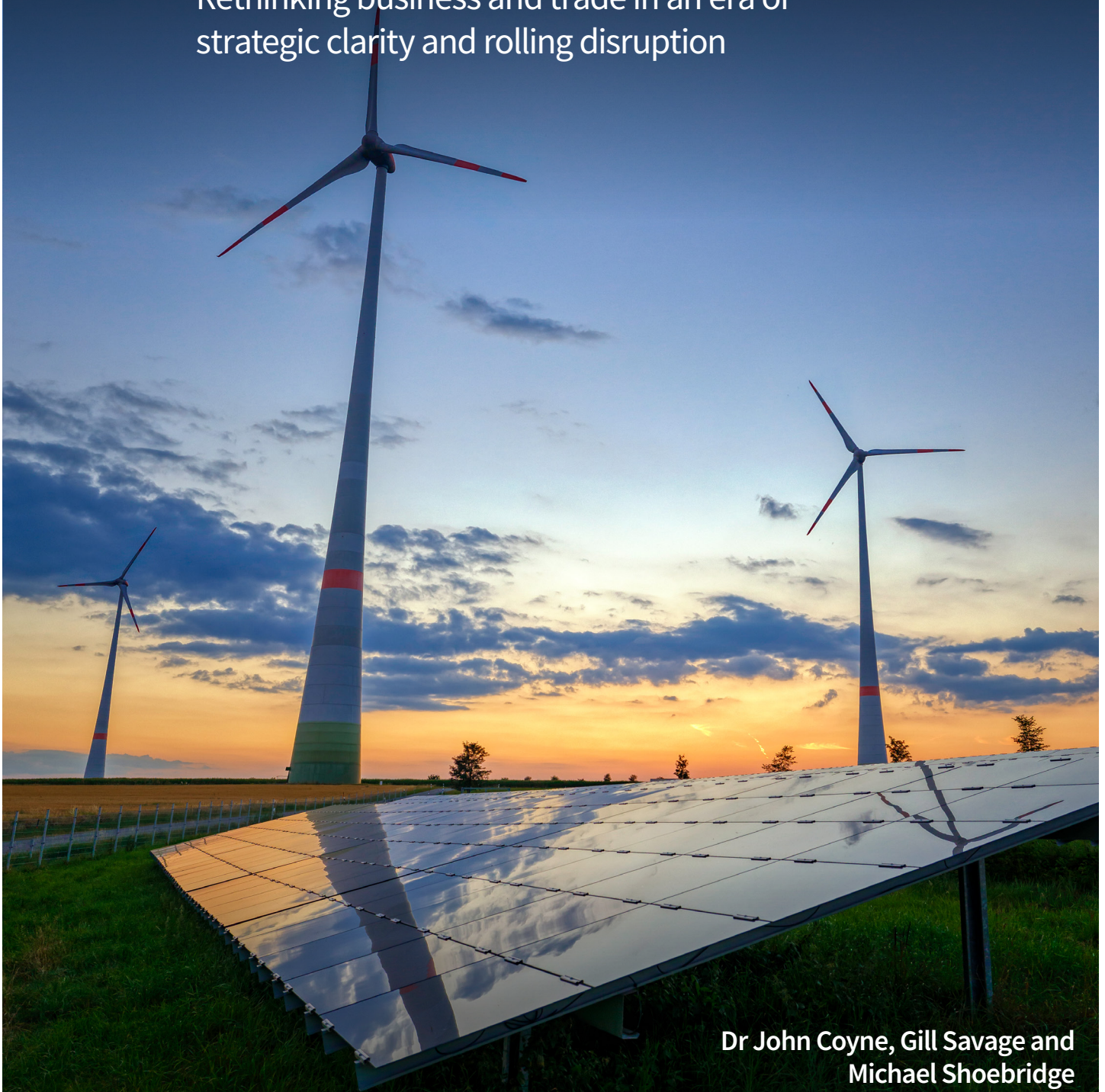


SPECIAL REPORT

A S P I

New beginnings

Rethinking business and trade in an era of strategic clarity and rolling disruption



Dr John Coyne, Gill Savage and
Michael Shoebridge

A S P I

AUSTRALIAN
STRATEGIC
POLICY
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September 2021

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Executive summary

Australians pride themselves on their robustness and resilience when faced with bushfires, floods, cyclones and droughts. Inherent in the Aussie spirit is a sense of getting on with things. Overlay the impacts of Covid-19 and it soon becomes apparent that how we measure economic prosperity, particularly through our trade relations, has exposed us to a range of undesirable outcomes.

