.org/2019/04/chinas-possible-invasion-of-taiwan-part-ii-2025-2030s-2049-or-2050/>.

⁸³ Mark Harrison, "Australia Should Be Clear That 'Disagree Where We Must' Means Disagreeing with Beijing on Taiwan," The Strategist (Australian Strategic Policy Institute, November 16, 2023), <https://www.aspistrategist.org.au/australia-should-be-clear-that-disagree-where-we-must-means-disagreeing-with-h-beijing-on-taiwan/>; Richard McGregor, "Australia's Caution on Taiwan May Not Last," Brookings, March 29, 2023, <https://www.brookings.edu/articles/australias-caution-on-taiwan-may-not-last/>.

⁸⁴ Kirsty Needham, "Australians Say They Would Support Taiwan If China Attacked, with Limits, Poll Shows," Reuters, June 20, 2023, sec. Asia Pacific, <https://www.reuters.com/world/asia-pacific/australians-say-they-would-support-taiwan-if-china-attacked-with-limits-poll-2023-06-20/>.

⁸⁵ Richard McGregor, "Australia's Caution on Taiwan May Not Last," Brookings, March 29, 2023, <https://www.brookings.edu/articles/australias-caution-on-taiwan-may-not-last/>.

Taiwan. Maintaining the status quo in the Taiwan Strait is crucial for sustaining this beneficial trade relationship, which not only supports economic growth and diversification in both countries but also contributes to regional stability and security.⁸⁶

B. Diversification of Global Supply Chains and Export Markets

As previously established, Australia is navigating the complexities of its economic reliance on China amidst the shifting geopolitical landscape of the Indo-Pacific region, making it evermore necessary to diversify its supply chains. The pursuit of economic alternatives to decrease dependency on China is imperative for enhancing Australia's strategic autonomy and economic security. In this context, Japan and India emerge as pivotal partners in Australia's quest to diversify its trade relations. Both nations offer robust economic frameworks, technological advancements, and a shared interest in securing stable and resilient supply chains for strategic materials and critical minerals. Increasing engagement with Japan and India gives Australia a unique opportunity to further diversify its economy, reinforce its supply chain resilience, and contribute to a more balanced and multipolar regional order.

1. Japan

Australia and Japan's economic relationship is characterized by highly complementary and enduring trade interactions. Australia serves as a safe, secure and reliable supplier of energy, strategic materials and food for Japan. In FY 2022-23, Japan was Australia's second largest trading partner, after China, with two-way goods trade valued at around \$94 billion. Japan also accounted for nearly 17 percent of Australia's total exports that same year.⁸⁷ The major exports to Japan were coal, natural gas, iron ore and mineral concentrates. Besides iron ore, these were the major sectors that China aimed to affect with its economic coercion in 2020, but were not as affected as trade increased drastically with Japan and South Korea.

⁸⁶ Australian Government, "Australia-Taiwan Relationship," Australian Government Department of Foreign Affairs and Trade, 2021,

<https://www.dfat.gov.au/geo/taiwan/australia-taiwan-relationship#:~:text=Trade%20and%20investment>.

⁸⁷ Geoscience Australia, "Critical Minerals at Geoscience Australia," www.ga.gov.au, May 5, 2022, <https://www.ga.gov.au/scientific-topics/minerals/critical-minerals>.

Additionally, Australia's main imports from China can also be fulfilled by collective imports from Japan, South Korea and the US.⁸⁸ During China's sanction campaign against Australia, from FY 2020-21 to FY 2021-22, two-way trade with Japan grew 75.2 percent.⁸⁹ The results of China's sanctions on Australia only solidify the need for supply chain diversification with Australia's largest trading partners, but also strong regional actors. Australia-Japan trade is expected to increase.

Another important factor to consider is that foreign investment plays a crucial role in diversifying Australia's supply chain and therefore minimizing its over-reliance on China. Japanese investment in the development of Australia's economy will continue to play an important role in their relations. Japan was Australia's fourth-largest foreign investor in 2022, as well as the third largest foreign direct investor accounting for 12 percent of total FDI. The foundation laid by Japanese investment in Australia's export industries, particularly in resources such as coal, iron ore, and the landmark Ichthys LNG project, has not only met Japan's substantial demand for these resources but has also significantly contributed to Australia's economic development and energy sector expansion. The Japan-Australia Economic Partnership Agreement (JAEPA) has further catalyzed this dynamic investment landscape, leading to job creation and regional development in Australia. Japanese investment extends beyond mere economic transactions; it represents a deepening of strategic partnerships and enhancing supply chain resilience.⁹⁰

The future relations between Japan and Australia will show substantial growth and evolution, particularly as both nations transition towards a lower carbon future. This transition presents a myriad of opportunities for cooperation, particularly in the domains of clean energy and critical minerals. The increasing demand for carbon-neutral LNG, clean hydrogen, batteries, and other green technologies presents fertile ground for collaboration. Additionally, the supply of critical minerals essential for the manufacturing sector underscores the strategic importance of this partnership. The establishment of the Critical Minerals Partnership, as

⁸⁸ Vehicles other than railway, mineral fuels, machinery/nuclear

⁸⁹ Statistics Section, "Australia's Top Two-Way Trading Partners Australia's Top Export Markets AUSTRALIA'S TRADE in GOODS and SERVICES (A)(B) by TOP 15 PARTNERS (A\$ Million)," *Australian Government*, 2022, <https://www.dfat.gov.au/sites/default/files/australias-goods-services-by-top-15-partners-2021-22.pdf>.

⁹⁰ Australian Government, Department of Foreign Affairs and Trade, "Japan Country Brief," Australian Government Department of Foreign Affairs and Trade, 2022, <https://www.dfat.gov.au/geo/japan/japan-country-brief>.

signed during the Leaders' Meeting in October 2022, marks a significant milestone in this evolving relationship. This partnership aims to secure supply chains for critical minerals, fostering information sharing and collaboration that could set a precedent for international cooperation in securing raw materials essential for the clean energy transition.⁹¹

The fifth Ministerial Economic Dialogue held in October 2023 further reinforces this trajectory, providing a high-level platform for discussing strategic economic and trade cooperation. This Dialogue, complementing defense and security cooperation, underlines the multifaceted nature of the Japan-Australia relationship, expanding into new areas such as clean energy and critical minerals.⁹² As both countries move forward, the foundation laid by these initiatives paves the way for a future where Japan and Australia continue to play increasingly pivotal roles in each other's economic strategies, leveraging their complementary strengths to address global challenges and achieve shared goals of economic resilience.

