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## **SSU Forum**

### **“Disruption and Diversity in Australia’s Economic Security”**

Tuesday, February 27, 15:30–17:40 (hybrid format)

Summary

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The global economic landscape has undergone a remarkable shift in recent years. The intensifying competition between the U.S. and China for global economic and technological leadership and the supply chain disruptions caused by the COVID-19 pandemic have driven countries such as Australia to take measures to identify, assess, and manage risks to their economic security. What are the major economic security challenges Australia has confronted? What approaches has the country taken to mitigate the impact of the recent disruptions to its economies? Can the Australian experience in managing economic security risks offer lessons for other countries?

On February 27, 2024, the Security Studies Unit (SSU) at the Institute for Future Initiatives hosted Dr. Jeffrey Wilson, Director of Research and Economics at the Australian Industry Group, for a keynote speech on the current state of Australia’s economic security. The event began with opening remarks from Dr. Akio Takahara, head of the SSU and a professor at the University of Tokyo. Following his keynote address, Dr. Wilson was joined in conversation by Dr. Tomohiko Satake, Associate Professor at Aoyama Gakuin University; Dr. Arata Kuno, Professor at Asia University; and Ms. Teruko Wada, Director of the International Affairs Bureau at the Japan Business Federation, before taking questions from the audience. The discussion was moderated by Ryo Sahashi, Associate Professor of International Relations from the University of Tokyo.

#### **Keynote presentation**

Dr. Wilson began his remarks by maintaining that Australia was lucky to have enjoyed three generations of a relatively secure economy until the disruption of the recent pandemic. In his explanation of the country’s sustained economic stability, he pointed to an open, rules-based U.S.-led global trading system and decades of uninterrupted demand for primary products from fast-growing Asian markets, particularly China, for the past two decades. However, the country’s economic security was undermined during the pandemic by what Dr. Wilson calls the “three disruptions:” China’s coercive trade sanctions on almost all major Australian exports (except for iron ore), pandemic-induced supply chain shortages for critical imports, and the impact of the decarbonization of the Australian economy on energy security.

According to Dr. Wilson, these disruptions have prompted the Australian government and the business community to reassess the country’s extraordinarily concentrated trade profile and recognize the need for the country to diversify both *what it trades* and *with whom it trades*. After all, Dr. Wilson explained, having a risk-laden trade profile that placed “too few eggs in too few baskets” would expose the country to bigger market and political risks in an increasingly contested global economy.

The Australian government has taken steps to diversify and transform Australia's industry and economy. Dr. Wilson indicated that the government's diversification measures are two-fold. First, through the National Reconstruction Fund and Industry Growth Program, the government is supporting seven priority sectors to drive sustainable economic growth and prosperity, including investing in renewables and low-emission technologies. Second, it is seeking new trading partners, such as Southeast Asian countries, to expand its import sources and investment opportunities beyond China. How has the export diversification strategy fared so far? Dr. Wilson reported mixed results: While products such as coal, barley, and lobster have successfully diverted trade around Chinese sanctions, goods such as wine, timber, and horticulture are still struggling to find alternative markets.

Dr. Wilson closed his remarks with some final thoughts on the relevance of the Australian experience for other countries in managing economic security risks. According to Dr. Wilson, a general lesson learned is that however economically secure a country appears, it can make the most of diversifying trade and its investment partners to reduce economic security risks. Based on this observation, he urged policymakers seeking to manage economic security risks to pay attention to concentrated and inflexible markets in their trade profile. How relevant is the Australian experience for other countries? Considering Australia's risk-laden trade profile that relies on a few primary commodities exports, Wilson concluded that Australia might only offer relevant economic security lessons for countries with similar trade structures, such as Canada and New Zealand.

### **Panel discussion and Q&A**

Following Dr. Wilson's remarks, the three panelists joined the conversation. As a security expert, Dr. Satake discussed three strategic considerations affecting Australia's economic security today: countering China's economic coercion, protecting Australia's critical infrastructure and information technology, and maintaining sustainable economic growth. He questioned the long-term feasibility of the economic diversification strategy and wondered whether certain measures, such as immigration, could contribute to the country's sustainable economic growth. He asked whether Australia could capitalize on its trade interdependence with China, using China's dependency on its iron ore exports to counter China's economic coercion. In response, Dr. Wilson argued against "weaponizing" iron ore, citing that the minerals cannot create enough economic leverage and that using them as a strategic weapon would only lead to "mutually assured destruction," subsequently destabilizing Australia's economy.

As an economist, Dr. Kuno weighed in on how subsidies and other protectionist industrial policies aimed at safeguarding a country's economic security can, in turn, pose economic security risks. According to Dr. Kuno, the world is witnessing a growing subsidies-fueled prisoner's dilemma as countries have begun to join the global subsidy race to prevent China from dominating global markets with its heavy industrial subsidies given to national champions for competitive advantages. He called for countries to raise awareness and discussion of the dangers of the global subsidy race to the free trade system. Dr. Kuno then shifted his focus to economic coercion. He posed questions about the definition of economic coercion, asking whether the West's "de-risking" or "decoupling" from China should be interpreted as economic coercion against China. He also wondered whether Australia may consider introducing its version of the EU's Anti-Coercion Instrument (ACI). In response, Dr. Wilson suggested the possible continuation of the existing approach that relies on the WTO dispute

settlement process while underscoring the importance of industry support in the government's response to economic coercion.

Hailing from the Japanese business community, Ms. Wada outlined how Japanese industries perceived their government's efforts in strengthening economic security and addressing economic coercion. She pointed out that even before the government enacted the Economic Security Promotion Act in 2022, Japanese businesses had taken it upon themselves to manage economic risks during the pandemic, including diversifying the location of their production facilities. Ms. Wada also emphasized the importance for the Japanese government to diversify trading partners through expansion of bilateral and multilateral trade/investment agreement network, economic dialogue, and the diversification of its critical minerals supply, in which technological innovation plays a crucial role in searching for rare earth substitutes. On export restrictions, she urged countries with similar technologies to coordinate their policies to safeguard critical technologies. How should governments respond to "grey-zone" economic coercion measures, such as delays in issuing business visas? In response to her question, Dr. Wilson argued that addressing economic coercion requires close government-business cooperation to understand the whole picture. Rapid information-sharing among like-minded countries, such as through the newly established G7 coordination platform designated for the purpose, is also crucial to countering economic coercion.

Finally, the floor was opened to questions from the audience. When asked about the importance of the Australian government's list of designated critical technologies in the national interest, Dr. Wilson explained that the list is a non-binding signal to the market to attract investments. Responding to why China targeted Australia with heavy economic coercion, Dr. Wilson pointed to, among others, a strongly abiding view in the Chinese political system that perceives Australia as a U.S. ally and a possibly chaotic decision-making process among the Chinese officials that handled the issue. Dr. Wilson also addressed other topics, including a discussion on the new changes to Australia's export control regimes for defense and non-defense goods as a result of an AUKUS agreement.

\*This forum is held under the auspices of the Ministry of Foreign Affairs of Japan.