Our sovereign interests have been discounted through government and corporate policy settings that prioritised low-cost production and logistics and underappreciated the resulting vulnerabilities, including the impact of eroding our national resilience. The two key influencers here are the exercise of state power to disrupt trade and economics in pursuit of strategic interests; and environmental shocks like the current pandemic and climate-change-driven disruptions. We were in good company internationally. Those core policy settings embraced globalisation as a single, inevitable imperative, but we, along with many other societies and their governments, are now experiencing the nasty consequences of our assumptions about the risks involved. No amount of 'getting on with things' is going to address this new challenge.

This special report considers the relationship between our business and trade positioning in the context of the impacts of Covid, natural disasters and the actions of coercive trading partners.

While the report provides an overview of some of the issues that contributed to where Australia is today, it also suggests a range of opportunities to rethink business and trade to enhance resilience and safeguard our sovereignty.

There are many aspects that have contributed to our current business and trade positioning. Investment was driven by an economic perspective that simplified the global system in dangerous ways and trusted to self-healing properties in global corporate planning and supply chains, while discounting the potential impact of very different types of state entities—notably empowered authoritarian ones.

Our public service policy and planning capacity was eroded to do little more than make incremental adjustments to longstanding policy and regulatory settings. We now struggle to work across the powerful policy and agency siloes on issues and events that intermingle economic, technological, social and security interests, particularly at the pace of change we're experiencing domestically and internationally.

Despite this, crises such as Covid and our response to the Chinese Government's now overt coercion have demonstrated a large national capacity to withstand and respond in the moment to unexpected pressures. We've demonstrated that we can make use of valuable Australian assets and capabilities that we seem to undervalue in quieter times. Our challenge is to make this 'high performance in crisis' an attribute of the way we function outside of crises. Doing that means understanding the opportunities we have to build future wellbeing, prosperity and security. That starts with understanding what our external environment looks like and thinking through how our particular strengths will work best.

Taking the ‘four Cs’ as a starting point—Covid, China and climate change—against a background of rapid technological change lets us identify significant opportunities in low-carbon and renewable energy, biotechnology for human and agritech applications, quantum technologies, sustainable rare-earth mining, processing and manufacture, and deepened military–industrial co-production with allies and partners. These new directions for Australia will build our future wellbeing, prosperity and security and enhance our position as a leader and trusted partner in our near region.

What underpins all of this is the need to think differently, commit to the big ideas of entrepreneurs and invest in innovative opportunities. We need thinking and approaches that are different from the well-worn policies, procedures and mindsets that were designed for a different, less challenged and slower paced environment.

Pursuing them requires us to position economics alongside security, sovereignty and resilience through a more holistic nation-building agenda that invests in what we’re good at and what we need, values what we have and builds the future we want.

Introduction

In the dying minutes of Daydreamer's 2016 dance song *New beginnings*, a hypnotic voice prophetically announces:

The things we wished for

The things we dreamed of

We thought they would just appear and our lives would start

But nothing starts without you

So why don't we become the stories we've always wanted?¹

With its constrained lyrics, the song itself could well be the anthem for many parts of the Australian Government over the past three decades. Continuous economic growth, and the absence of an existential threat, saw an almost unchecked belief in the power of market forces, globalisation and the 'long peace'.²

With little doubt, Covid-19 and its health, social and economic impacts have shaken many free from wishes and dreams. Despite Covid-19 providing a moment of awakening, it hasn't yet become the catalyst for the paradigm shift expected by many. Perhaps this will change with the realisation that we're going to be living with Long Covid (not the medical condition but the pandemic). That's because, even with the national vaccination rollout accelerating, it seems almost certain that vaccines alone won't let us return to life pre-Covid. Living with Long Covid will require larger investment and structural change. We can't rely on the temporary workarounds and solutions applied to date, such as hotel quarantine in major population centres and deal-making to obtain diverse stocks of vaccines, driven by limited domestic production.

In parallel with the pandemic, the foundation for another paradigm shift was laid with the release of the 2020 Defence Strategic Update (DSU).³ The DSU announced that the warning time for a major conflict was now under 10 years—a shift from the assumptions that have been used to base defence planning, capabilities and budgets since at least the late 1980s. Then, in August 2020, Prime Minister Scott Morrison added to the foundation when he said at the Aspen Security Forum, 'in 2020, our international society is under strain.'⁴ He also made a clear connection between economics and national security, adding that 'economic coercion is increasingly employed as a tool of statecraft.'

However, the careful management of logistics and consumer demand by both government and corporate organisations has meant that, beyond the disturbing black comedy of toilet paper arm-wrestling (Figure 1) and the perilous constriction of critical items such as medications, the average Australian might have not fully appreciated the fragility of the multiple supply chains upon which we all depend. Again, our national capacity to work around obstacles in crises may be obscuring our need to get ahead of the curve so that we're better positioned for readily anticipated—and forecast—future shocks and opportunities.