2. India

Australia and India's economic relations have reached a pivotal juncture, underpinned by the enactment of the Australia-India Economic Cooperation and Trade Agreement (ECTA) in 2022. This landmark agreement has fortified an already strong trade relationship, with India emerging as Australia's sixth-largest two-way goods and services trading partner, boasting a trade volume of \$48.4 billion in 2022. Demonstrating a robust growth trajectory as well as increased strategic cooperation as was seen with Japan during China's sanctions campaign, trade between the two nations surged by 72 percent from 2020-21 to 2021-22, with expectations to outpace Australia's trade growth with Japan in the coming years.⁹³

There has been significant investment flow both ways, highlighting deep economic ties, with Australia's investment in India recorded at \$17.6 billion and India's investment in Australia at \$34.5 billion in 2022. The upgrade of bilateral relations to a Comprehensive Strategic

⁹¹ Australian Government. 2021c. "India Country Brief." Australian Government Department of Foreign Affairs and Trade. 2021. <https://www.dfat.gov.au/geo/india/india-country-brief#:~:text=India>.

⁹² Australian Government. 2022. "Japan Country Brief." Australian Government Department of Foreign Affairs and Trade. 2022. <https://www.dfat.gov.au/geo/japan/japan-country-brief>.

⁹³ Australian Government, Department of Foreign Affairs and Trade, "Australia-India Economic Cooperation and Trade Agreement (ECTA)," Australian Government Department of Foreign Affairs and Trade, 2021, <https://www.dfat.gov.au/trade/agreements/in-force/australia-india-ecta>., Statistics Section, "Australia's Top Two-Way Trading Partners Australia's Top Export Markets AUSTRALIA'S TRADE in GOODS and SERVICES (A)(B) by TOP 15 PARTNERS (A\$ Million)," *Australian Government*, 2022, <https://www.dfat.gov.au/sites/default/files/australias-goods-services-by-top-15-partners-2021-22.pdf>.

Partnership in 2020 and the launch of the Australia India Business Exchange (AIBX) by Austrade exemplify the multifaceted approach to bolstering economic cooperation, providing Australian businesses with invaluable insights and support to navigate and flourish in India's expansive market. Furthermore, the establishment of the Australia-India Green Hydrogen Task Force during Prime Minister Modi's visit in May 2023 underscores a shared commitment to sustainable energy initiatives. These concerted efforts signal a dynamic and evolving economic relationship, setting a strong foundation for future collaboration and mutual prosperity.⁹⁴

However, a common denominator in the increased economic cooperation between Australia and India is China, a strong competitor of India, and one of the main drivers of the Australian trade economy. Australia and India's shared security concerns regarding China's regional assertiveness present a unique convergence of strategic interests that also offers an opportunity for further economic cooperation between the two nations. Despite India's expanding trade relations with China, persistent border disputes and the fear of maritime encirclement underscore India's apprehension regarding its sovereignty. Similarly, Australia, alongside India, harbors concerns over territorial disputes in the South China Sea, with both nations recognizing the critical importance of maintaining freedom of navigation through vital sea lines of communication for their economic vitality. This shared geopolitical perspective not only fosters a deeper strategic partnership but also catalyzes economic collaboration as a counterbalance to reliance on China.⁹⁵

By fortifying economic ties, Australia and India can enhance their supply chain diversification, reducing Australia's dependency on China and thereby strengthening their economic resilience. This alignment of security interests with economic strategies paves the way for a multifaceted partnership, harnessing trade and investment to underpin broader strategic objectives and regional stability.

The increasing economic cooperation between Australia and India, amidst India's emergence as a regional superpower and a counterbalance to China, holds a plethora of potential

⁹⁴ Australian Government, "India Country Brief," Australian Government Department of Foreign Affairs and Trade, 2021, <https://www.dfat.gov.au/geo/india/india-country-brief#:~:text=India>.

⁹⁵ Darvesh Gopal and Dalbir Ahlawat, "Australia-India Strategic Relations: From Estrangement to Engagement," *India Quarterly: A Journal of International Affairs* 71, no. 3 (August 16, 2015): 206-20, <https://doi.org/10.1177/0974928415584022>.

opportunities that span across various sectors and strategic interests. Enhanced bilateral trade and investment could see Australia and India leveraging their unique strengths—Australia's abundant natural resources and agricultural prowess and India's increasing technology and services sectors—to foster a dynamic economic partnership. This collaboration could serve as a vital component in diversifying Australia's supply chain and reducing its reliance on China, thereby bolstering economic resilience.

Maritime security, particularly the protection of sea lines of communication, is critical for ensuring the free flow of international trade and energy supplies. Collaborative initiatives aimed at ensuring maritime route safety can significantly benefit both nations, which hold substantial interests in maritime trade. Australia and India's shared strategic perspective of the Indo-Pacific region further underscores the potential for closer economic and strategic relations, with opportunities for collaborative projects in infrastructure, maritime connectivity, and regional development taking center stage.

Moreover, the existing strategic partnerships with the US open avenues for tripartite economic initiatives that could include technology transfers, educational exchanges, and joint ventures in sectors like defense, renewable energy, and digital infrastructure. India's economic ascension offers profitable opportunities for Australian goods and services, ranging from agricultural products to strategic materials and critical minerals. This growth trajectory also paves the way for increased two-way investment, particularly in the renewable energy sector, highlighting the multifaceted benefits of strengthened economic cooperation between Australia and India. As both nations continue to navigate the complexities of regional geopolitics, their economic partnership will foster mutual benefits derived from deeper economic engagement.

