



Executive Summary

Geoeconomics is a fact of life in the 21st century Indo-Pacific. As international rivalries among major powers have re-emerged, economic policies have become a key element in diplomatic toolkits. Many Indo-Pacific governments – particularly China and the US – have deployed geoeconomic strategies to manipulate economic relationships for geopolitical gain.

Geoeconomics has increasingly proven a challenge for Australia. Coercive trade warfare – at both the bilateral and multilateral levels – has already harmed Australia’s economy. China’s emergence as a global investor is posing vexing security and strategic externalities both at home and abroad. Australia’s diplomatic efforts in the Indo-Pacific have been hampered as the commitment of major powers to multilateralism has waned.

Australia is particularly exposed to geoeconomic risks. As a highly-open economy with significant trade and investment ties, geoeconomics threaten Australia’s national interests. Compounding matters, Australia’s commitment to liberal economic policy settings increases its exposure to risks, and reduces its capacity to respond to the geoeconomic strategies of others.

Australia must adapt its foreign policies for the era of geoeconomic contestation. While liberal economic policy settings have worked well in the past, there is need for new approaches to manage emerging risks. Australia now needs to strike a new and careful balance between the openness that secures Australia’s economic strength, and strategic considerations that protect against security risks and political coercion.

Fortunately, Australia has many practical options in its geoeconomic toolkit. These include diversifying economic relationships, developing ‘defensive’ capabilities against coercion, strategically deploying economic diplomacy, and working in coalitions with likeminded partners. These policies will be essential to adapting Australia to the geoeconomic currents of the 21st century Indo-Pacific.