Figure 1: Covid toilet paper meme



Source: iStockphoto/Azindianlany, online.

On the back of the disastrous 2019–20 Black Summer, the average Australian understood the glaring need to invest in resilience, but we have yet to connect that disaster with the pandemic and the rise of an assertive China and set out how we can respond to positively protect and advance our national wellbeing, prosperity and security.

The good news here's that, irrespective of whether it was the fires, the fears about Covid or economic threats from China, the cumulative result is that Australians have become more concerned about national security, resilience and sovereignty and the connection between those factors and economics. Long-held assumptions about just-in-time supply chains have melted away, and the growing role of the state to address key vulnerabilities in close partnership with our corporate world is becoming apparent.

While those who've profited from longstanding structural approaches—such as what seemed our ever-deepening trade relationship with China—are still eager to find a way to return to the way things used to be, it seems that wishing, dreaming and nostalgia won't make that possible.

Whether you're in the public or private sector, the increasing strategic clarity we have about the long-term impacts of Covid, climate change and China requires new thinking, and at the heart of that is innovation and entrepreneurialism at the scale and speed we last saw during World War II and in the nation building that followed. That's also the last time that Australia recognised industrialists and entrepreneurs as deep partners of government, instead of arm's length probity risks.

While some may lament what has been, and others refuse to let go, this changed strategic environment will bring new opportunities for the fleet of foot. As highlighted by Morrison at Aspen, these changes need not mean an end to globalisation. But global interaction is sure to look very different from before—certainly more differentiated and less simply global—and policymakers and industry will need to reconsider how they navigate this environment. That's best done together, with a common sense of urgency and opportunity.

This research report explores the prevailing shifts currently being experienced in the global economy. We argue that those shifts demand new thinking about trade, investment and the economy. In doing so, we posit that much of what we know and assume in traditional Master of Business Administration (MBA) thinking needs to be reset. Finally, we present some considerations for what the Australian private and public sectors should consider.

The lucky country

Australia, the ‘lucky country’,⁵ is blessed with natural endowments. Peace and stability in the postwar period have created the context for maximising the benefits of those endowments. Through a combination of good fortune and adequate planning, consecutive governments and the private sector have nurtured efficient resources and agriculture sectors. Of course, other sectors, including light and medium manufacturing, have been far less fortunate, falling by the wayside to the globalisation of economies, in similar ways to those of many of our trading partners.

Australia remains a dominant and successful exporter of resources—notably iron ore, liquefied natural gas (LNG), coal and agricultural produce. Thirty years of economic growth illustrate financial success driven by a combination of sound policy direction and luck.⁶

But an underappreciation of the risks and assumptions behind globalisation and an over-reliance on luck have left Australia overexposed to risk in the current structure of our economy and our trade. That’s primarily because, in the pursuit of short- and medium-term foreign investment and trade opportunities, China has become our top export market for 14 of our top export items. Our faith that economics has nothing to do with national security was ill-founded. Even as China has weaponised trade against Australia increasingly over the past year, many continue to argue that there’s no problem. That same faith and trust in luck has deeply affected Australia’s resilience.

To understand why something needs to be done to address Australia’s economic resilience challenges and trading vulnerabilities, it’s necessary to explore the broader shifts being experienced in the global economy.

Shifts in the global economy

For more than 30 years, Australia's positive economic growth ensured our economic prosperity and, for the most part, defied John F Kennedy's observation that 'change is the law of life.'⁷ While there have been some changes, Australia, for the most part, avoided the significant economic corrections driven by events such as the 1997 Asian economic crisis and the 2007–08 global financial crisis (GFC).

However, the past year has shown that Australia's economy might not be able to avoid the five fundamental shifts that the global economy is currently undergoing.

The move from US–China economic integration to 'decoupling': particularly for high-technology items and knowledge

There can be little doubt that the US economy has followed the same globalisation song sheet as Australia. Over more than 40 years, outsourcing, offshoring and just-in-time supply-chain thinking meant that many sectoral value chains began in mainland China. Cheap labour and declining transportation costs meant that Chinese factories produced everything from medicines to batteries, filling the gaps of rapidly declining manufacturing capability markets. Eventually, swathes of technology and knowledge were transferred to China, with little appreciation of what that might mean for national security.