III. REGIONAL DYNAMICS IN THE INDO-PACIFIC

A. ASEAN as a Driver of Regional Stability

The Indo-Pacific is one of the most dynamic regions in the world and has been a center of economic growth for decades, leading the region to experience many geopolitical shifts throughout history. At the center of this dynamic region, Southeast Asia has a particularly strategic location through which all trade between Europe and East Asia must pass.

Composed of several Southeast Asian countries, ASEAN was established in 1967 and now constitutes one of the most powerful and influential actors within the region. One of ASEAN's pillars is its non-alignment policy, therefore the organization has played a crucial role in the region as a neutral power. ASEAN serves as a stabilizing force within Southeast Asia by promoting dialogue, cooperation, and conflict resolution amongst its member states. Its commitment to non-interference in the internal affairs of member states fosters trust and reduces the likelihood of conflict. Furthermore, ASEAN's economic integration efforts, such as the Regional Comprehensive Economic Partnership (RCEP),⁹⁶ contribute to regional economic growth and stability. By fostering economic cooperation among member states and external partners, ASEAN enhances the region's resilience to external shocks.

In 2019, ASEAN leaders decided to embrace the AOIP,⁹⁷ an initiative that seeks to envisage ASEAN Centrality as the underlying principle for promoting cooperation in the Indo-Pacific region. AOIP included ASEAN-led mechanisms, such as the East Asia Summit (EAS),⁹⁸ as platforms for dialogue and the implementation of Indo-Pacific cooperation, all while preserving their formats. AOIP was implemented as a strategic response to escalating geopolitical tensions and the growing influence of major powers in the region.

⁹⁶ Pricewaterhouse Coopers. n.d. "Regional Comprehensive Economic Partnership (RCEP)." PwC. <https://customs.pwc.com/en/publications/what-rcep-means-for-international-trade.html#:~:text=RCEP%20is%20a%20Free%20Trade>.

⁹⁷ ASEAN. 2019. "ASEAN Outlook on the Indo-Pacific." https://asean.org/asean2020/wp-content/uploads/2021/01/ASEAN-Outlook-on-the-Indo-Pacific_FINAL_22062019.pdf.

⁹⁸ East Asia Summit. n.d. "East Asia Summit." Eastasiasummit.asean.org. <https://eastasiasummit.asean.org/>.

ASEAN's neutrality helps to balance the influence of major powers like the US and China in the region. By remaining non-aligned, ASEAN can engage with both blocs, thus preserving its autonomy and independence. ASEAN also maintains a strong economic relationship with China, as China has been ASEAN's largest trading partner since 2009.⁹⁹ Nevertheless, ASEAN opposes China gaining a monopoly on regional power.

Australia and ASEAN have maintained strong relations since 1974 when Australia became ASEAN's first dialogue partner. Australia supports ASEAN's vision of a Free and Open Indo-Pacific, and is therefore willing to cooperate with ASEAN to achieve it. In 2021, the two decided to establish a Comprehensive Strategic Partnership (CSP), through which their security cooperation would be boosted. ASEAN also provides a platform for diplomatic engagement and dialogue amongst member states and external actors through mechanisms like the ASEAN Regional Forum (ARF) and the East Asia Summit (EAS). Australia's active participation in these ASEAN-led forums further allows for it to contribute to discussions on security issues as well as to foster diplomatic ties with member states.¹⁰⁰

Australia's relation with this regional organization is of great importance not only due to similar values between the two, but also their strong economic ties. They have signed several trade agreements, including the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA)¹⁰¹ as well as the aforementioned RCEP.¹⁰² In 2022, Australia's two-way trade with ASEAN nations amounted to around \$178 billion, greater than their two-way trade with Japan, the US or even the European Union.¹⁰³ Moreover, ASEAN now constitutes Australia's third largest trading partner, with the region's economic dynamism presenting opportunities for Australian businesses to access rapidly growing markets and diversify trade.

⁹⁹ASEAN. 2020. "ASEAN-China Economic Relation." Asean.org. 2020. <https://asean.org/our-communities/economic-community/integration-with-global-economy/asean-china-economic-relation/>.

¹⁰⁰ Australian Government. 2021. "ASEAN and Australia." Australian Government Department of Foreign Affairs and Trade. 2021. <https://www.dfat.gov.au/geo/southeast-asia/asean-and-australia>.

¹⁰¹ Department of Foreign Affairs and Trade. n.d. "ASEAN-Australia-New Zealand FTA." Australian Government Department of Foreign Affairs and Trade. <https://www.dfat.gov.au/trade/agreements/in-force/aanzfta/asean-australia-new-zealand-free-trade-agreement>.

¹⁰² Australian Government. 2021. "ASEAN and Australia." Australian Government Department of Foreign Affairs and Trade. 2021. <https://www.dfat.gov.au/geo/southeast-asia/asean-and-australia>.

¹⁰³ *Ibid.*

The Indo-Pacific, specifically Southeast Asia, is one of the most vulnerable regions to climate change. Australia and ASEAN share common climate challenges, therefore collaborative efforts for their mitigation demonstrate shared responsibility and contribute to the region's resilience. Between 2015 and 2018, Southeast Asia was the second largest recipient of Australia's international climate development assistance, and this continues to grow.¹⁰⁴ Moreover, in March of 2024, the ASEAN-Australia Special Summit was held in Melbourne, where the \$10 million Climate and Clean Energy Window was announced,¹⁰⁵ which aims to bolster joint efforts on climate change and clean energy. Overall, Australia's relationship with ASEAN will continue to grow. Australia recognizes the importance of ASEAN and its influence in the region; therefore, if Australia wants to remain relevant, it is necessary for the two to work together.

