

**LEVERAGE ADVANCED  
MANUFACTURING,  
CRITICAL  
TECHNOLOGY  
COORDINATION  
AND ALLIED SUPPLY  
CHAIN NETWORKS**

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## Context and background

**Australia must ensure that the Biden administration's policies about domestic renewal are not inward-looking but based on an allied-centric approach to strengthen secure supply chains in strategic and critical sectors, and with respect to economic cooperation more generally.**

President Biden and his key Cabinet officials have promised to focus on reinvesting in America, especially putting resources towards upgrading national infrastructure and innovating capacity. Although rejecting Donald Trump's 'America First' rhetoric, there are fundamental areas of continuity from the previous president when it comes to mindset.

For example, there is no longer blind faith in unfettered globalisation, that US-based multinationals should be left unimpeded to conduct commercial affairs in markets such as China as they see fit, or that the unregulated activities of these firms in external markets are axiomatically good for the American national interest.

In short, US economic and industrial policy will increasingly be guided by the political and strategic objectives of the US administration. In terms of strategic objectives, Biden and key officials, such as Secretary of State Antony Blinken and National Security Adviser Jake Sullivan, have

all identified the competition and rivalry with China as the most urgent and important external priority facing the administration and the country. This means the US administration will want to ensure domestic economic and industrial policy are aligned with the objective of the United States being able to compete with China from a position of strength.

## The Biden administration

In these early days, President Biden is undertaking a review of all of Trump's executive orders. So far, Biden has not lowered or removed the tariffs his predecessor placed on Chinese goods and services and has left alone most of the Trump-era executive orders and regulatory changes that restricted Chinese inbound investment and export of certain key technologies to China.

This is a clear signal Biden seeks to maintain any inherited leverage he has vis-à-vis Beijing. More than this, it is also evidence that the Biden administration accepts it is engaged in a long-term competitive dynamic with China and that Chinese economic and technological gain is often at the expense of the United States, and vice versa. In other words, the dynamic has shifted from one where economic interaction was perceived to be largely complementary prior to Trump to the current one where it is increasingly perceived to be zero-sum.

Policy is very much determined by personnel. In terms of key appointees at the top four levels, Biden has filled the administration with experts who not only accept the reality of strategic rivalry with China but recognise that military, economic, financial, commercial and technological tools must be integrated and harnessed to compete successfully with China.<sup>13.1</sup>

There are currently advanced discussions inside the Biden administration as to what a more integrated approach to China ought to be like. This includes policies associated with the reorganisation of supply chains, and more broadly, resetting the economic relationship with China.

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## The Biden administration's thinking on China

**“Washington now faces its most dynamic and formidable competitor in modern history. Getting this challenge right will require doing away with the hopeful thinking that has long characterized the United States’ approach to China. The Trump administration’s first National Security Strategy took a step in the right direction by interrogating past assumptions in US strategy.”**

*Indo-Pacific Coordinator at the US National Security Council Kurt Campbell and Special Assistant to the US Secretary of Defense Lloyd Austin in “How American foreign policy got China wrong,” Foreign Affairs, March/April 2018*

**“US policymakers and analysts have mostly, and rightly, discarded some of the more optimistic assumptions that underpinned the four-decade-long strategy of diplomatic and economic engagement with China...The basic mistake of engagement was to assume that it could bring about fundamental changes to China’s political system, economy, and foreign policy...”**

*Indo-Pacific Coordinator at the US National Security Council Kurt Campbell and US National Security Advisor Jake Sullivan, “How America can both challenge and coexist with China,” Foreign Affairs, September/October 2019*

## Australian interests

Australia is having its own internal policy discussion about reorganising, securing or diversifying supply chains and markets regarding certain technologies or critical and strategic sectors. Given the diplomatic and economic tensions with China, there is a maturing conversation about decreasing Australia’s reliance on China and making sure the sources of Australian prosperity and security are more resilient. In some instances, it will involve developing a sovereign capability when it was previously left to external entities to offer those capabilities to Australia.

All of this will involve a greater role for government in economic, commercial, and industrial affairs, with implications on project financing, public-private partnerships, investment rules, safeguard standards, export licensing, and a plethora of other legal and regulatory frameworks.

Regarding national resilience, there is a need in Australia to:

- Identify genuinely strategic and critical sectors and products;
- Assess Australia’s vulnerability with respect to these sectors and materials; and

- › Decide on strategies based on a combination of diversification, access to safe and secure supply chains or tech ecosystems contained within friendly economies, joint ventures with allies and partners, and even self-sufficiency.

We have seen elements of these in the emerging 5G ecosystem, which locks out Chinese partners such as Huawei and the concerted effort to develop rare earth supplies outside China. We are also seeing these principles being applied to information and communications technology infrastructure (such as fibre-optic submarine cables) and in newer domains such as outer space, which is becoming increasingly important and contested.

In this context, the United States remains indispensable. Diversification, creating commercially viable supply chains in certain sectors, and even self-sufficiency or indigenous capacity depend enormously on US economic presence, involvement, markets, innovation, expertise and finance. Setting industry and ethical standards, such as in the use and protection of data, is generally the prerogative of those with a dominant commercial presence. For this reason, Australia needs well-regulated firms from advanced democracies such as the United States to expand their presence in regional markets.

Enhancing Australia's military capabilities and changing posture to reflect the primacy of regional challenges and threats requires military, commercial, and technological collaboration with the US government, and partnerships with private firms from both countries.

The United States has similar aims to Australia when it comes to building sovereign capability and national

resilience. But as the world's largest economy with unrivalled innovative capacity and unmatched public and private resources, there is often an instinctive tendency for the United States to look mainly inward to advance its own interests, capabilities and resilience. Doing that will only advance Chinese strategic, economic, political and normative pre-eminence in the Indo-Pacific.

## Policy recommendations

- › **Replicate the government-to-government process leading up to 2020 AUSMIN to jointly identify genuinely strategic and/or critical sectors and materials.** Build on this policy conversation through the Quad mechanism.
- › **Encourage the United States to apply the same methodology with Europe, including through a more proactive G7 agenda.** Efforts must also be made to encourage buy-in from economies such as South Korea and Israel.
- › **Adopt a 'systems'-based approach based on creating secure and commercially viable economic, technological and normative ecosystems relevant to these strategic/critical sectors based around allied and friendly economies.** This 'systems'-based approach is already apparent in the long-standing military cooperation between Australia and the United States in which the capabilities, interoperability and geography of one country enhance the capabilities and security of the other allied partner – where the whole is greater than the sum of the parts.
- › **Apply this mindset to thinking about reorganising supply chains for critical/strategic sectors.** This would include harmonising relevant legal/regulatory trade and investment rules and establishing joint investment platforms and rules for public-private partnerships covering entities from both countries.