Indeed, supply chains had become so enmeshed that the level of integration was difficult for the US government to conceptualise, especially during the first few months of Covid-19. In the first of a series of lengthy reports, the new Biden administration has begun to set out many of the issues and the background drivers that led us here. One underlying driver was the implicit assumption that all states were essentially similar, and all would respond in largely similar ways to globalisation, attracting capital, investment and skills by adopting policies and regulations with those goals. Unfortunately, that assumption of converging systems of government comprehensively discounted the nature of Chinese Communist Party (CCP) rule in China.

In addition, a resurgent Russia has led to an awakening across the US Government and the private sector. A program of economic decoupling has begun (Figure 2) and is accelerating with the Biden presidency.⁸ And the China–US strategic, technological and economic struggle seems very much set to remain as long as China continues to recentre its economy in CCP rule.

Figure 2: The great decoupling



Source: iStockphoto/Wildpixel, [online](#).

While having broad support in Congress and US Government institutions, the decoupling is experiencing resistance in key areas—including the US tech world, which has stayed on the sidelines so far, given its extensive business interests and connections into the Chinese economy. The lure of profits is still a driver of corporate leaders' desire to ring fence economic policy from national security. The mindset is demonstrated in statements like those from Boeing's global CEO, who's 'hoping we can sort of separate intellectual property rights, human rights and other things from trade'.⁹

Still, the use of economic coercion, combined with a wider set of aggressive uses of power domestically and internationally, is making that position increasingly unviable. Consistent community-level views across the democratic world about the collapse in China's soft power support the bipartisan policy consensus in Australia and the US.¹⁰ The policy directions must respond, and business leaders must adjust to this political and public environment.

Greater 'sovereign resilience' for critical items, such as medical and military supplies

In 2020, Covid-19 exposed vulnerabilities in numerous pre-pandemic supply chains, not just for Australia but for all nations. Many, as it turns out, have a single common point of failure in China, where complex individual company supply chains wind their ways through different major contractors, subcontractors and outsourced providers, ending in tiny geographical locations within China, sometimes with single-company suppliers despite the myriad different intermediaries. So, globalisation turns out not to have mitigated important supply-chain risks. If supply from particular geographical locations is disrupted, for whatever reason—natural, political or strategic—the result is a failed mitigation strategy. Traditional risk-management frameworks didn't envisage a disruption of the scale of Covid-19 or the impacts of cascading risks.

The global supply-chain risk post-pandemic has the familiarity of the financial-instrument risk following the GFC. Prior to the GFC, financial risk was fragmented and dispersed in exotic financial vehicles such as consolidated debt instruments (CDIs). Global finance advisers assured us that the international system had dispersed and managed

those risks, and the way they were packaged into CDIs meant the risks were mitigated. They were wrong, as we found out in 2008. It turns out that global supply chains are the CDIs of our time—magnifying, not mitigating, risks that are obscured through their lack of transparency.

The pandemic has shown us that our expectation that production chains at any time are inherently resilient and low risk is wrong. The risks are the product of aggregated market decisions—which have some ubiquitous features and dynamics, including the concentration of risk into single geographical, political and legal jurisdictions.

Understandably, many nations, including Australia and the US, are rapidly exploring their respective supply chains for apparent vulnerabilities. Companies are also looking much deeper into their own corporate arrangements to understand risks hidden in multilayered relationships they didn't understand, much less plan for and manage. Resilience and sovereignty, once deemed too expensive an insurance policy, are now being actively pursued—and seen as an increasingly necessary and virtuous business attribute that can power a brand's reputation and profitability.

The extent of this change is yet to be realised, and, while critical items are the focus in the near term, whole supply and value chains need to be considered as part of a thoughtful reconfiguring of economic and international engagement. This probably needs to be relabelled from simplistic 'globalisation' to account for a more differentiated approach that governments and their corporate partners pursue actively in our changed environment.

Data ownership, aggregation and exploitation as a source of wealth and power

The digitisation of everything, or the 'internet of things', is a parallel phenomenon to globalisation and, like globalisation, is being reconfigured by the return of state power to the centre of international events. And digitisation is being accelerated by the pandemic. Behavioural and business changes that would at other times have taken decades are taking place in weeks and months. Remote working, online commerce and public health digital analysis are some examples.

Digitisation is shifting wealth from traditional business models to those that are data centred and particularly to entities that can aggregate, exploit, apply, secure or sell data and data insights. The wealth shift is a parallel to the shift in wealth and power from landed gentry to industrialists that occurred during the Industrial Revolution.¹¹ Today's losers are traditional corporations that find it hard to step away from legacy operations and approaches and are challenged and displaced by new 'digital' competitors. Governments that are slow to shift to digitisation are equally at risk from new vulnerabilities and challenges. Corporately, the energy sector is an example, as is the global automotive sector, in which Tesla is an iconic exemplar whose market capitalisation now exceeds that of longstanding global auto giants such as Ford and GM.¹² Established carmakers are rushing to rebuild themselves as electric vehicle producers.