1. Indonesia as a Regional Power

One of ASEAN's founding members and the unofficial leader of the organization is Indonesia, the fourth most populous country in the world and the first of the ASEAN members.¹⁰⁶ Indonesia's strategic location in the Indo-Pacific region plays a crucial role in shaping regional dynamics and influencing global affairs. Located between Oceania and Asia, and between the Indian and Pacific Oceans, Indonesia is located at the world's crossroads. This strategic location affords Indonesia the ability to threaten the stability of Southeast Asia, one of the world's major maritime routes as all trade between East Asia and Europe passes through this region. Some of the most important sea passages in the world pass through Indonesian waters, including the Malacca Strait, Sunda Strait, and Lombok Strait.¹⁰⁷

Since Indonesia is the largest archipelago in the world, it has an immense maritime territory that includes an extensive Exclusive Economic Zone (EEZ) which contributes to its maritime significance as well as its economic potential. It is abundant in natural resources such as natu-

¹⁰⁴ Australian Government. 2021c. "ASEAN and Australia." Australian Government Department of Foreign Affairs and Trade. 2021. <https://www.dfat.gov.au/geo/southeast-asia/asean-and-australia>.

¹⁰⁵ Australian Government. 2024. "Australia and Southeast Asia Strengthen Climate Change and Energy Cooperation." Australian Government Department of Foreign Affairs and Trade. March 4, 2024. <https://www.foreignminister.gov.au/minister/penny-wong/media-release/australia-and-southeast-asia-strengthen-climate-change-and-energy-cooperation>.

¹⁰⁶ Eye on Asia. n.d. "Indonesia - a Country Profile." Www.eyeonasia.gov.sg.

<https://www.eyeonasia.gov.sg/asean-countries/know/overview-of-asean-countries/indonesia-a-country-profile/>.

¹⁰⁷ DFAT. 2018. "Indonesia Country Brief." Australian Government Department of Foreign Affairs and Trade. 2018. <https://www.dfat.gov.au/geo/indonesia/indonesia-country-brief>.

ral gas and minerals, which has led it to be the largest economy within ASEAN and the 10th largest worldwide.¹⁰⁸ These factors make Indonesia a key player in shaping regional economic policies and initiatives.

Given Indonesia's leading role in ASEAN, it remains a neutral power in the region. This neutrality has provided Indonesia with a level of flexibility in its foreign relations, especially in regards to the rivalry between the US and China. Indonesia engages with both countries, doing so in a balanced manner in which the country retains a certain degree of autonomy. Indonesia also plays a crucial role in shaping ASEAN's policies, promoting regional cooperation and advancing common interests among member states.

Furthermore, Australia and Indonesia are two of the most influential democratic countries in the Indo-Pacific. Sharing the world's longest maritime boundary, the countries are naturally close maritime partners and share common strategic interests, which has allowed them to collaborate closely in different forums.¹⁰⁹ The Australia-Indonesia bilateral relationship was elevated to a CSP in 2018.¹¹⁰ The partnership is built on five main pillars: enhanced economic and development partnership, connecting people, securing the region's shared interests, maritime cooperation, contributing to Indo-Pacific security and prosperity. Both countries also have strong economic ties with one another, deciding in 2020 to sign the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA), which aims to boost economic engagement between both countries.¹¹¹

Australia's stance on the West Papua conflict could cause a rivalry to develop with Indonesia. Since gaining independence in 1949, Indonesia has claimed West Papua as part of its territory, thus sparking an ongoing conflict.¹¹² Australia and New Zealand originally

¹⁰⁸ Central Intelligence Agency. 2020. "Indonesia - the World Factbook." Www.cia.gov. March 4, 2020. <https://www.cia.gov/the-world-factbook/countries/indonesia/#people-and-society>.

¹⁰⁹ DFAT. 2018. "Indonesia Country Brief." Australian Government Department of Foreign Affairs and Trade. 2018. <https://www.dfat.gov.au/geo/indonesia/indonesia-country-brief>.

¹¹⁰ *Ibid.*

¹¹¹ Australian Government, Department of Foreign Affairs and Trade. 2021. "Indonesia-Australia Comprehensive Economic Partnership Agreement." Australian Government Department of Foreign Affairs and Trade. 2021. <https://www.dfat.gov.au/trade/agreements/in-force/iacepa/indonesia-australia-comprehensive-economic-partnership-agreement>.

¹¹² Free West Papua Campaign. 2012. "Free West Papua - History of West Papua." Freewestpapua.org. 2012. <https://www.freewestpapua.org/info/history-of-west-papua/>.

supported the idea of West Papua being an independent nation due to its cultural differences with Indonesia. However, with both countries beginning to recognize the weight Indonesia holds in the region, Australia and New Zealand eventually supported Indonesia in an effort to maintain positive relations with the country.¹¹³

It is probable that the status quo regarding this matter will be maintained, with both Australia and New Zealand remaining silent regarding the West Papua conflict. Both countries have extensive and growing trade relationships with Indonesia as well as defense and security cooperation, which supposes a constraint for the countries to speak out against Indonesia over this conflict.

A similar situation occurred in 1999, when Australia and New Zealand deployed troops and led a UN mission which eventually led to the independence of East Timor from Indonesia.¹¹⁴ As Australia and New Zealand had directly opposed Indonesia in this situation, almost all cooperation between the countries and Indonesia was halted. The security relationships between them were only re-established after the Bali Bombing in 2002, with this renewed effort premised on the notion that Indonesian governmental capacity, security, and territorial integrity are crucial to Australian interests.¹¹⁵

Since then, the relationship between Australia and Indonesia has continued to grow. In 2006, they signed the Lombok Treaty, which had various security arrangements between the countries that would help secure the Indo-Pacific.¹¹⁶ In the treaty, both agreed to mutually respect the "sovereignty, territorial integrity, national unity and political independence of each other," and pledge "non-interference" in each other's internal affairs".¹¹⁷ Given this, it is likely that Australia will continue to exercise a position of restraint regarding West Papua, as it has done for the past 60 years.

¹¹³ Editor, A. P. R. 2023. "Why West Papuans Are Raising a Banned Independence Flag across Australia, NZ and the Pacific | Asia Pacific Report." December 1, 2023. <https://asiapacificreport.nz/2023/12/01/why-west-papuans-are-raising-a-banned-independence-flag-across-australia-nz-and-the-pacific/>.

