



Introduction: Australia confronts geoeconomics

Geoeconomics – the application of economic instruments for geopolitical ends – has become a prominent feature of international politics in the early 21st century. As rivalries have re-emerged between the world's major powers, governments have turned to economic tools as a way of advancing strategic agendas. This is especially true in the Indo-Pacific, a region home to most of the world's major powers. It has been driven by the US and Chinese governments, which have both deployed geoeconomic strategies to prosecute their great power rivalry. Where economic interdependence was once a driver of cooperation in the Indo-Pacific, it has recently become a domain of strategic competition.

Geoeconomics poses an historic challenge for Australian diplomacy. For three decades, Australia has benefited immensely from a cooperative, rules-based and liberalising economic order in the Indo-Pacific. But as contestation replaces cooperation in the early years of the 21st century, Australia's finds itself confronted with new economic challenges. The outbreak of coercive trade diplomacy has harmed the Australia economy, and threatened the integrity of global economic institutions. China's Belt and Road Initiative has posed new security challenges at home, while catalysing infrastructure competition in the wider Indo-Pacific. As the commitment of major powers to multilateralism has waned, Australia's diplomatic efforts at institution-building have also been hampered.

Australian policy settings complicate the challenge of managing geoeconomics. As an open and medium-sized economy, it is highly exposed to external shocks to its trade and investment ties. Compounding matters, Australia maintains a liberal approach to international economic engagement: based on open trade and investment policies at home, and a commitment to rules-based institutions with partners. These liberal settings served Australia well during the era of cooperative economic relations. But today they leave Australia exposed to risks emanating from the geoeconomic strategies of others.

This report examines how Australia can adapt to an era of geoeconomic competition in the Indo-Pacific:

What is geoeconomics, and how is it reshaping the Indo-Pacific economic order?

Where, and to what extent, is Australia exposed to geoeconomic risks?

What strategies have been deployed to manage these risks, and how effective have these been?

How can Australia adapt its policy settings to the geoeconomic environment of the 21st century?

The report contends that the rise of geoeconomics poses a major new threat to Australia's national interests. Australia needs to reappraise its foreign economic policy settings, and adapt them to the challenges of geoeconomic contestation. While *adaptation* does not demand an *abandonment* of liberal economic principles, it does necessitate new strategies that are configured towards managing risks. Diversifying international economic relationships, developing 'defensive' capabilities against economic coercion, deploying economic diplomacy in strategic areas, and working in minilateral coalitions with likeminded partners, are essential components for Australia's future geoeconomic toolkit.