Data-centred businesses such as Amazon, Apple, Facebook and Microsoft are obvious examples, as are less public-facing Australian data-centred companies such as AfterPay, Atlassian, Sonder and Culture Amp¹³ or, in other places (including Southeast Asia), Baidu, Tencent, Alibaba, ZTE and Huawei.

For authoritarian regimes, aggregated data coupled with the compulsory cooperation of companies that collect and exploit it provides powerful tools of control, as we see in the case of China's tech sector and its application in Xinjiang and, increasingly, across other parts of mainland China, as well as Hong Kong. Beyond being a lever of state control domestically, these data-centred technology companies have also powered part of China's economic rise and increased their reach into other economies' data and functioning. Digitisation as a path for technological and economic dominance appears to be a central design feature to drive more dependence on domestic demand and less vulnerability to non-Chinese economies, while simultaneously deepening other economies' dependence on China.

For Australia, digitisation is an opportunity, given the continued rapid growth of our business-to-business and fintech sector. And there are probably even greater opportunities to achieve wellbeing, prosperity and security through the new digital industries of biotechnology¹⁴ and quantum technology,¹⁵ building on powerful capacities in our scientific and research sectors; those two areas have been the subjects of deep analyses by ASPI.

Towards a lower carbon future

The move towards a low-carbon future isn't driven by government policy globally but by shifting public and consumer sentiment. The speed of that change is being driven by the growing cost-effectiveness of 'clean' solutions for energy production, the processing of resources and manufacturing. As those advances continue, the willingness of consumers to pay a premium for low-carbon choices will continue to drive increased supply. At the same time, the finance and insurance sectors that underpin corporate viability are pricing in the risk of legacy or stranded fossil-fuel assets, and multiple businesses are realising that a cost-effective renewable and low-carbon footprint is good for the bottom line and the brand.

In manufacturing, 'green steel' seems likely to be one of the essential products that will bring a new comparative advantage to companies and countries that achieve success through viable production-scale methods based on hydrogen or electrolysis.¹⁶ Australian resource companies have continuing cost and scale advantages globally in iron ore. They can partner with companies further down the manufacturing chain of steel products from jurisdictions we can trust. German and Japanese companies' auto and heavy machinery manufacturers provide examples of how a move up the value chain from simple resource extraction can be achieved. Reinventing current market and customer bases, while also reducing the largely latent market power of poor-quality Chinese steelmaking entities, will remove a future source of coercive action.

Strangely, this path could be a way for the Australian Government to shift its policy platform, given the larger international changes in response to the impacts of climate change. These directions will advance and protect some of the most recognised sources of Australia's past and current prosperity, be primarily business led and have the positive by-product of addressing the strategic imperative of lessening the opportunity for trade to be used as a weapon against Australia.

The joint impact of the pandemic and the US–China strategic, technological and economic struggle

This is the most profound shift and the hardest to act upon because it changes so much. Nation-state and state power have returned to the centre of technological and economic interaction. This point is difficult to comprehend, as the lived experience of most corporate and government practitioners, policymakers and advisers is of a globalising economy with a generally agreed set of global rules, in which states were either in the background or receding further into the distance. Businesses were, and continue to be, the major decision-makers and risk assessors, while governments are relegated to the common task of attracting and retaining foreign capital and skills through policies that increase productivity and lower regulation. Australians, whether in business, education or research, were encouraged for decades to seek increased mutual advantage by deepening economic engagement with the Chinese market,¹⁷ while differing strategic and security interests were kept in the background.

That mindset about the role of governments here and abroad and its application to trade served Australian economic and trade policymakers, whether in government or in the corporate or university worlds, well for 30 years. You can see it in many submissions to the Joint Standing Committee on Trade and Investment Growth's Inquiry into Diversifying Australia's Trade and Investment Profile.¹⁸ Many submissions focus on businesses being the ones to understand and decide on risks, and the directions of partnerships and investments, while the role of governments is to facilitate business operations and relationships through free trade agreements and by keeping state-to-state relationships positive and conducive to trade.

That benign nation-state environment for business was ending before Covid-19, but it ended with a rush during the pandemic. This move is more than just a return to nativism and protectionism. The return of state power to the centre of technological cooperation and economics is a fundamental change to the underpinning policy and decision-making assumptions still in use across Australia.