¹¹⁴ Xiang Gao. 2023a. "Australia and New Zealand in the West Papua Conflict." TheDiplomat.com. April 29, 2023. <https://thediplomat.com/2023/04/australia-and-new-zealand-in-the-west-papua-conflict/>.

¹¹⁵ *Ibid.*

¹¹⁶ Australian Government. n.d. "Agreement between Australia and the Republic of Indonesia on the Framework for Security Cooperation (Mataram, Lombok, 13 November 2008) - [2008] ATS 3." [www.austlii.edu.au](https://www.austlii.edu.au/au/other/dfat/treaties/2008/3.html). Accessed March 18, 2024. <https://www.austlii.edu.au/au/other/dfat/treaties/2008/3.html>.

¹¹⁷ Xiang Gao. 2023a. "Australia and New Zealand in the West Papua Conflict." TheDiplomat.com. April 29, 2023. <https://thediplomat.com/2023/04/australia-and-new-zealand-in-the-west-papua-conflict/>.

B. China's Trojan Horse: The Solomon Islands

The continent of Oceania is made up of thousands of islands throughout the Central and South Pacific, linked to one another not only geographically but also through a shared history and culture. This linkage has thus allowed Australia to exercise a dominant influence in Oceania for over three decades.¹¹⁸

Australia has made several contributions to the region including its support to the Pacific Islands Forum (PIF), the region's major diplomatic group.¹¹⁹ This forum, formed by 18 countries, aims to empower the Pacific region as well as secure it. Additionally, Australia has created the Department of Defence's Pacific Maritime Security Program, which aims to help stabilize the region through offering financial support. Moreover, Australia also administers mobility programs in which Australia offers citizens from the Pacific Islands employment for a season.

Despite Australian efforts, there has been a growing dissatisfaction within many of the Oceanic countries toward Australia. China has thus seized the opportunity to take advantage of this situation, steadily growing its influence in the region primarily through economic agreements and trade, and now constitutes the largest trading partner of most countries in the region. Furthermore, as most of the Pacific Islands are quite poor, Chinese wealth can greatly benefit them economically, but also turn them into supporters of Beijing.

The Solomon Islands, an archipelago in the Southern part of the Pacific, have become one of the most important pawns in the rivalry between China and the US. Despite their isolated location, the islands are located across the sea lanes between Australia, East Asia and the US. For this reason, the Solomon Islands are of great strategic importance to China. Some concerns have arisen regarding whether the Solomon Islands may become China's 'Trojan Horse' in the region. Concerns were raised beginning in 2019, when the Solomon Islands changed its alliance from Taiwan to Beijing, signing a security pact with China that same

¹¹⁸ National Geographic. n.d. "Australia and Oceania: Human Geography | National Geographic Society." Education.nationalgeographic.org.

<https://education.nationalgeographic.org/resource/oceania-human-geography/>.

¹¹⁹ "Home Page | Pacific Islands Forum Secretariat." n.d. Forumsec.org. Accessed March 15, 2024.

<https://forumsec.org/>.

year.¹²⁰ This move was seen as a diplomatic victory for China and a setback for Taiwan. Furthermore, Australia has historically supported Taiwan, and has been critical of efforts by China to diplomatically isolate the island.

Australia and the Solomon Islands signed a bilateral security treaty in 2017 which allows Australian police and defense personnel to deploy rapidly to the Solomon Islands if the need arises and both countries consent. Nevertheless, the Island's Prime Minister called for a review of this agreement shortly after.¹²¹ In 2022, a security agreement made by China and the Solomon Islands was leaked. The agreement was very secretive, and once released, everything regarding security and defense in the agreement was very ambiguous and with gray areas.¹²² Among other things, it allows China to establish its own security forces in the area.

In 2023, four years after cutting ties with Taiwan, China and the Solomon Islands upgraded their relation to a CSP with the goal of deepening the ties between both countries. With this came nine agreements between the two countries, one which was the Police Pact. This agreement aims to boost cooperation regarding law enforcement and security matters, controversial and alarming for other countries of the region as the content of this pact was not immediately released. Until now, the Solomon Islands have been China's biggest success in a campaign to expand its presence in the South Pacific, with the Solomon Islands steadily aligning more toward China and thus pushing Western countries away. Therefore the facts indicate that the Solomon Islands are indeed acting as China's 'Trojan Horse' in the region.

Assertive Chinese behavior in the Pacific has alarmed Australia and forced it to reshape its approach in order to re-engage with the region. The Solomon Islands are located just 2,000 km northeast from Australia, therefore, if China has established a military presence, it would

¹²⁰ Kate Lyons and Dorothy Wickham. 2022. "The Deal That Shocked the World: Inside the China-Solomons Security Pact." The Guardian, April 20, 2022, sec. World news.

<https://www.theguardian.com/world/2022/apr/20/the-deal-that-shocked-the-world-inside-the-china-solomons-security-pact#:~:text=According%20to%20accounts%20from%20diplomatic>.

¹²¹ The Guardian. 2023b. "Solomon Islands Signs Controversial Policing Pact with China." The Guardian, July 11, 2023, sec. World news.

<https://www.theguardian.com/world/2023/jul/11/solomon-islands-signs-controversial-policing-pact-with-china>.

¹²² *Ibid.*

pose a great risk to Australia's national security and could affect its dominance in the region. Prime Minister Albanese has stated that Australia is committed to restoring its influence in the Solomon Islands and rebuilding the relationship between the countries.¹²³ For now, Australia has decided to contribute in different manners with the region, including Australia's Pacific Step-up Policy.¹²⁴ The policy seeks to strengthen partnerships in the Pacific as well as deepen Australia's economic commitments to the region. The US, who is a strong ally of Australia, has also taken action to counterbalance China, opening an embassy in the Solomon Islands in February 2023.¹²⁵

C. Climate Crisis in Oceania

Climate change has quickly intensified during the last years, causing the Indo-Pacific to undergo increasingly frequent and intense extreme weather events.¹²⁶ According to many scientists, Oceania is the continent most vulnerable to climate change due to its climate and geography.¹²⁷ Furthermore, in recent years, there has been a huge increase in sea levels as well as extreme heat, posing a threat for Australia and the rest of the Oceanic countries due to the social and economic consequences of climate change. Given Oceania's strategic location, the danger posed by climate change to the continent may affect the rest of the world as well.

The future of the region rests largely on its efforts to address the effects of climate change, which can impact a country's economic development by seriously disrupting international supply chains through its adverse effects on human settlements, farms, and infrastructure. Additionally, due to the ongoing domestic problems plaguing many Oceanic countries, these countries do not have sufficient resources to put toward mitigating climate change. According

¹²³ Rahma A. Khairunnisa. 2024. "Australia's Response and Actions to the Solomon-China Security Pact." *Modern Diplomacy*. February 29, 2024.

<https://moderndiplomacy.eu/2024/02/29/australias-response-and-actions-to-the-solomon-china-security-pact/>.

¹²⁴ Australian Government, Department of Foreign Affairs and Trade. 2019. "Stepping up Australia's Engagement with Our Pacific Family."

<https://www.dfat.gov.au/sites/default/files/stepping-up-australias-engagement-with-our-pacific-family.pdf>.

¹²⁵ Guinea, U. S. Mission Papua New. 2023. "Opening of the U.S. Embassy in Honiara, Solomon Islands." U.S. Embassy to Papua New Guinea, Solomon Islands, and Vanuatu. February 2, 2023.

<https://pg.usembassy.gov/opening-of-the-u-s-embassy-in-honiara-solomon-islands/#:~:text=On%20February%202%2C%202023%2C%20the>.

¹²⁶ National Geographic. n.d. "Australia and Oceania: Human Geography | National Geographic Society." Education.nationalgeographic.org.

<https://education.nationalgeographic.org/resource/oceania-human-geography/>.

¹²⁷ Mick Pope. 2014. "Climate Change in Oceania." *Lausanne Movement*. March 12, 2014.

<https://lausanne.org/content/lga/2014-03/climate-change-in-oceania-ecomission-and-ecojustice>.

to the East Asian Summit Forum, "in 2021, 174 natural disasters were reported in the Asian region, with around 66.8 million people affected, including over 12 million displaced in East Asia and the Pacific region. Between 2017 and 2021, approximately 36,000 lives were lost because of natural disasters."¹²⁸

The Australian government has recognized the climate change emergency and has stated that it is committed to taking action to mitigate climate change not only in Australia, but in the region as well. The government plans to do this by building climate and disaster resilience at all levels, stating "our support includes dedicated initiatives on climate and ocean science and disaster preparedness, as well as a comprehensive effort to integrate climate change and disaster resilience into our Pacific development assistance program."¹²⁹

Both Australia and New Zealand recognize climate change as the single greatest existential threat to the Pacific and are committed to working together alongside other Pacific partners to ensure the region's resilience and prosperity.¹³⁰ In the past, Australia resisted using the Pacific Islands Forum to demand more meaningful action on climate change, which caused Pacific countries to join other organizations where their necessities would be taken into account. Nevertheless, Prime Minister Albanese decided to take a renewed Australian focus toward the "Pacific family",¹³¹ one in which Australia will support policies generated by Pacific countries themselves.

Additionally, both countries met in June 2023 for the inaugural Australia-New Zealand Climate and Finance Ministers' meeting.¹³² The goal was to discuss the climate change issue and ways to take climate action, taking into account that this is a critical decade for change. Several agreements were reached aiming at promoting the transition to low-emissions, climate-resilient national economies and control of the temperature limit. In addition, the mi-

¹²⁸ EAS. 2022. "Securitising Climate Policy Will Keep the Indo-Pacific Afloat - East Asia Forum." East Asia Forum Quarterly: Volume 14, Number 4, 2022 14 (4): 10–12.

<https://eastasiaforum.org/2022/12/26/securing-climate-policy-will-keep-the-indo-pacific-afloat/>.

¹²⁹ Australian Government. "Pacific Partnerships." n.d. Australian Government Department of Foreign Affairs and Trade. <https://www.dfat.gov.au/geo/pacific/pacific-partnerships>.

¹³⁰ Australian Government. 2022. "New Zealand Country Brief | DFAT." Www.dfat.gov.au. 2022. <https://www.dfat.gov.au/geo/new-zealand/new-zealand-country-brief>.

¹³¹ Australian Government. 2024a. "Australia-Papua New Guinea Annual Leaders' Dialogue." Pm.gov.au. 2024. <https://www.pm.gov.au/media/australia-papua-new-guinea-annual-leaders-dialogue>.

¹³² Australian Government. 2023b. "Inaugural Australia–New Zealand 2+2 Climate and Finance Dialogue Joint Statement | Treasury Ministers." Ministers.treasury.gov.au. June 8, 2023. <https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/inaugural-australia-new-zealand-2-2-climate-and-finance#:~:text=Australia%20and%20New%20Zealand%20recognised>.

misters stated that "Australia and New Zealand have a uniquely close relationship. By working together to capture economic opportunities, and addressing shared policy challenges, we will deliver real benefits to our communities and industries as we transition to low emission and climate resilient economies."¹³³ Taking this into account, the evidence points that the links between both countries will continue to grow and that they must work together in order to mitigate climate change and its effects on the region.