Australia's economy: a national security perspective

Our experiences since 2019 highlight the need for Australia to broaden its thinking on the economy to ensure that it incorporates a national security perspective. Covid-19, the Black Summer fires and China's increasingly coercive approach to trade have resulted in significant shifts in what constitutes a prosperous and secure future.

The focus on valuing and measuring national performance differently first arose in John Elkington's 1998 book *Cannibals with forks: the triple bottom line of 21st century business*, in which he called on businesses to go beyond the traditional financial measures of performance and include social and environmental performance by adopting the concept of the triple bottom line.¹⁹

Today, consumers and voters are basing their decisions on the extent to which actions by organisations and governments are driven by their commitment to corporate social responsibility. Community decisions also consider the alignment of policy with people's judgements about where Australia can—and cannot—place trust in partner governments to act in ways consistent with our interests.²⁰ These concepts are based on the understanding that, in an interconnected world, the actions of every organisation and government contribute to national performance and prosperity.

In an increasingly connected and rapidly changing world, it's essential that we broaden our thinking beyond merely measuring economic performance to include security. A focus on security would ensure the resilience of our economic, social and environmental wellbeing and safeguard our sovereign interests.

Some might say that framing national policies through a resilience and sovereignty lens will increase costs and debt, but our Covid experience has highlighted the cost of not investing in resilience or safeguarding our sovereignty. The costs of not acting by changing our approach are likely to be higher. Also, the consequences of not investing in resilience go well beyond financial ones, as we see with pandemic preparedness and our limited onshore vaccine production capacity.

Shift in key trading partners

Australia has performed well during the Covid pandemic, although manifest risks remain, particularly as the Delta variant outbreak continues here and in other nations, including those with very high proportions of their populations vaccinated with credible vaccines.

The trade results for Australia tell the story. In June 2021, we experienced an increase of \$2,889 million to \$41,287 million in the export of goods. Our imports increased by 8% to \$28,015 million, resulting in a goods trade surplus of \$13,271 million. The impact of Covid is clear when comparing the June 2020 export results with those of June 2021, which were 33% higher.²¹

In June 2021, exports of metalliferous ores increased by 8%, coal by 15%, non-monetary gold by 34% and gas by 14% (up from a 28% decrease in April 2021).²²

In June 2021, our top five export destinations and the corresponding trade shifts were:

- China: increased \$1,454 million (8%)
- Japan: increased \$822 million (24%)
- South Korea: increased \$567 million (5%)
- Taiwan: increased \$104 million (9%)
- US: increased \$89 million (7%).²³

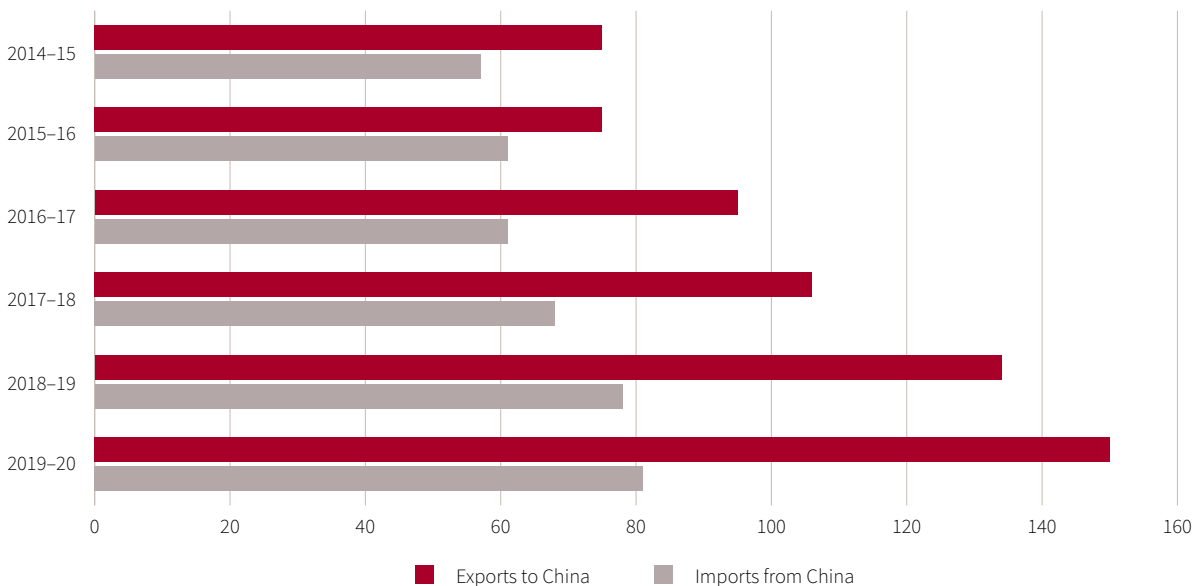
Interestingly, the US increase was as a result of record high fertiliser exports of \$74 million to one of Australia’s key fertiliser markets, and an increase in exports of medicinal and pharmaceutical products, up \$55 million.²⁴