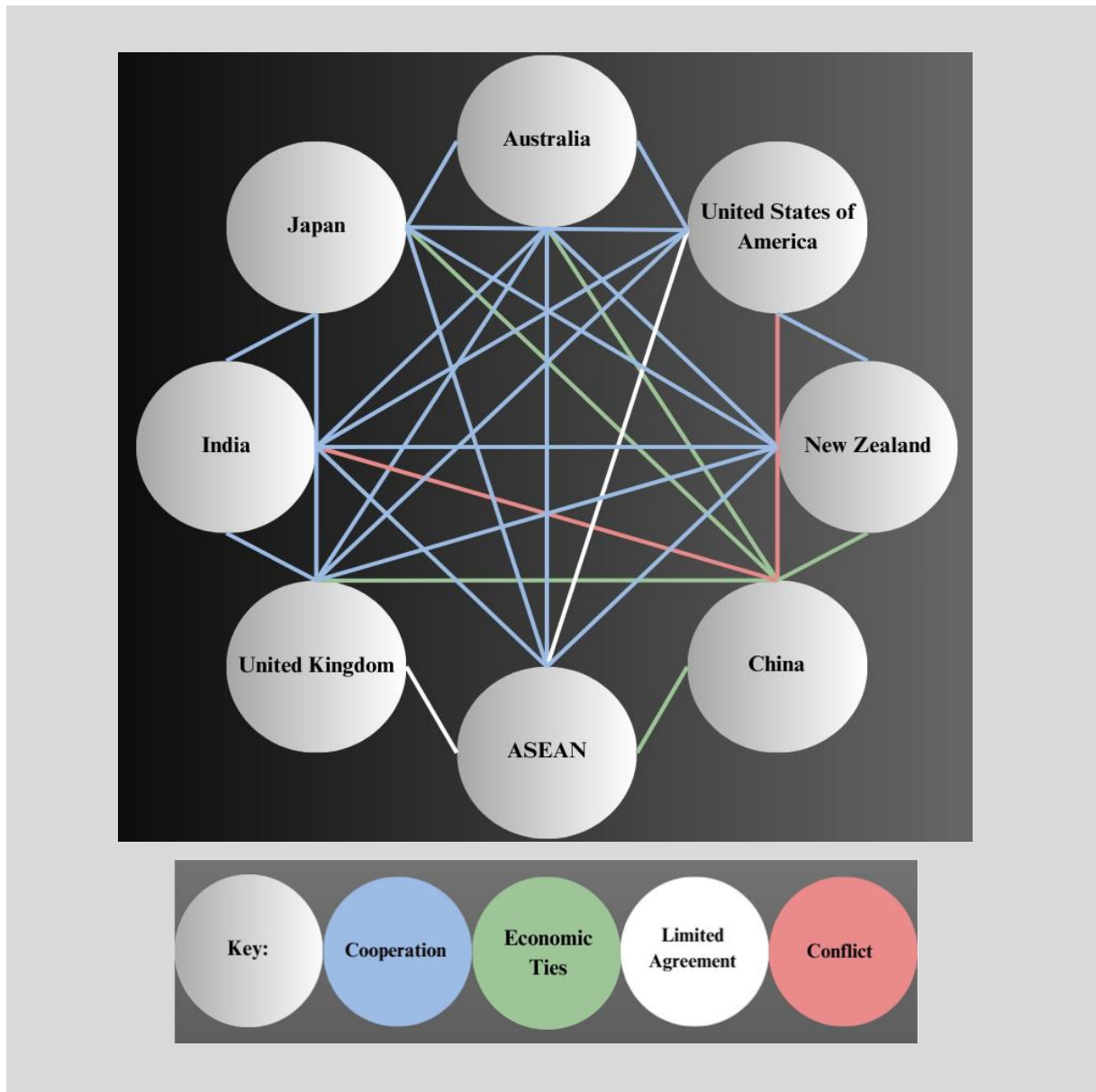
Assertive policies and measures to mitigate climate change will help Australia regain the leverage it used to exert over the region and protect its economic and geostrategic interests from the growing threat of China in the Indo-Pacific. Working together with its Pacific neighbors can help Australia rebuild trust with them as well as strengthen their overall relationship. Indeed, Australia must develop a policy in which climate change is the first priority, with measures to reduce Australia's emissions and help other Oceanic countries with their reductions too.

D. Future Perspectives

The concluding segment of this report dives into the analysis of four prospective scenarios anticipated to unfold in the Indo-Pacific. This has been done by analyzing the relations amongst various international actors shaping the dynamics of the region, key variables, and drivers of future change.

¹³³ *Ibid*

MAP OF ACTORS



Authors' creation

Several drivers of change in the region have been identified and described in the table below. A morphological analysis matrix is used to formulate several scenarios, in which various potential changes are attributed to each driving factor and then possible combinations created in order to identify distinct feasible scenarios. Lastly, an explanation of each of these scenarios and their probability is given, reaching the final conclusion that the most likely future scenario to unfold is the maintenance of the status quo.

DRIVERS OF CHANGE

1	China's influence in the region	China's aggressive investment in the Indo-Pacific is creating a challenge of dependency on China for the countries in the region. More specifically, it creates a challenge for Australia due to its reliance on Chinese trade and investment in strategic minerals.
2	US' involvement in the region	The US boasts strong military influence within the Indo-Pacific and is depended upon heavily by Australia to bolster Australia's military capabilities. The US also has strong political and economic interests in the region, with its main strategy as that of deterrence against Chinese influence.
3	ASEAN as a center of regional stability	ASEAN is the most important regional organization in Southeast Asia which is viewed as the center of a stable region due to its consistent policy of non-alignment. However, if ASEAN chooses to align itself with an actor in the region, there would be large regional consequences.
4	India's regional influence	India is the fourth largest importer of Australia's strategic materials and critical minerals, making it a strong alternative for Australia's supply chain diversification. Its influence is steadily growing in the region, legitimizing its counteraction of China's activity.
5	Japan's regional involvement	Japan is the second largest importer of Australia's strategic materials and critical minerals, making it a strong alternative for Australia's supply chain diversification.
6	Taiwan issue	China continues to increase pressure toward Taiwan in hopes of delegitimizing the Taiwanese government and promoting what China considers to be a reunification of the country.