China continues to be Australia’s largest trading partner. The export results are due to a \$396 million (87%) increase in non-monetary gold (the second highest on record) and a \$1,099 million (8%) increase in metalliferous ores. However, the increase in gold exports to China followed a 14-month period of no trade. The increase in metalliferous ores was driven by iron ore, up \$1,016 million (7%) to \$14,887 million—a record high for iron ore and subsequently metalliferous ores.²⁵

While these results are positive, they follow a period of volatility that we should expect will continue.

Figure 3 shows the growth in trade, which has seen the value of goods exported to China doubling in the five years to 2019–20 from \$75 billion in 2014–15 to \$150 billion in 2019–20, and imports growing 42% over the same period.²⁶

Figure 3: Exports and imports of goods to and from China, 2014–15 to 2019–20 (\$ billion)



Source: Australian Bureau of Statistics, [online](#).

The increases noted above correlate with the China–Australia Free Trade Agreement (ChAFTA) coming into force in December 2015. The Department of Foreign Affairs and Trade notes that the ChAFTA:

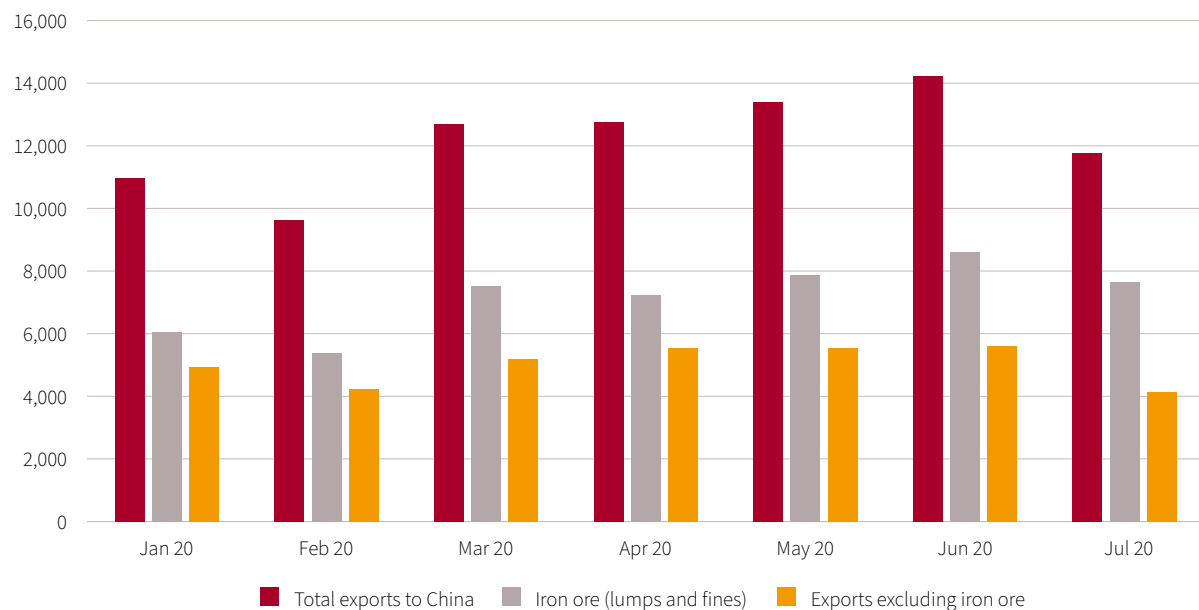
... paves the way for the next phase of Australia’s economic relationship with China. The agreement unlocks significant opportunities for Australia in China, which is Australia’s largest export market for goods and services, accounting for nearly a third of total exports, and a growing source of foreign investment.²⁷

There’s no doubt that’s what Australia experienced between the ChAFTA coming into force in 2015 and the combined effects of Covid and Chinese economic coercion over 2020, and there’s equally little doubt that this fundamental shift in our trade relationship with China will continue.

In a way, the ChAFTA has become Australia's version of the Belt and Road Initiative (BRI), which the World Bank has assessed has cost over US\$70 billion in infrastructure investment that 'presents risks common to many major infrastructure projects including debt risks, governance risks (corruption and procurement), stranded infrastructure, environmental risks and social risks'.²⁸

The risks of our dependence on trade with China are clearly illustrated in Figure 4, which depicts the trade result between January 2020 and July 2020. These trade results again demonstrate the volatility of our trade relationship with China.