MORPHOLOGICAL ANALYSIS MATRIX OF DEVELOPMENTS IN THE INDO-PACIFIC

	A: China's influence in the region	B: United States' involvement in the region	C: ASEAN as a center of regional stability	D: India's regional influence	E: Japan's regional involvement	F: Taiwan issue
1	Increase	Increase	Increase	Increase	Increase	Increase
2	Status quo	Status quo	Status quo	Status quo	Status quo	Status quo
3	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
4	Global superpower	Withdrawal from region	ASEAN aligns	World power	Supply chain alternative	Conflict

Scenario 1: Maintenance of the current status quo (A1, B2, C1, D2, E2, F2)**Probability: High**

The most likely scenario determines that the current status quo within the Indo-Pacific region is maintained. This scenario sees China continuing to increase its exertion of pressure on Taiwan, with the goal of delegitimizing Taiwan's government and ultimately gaining the support of the Taiwanese population in order to engage in a reunification. However, it is unlikely China would engage in an armed annexation of Taiwan due to the high cost for China. Indeed, China understands that *if* it were to openly provoke Taiwan militarily, the US would likely see itself forced to engage in the conflict in order to protect its international credibility, especially amongst its allies. Additionally, the US and its allies boast stronger overall military capabilities than China's. Furthermore, an armed conflict would negatively affect China's economy, making the stakes too high to engage. It is important to note however that the outcome of the upcoming US elections could have an effect on US foreign policy in the region, therefore slightly affecting the status quo of the region without significantly altering it.

The relevance of ASEAN within this scenario would also increase if it continues with its strategy of non-alignment. This is due to the fact that if ASEAN were to align with either China or the US, its alignment would greatly affect the geopolitical situation of the region. Along this line, neither India nor Japan would be able to increase their regional influence nor involvement under this scenario, as increasing this would change the status quo. Lastly, Taiwan would remain within the status quo under this scenario because there would be no armed annexation of the territory by China, and the US and its allies would therefore have no reason to further involve themselves in the matter.

Scenario 2: China's complete economic control of the region (A4, B3, C4, D3, E3, F1)**Probability: Medium**

There exists a medium possibility of China expanding its economic influence to the point in which all other regional actors fully depend on it. This would lead to China's effective

complete control in the region and dominance over strategic waterways like the South China Sea.

For this situation to unfold, China's role as a global superpower would increase due to other countries' economic dependence. On the other hand, the US would adopt a more passive stance, reducing its involvement in the region and creating a domino effect with the decrease of India and Japan's regional influence. Consequently, ASEAN would struggle to maintain its centrality in regional affairs as member states facing increasing pressure would likely align with China for economic security. Lastly, tensions over the Taiwan issue would also escalate, though not militarily. As aforementioned, the stakes would remain too high for China to enter into armed conflict with Taiwan, but the economic pressures would shift the current situation in China's favor.

Scenario 3: Australia diversifies its supply chain of strategic materials and critical minerals toward an increase in trade with Japan and India (A3, B3, C2, D4, E4, F3)

Probability: Medium-to-low

In this scenario with a medium-to-low probability of occurring, Australia would diversify its trade relationships to reduce economic dependency upon China, especially considering China's increasing assertiveness in regional geopolitics. Australia would look to Japan and India for economic alternatives, as the two are Australia's second and fourth largest importer of strategic materials and critical minerals, respectively. Through economic diversification, Australia would enhance its economic resilience, foster regional stability, and reduce its exposure to geopolitical tensions. Although it is highly implausible that it would cease trade with China altogether, diversifying the current supply chain of Australia's resources would substantially decrease its economic reliance on China.

Therefore, this would lead to a decrease in China's regional influence, and subsequently decrease the tensions surrounding the Taiwan issue. US influence would also decrease, as US involvement in the region is mainly due to its deterrence policy against China.

On the other hand, Japan and India would not only increase their regional involvement, but also their global influence due to these new strengthened economic ties. Although trade dynamics within the region would be altered, it is likely that ASEAN would remain non-aligned as a neutral power in the region.

Scenario 4: Armed annexation of Taiwan (A1, B1, C2, D2, E1, F4)

Probability: Low

The scenario with the lowest probability of occurring is that of an armed annexation of Taiwan by China after years of claiming Taiwan as part of its own territory. This would trigger a complex and potentially volatile series of events in the Indo-Pacific region. It would also test the alliances and strategic interests of major powers.

First, Chinese influence in the region would significantly increase. Though the US has long maintained a policy of strategic ambiguity regarding Taiwan's status, it is also committed to ensuring its security. Therefore, its influence would increase, with the US likely involving itself militarily in the conflict, thus increasing the possibility of an escalation. The US' involvement would imply the involvement of the US' regional allies, including Australia and Japan.

Meanwhile, ASEAN would remain non-aligned, continuing to promote a strategic equilibrium in the region. The same would occur with India, not only given its turbulent relationships with both the US and China, but also due to its internal conflicts, preventing India from taking action in the Taiwan strait.

CONCLUSIONS

To conclude, Australia has emerged as a dominant player in the complex geopolitical landscape of the Indo-Pacific region. Its strategic position and abundance of resources cast it as a central figure in the balance of regional stability and economic cooperation. Australia has juggled the multifaceted interplay of defense commitments, economic dependencies, and diplomatic engagements amidst the escalating rivalry between the US and China in the region. This strategic analysis has been conducted through a comprehensive examination of Australia's strategic partnerships to bolster its defense capabilities, its endeavors to mitigate economic reliance on China through diversification, and its engagement with key regional partners such as Japan, India, and ASEAN.

Australia finds itself in a delicate balancing act between its security alliance with the US and economic interdependence with China. By deepening its regional relationships, Australia is exploring the potential for alternative trade and strategic cooperation with other regional powers such as India and Japan. Additionally, ASEAN's role in maintaining regional equilibrium through conflicts such as the one in West Papua must prevail.

Furthermore, Australia's rich endowment of strategic materials and critical minerals has positioned it strategically, evaluating the geopolitical leverage these resources afford the country in the face of China's economic assertiveness. Additionally, past trade tensions between Australia and China have tended to normalize with time, underscoring the interdependence between these two nations. As Australia navigates its rising role in the Indo-Pacific, the necessity of a strong blend of diplomacy, economic strategy, and defense preparedness becomes increasingly apparent.

It is most probable that the status quo in the Indo-Pacific will remain in the short-to-medium term. Australia will continue advocating for strategic patience and nuanced diplomacy to navigate the challenges ahead. Amidst the uncertainties of global shifts and regional power plays, Australia's role as a stabilizing force and a bridge between competing powers further emphasizes its significance in shaping the future of the Indo-Pacific region.

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