Figure 4: Exports of goods to China, January 2020 to July 2020 (\$ million)



Source: Australian Bureau of Statistics, [online](#).

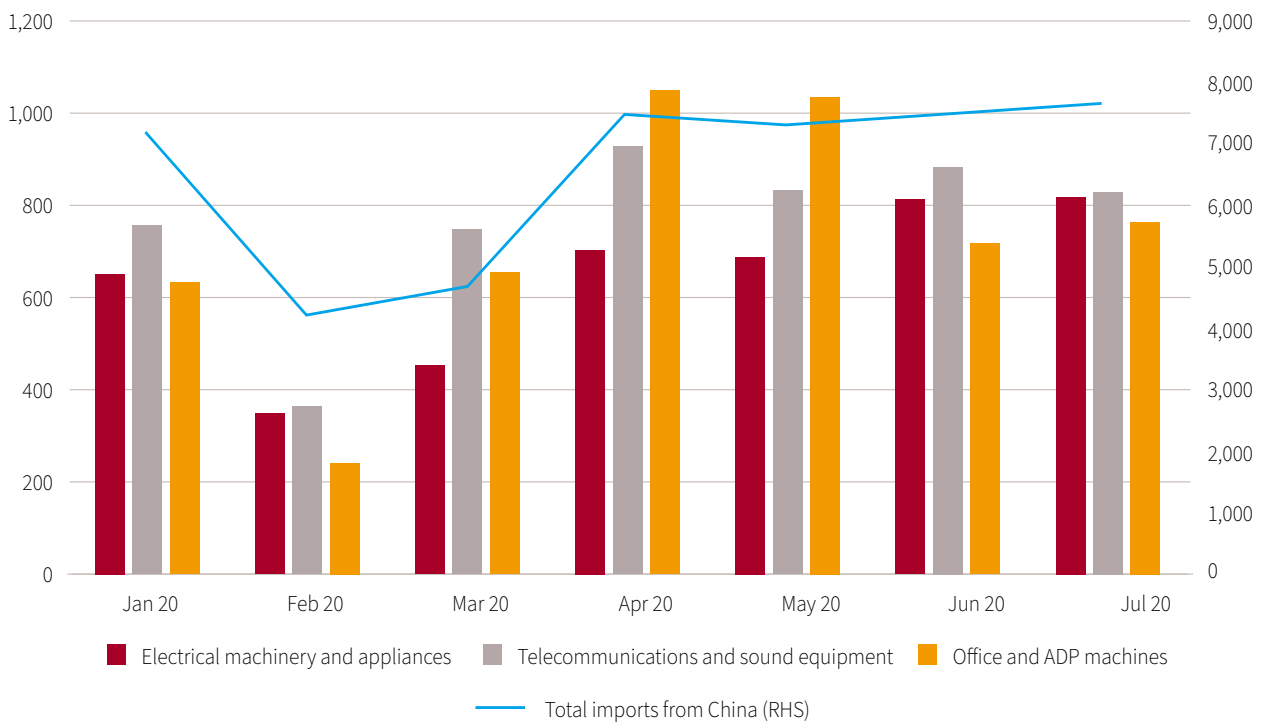
Australian exports to China declined at the beginning of 2020 but increased from March 2020 and continued to increase through April, May and June, resulting in record high iron-ore exports in June 2020—the second highest export of goods to China on record. However, July 2020 exports declined 17%, notably in exports of metalliferous ores (largely iron ore) and coal. The year-on-year exports to China in July 2020 were down 16%.²⁹

The explanation for this growth in the value of Australian exports to China is simply that Australian iron ore can't be replaced in the China market by other suppliers. Therefore, Australian iron ore is a key input to China's domestic economy through construction and manufacturing and to Chinese manufactured exports. Until the Chinese Government succeeds with its long-desired shift from manufacturing and construction as growth engines and achieves it through a technology- and services-based future economy, that demand will continue. And that's likely to be some time yet, given the construction and infrastructure demands from the continued urbanisation of China's population projected for the next 25 years. Most other Australian exports to China, including educational services once travel is possible, are vulnerable to state coercion. This means the two-track story contains mostly bad news for firms and organisations that before 2020 were dewy-eyed about the promises of the China market and that have since spent less time investing in other markets.

Turning to imports from China, our top three imports, which accounted for one-third of all imports from China in 2019–20 (Figure 5), are:

- telecommunication and sound equipment (including mobile phones)
- office and automatic data processing (ADP) machinery (including laptop computers)
- electrical machinery and appliances (including washing machines and dryers).³⁰

Figure 5: Imports of goods from China, January 2020 to July 2020 (\$ million)

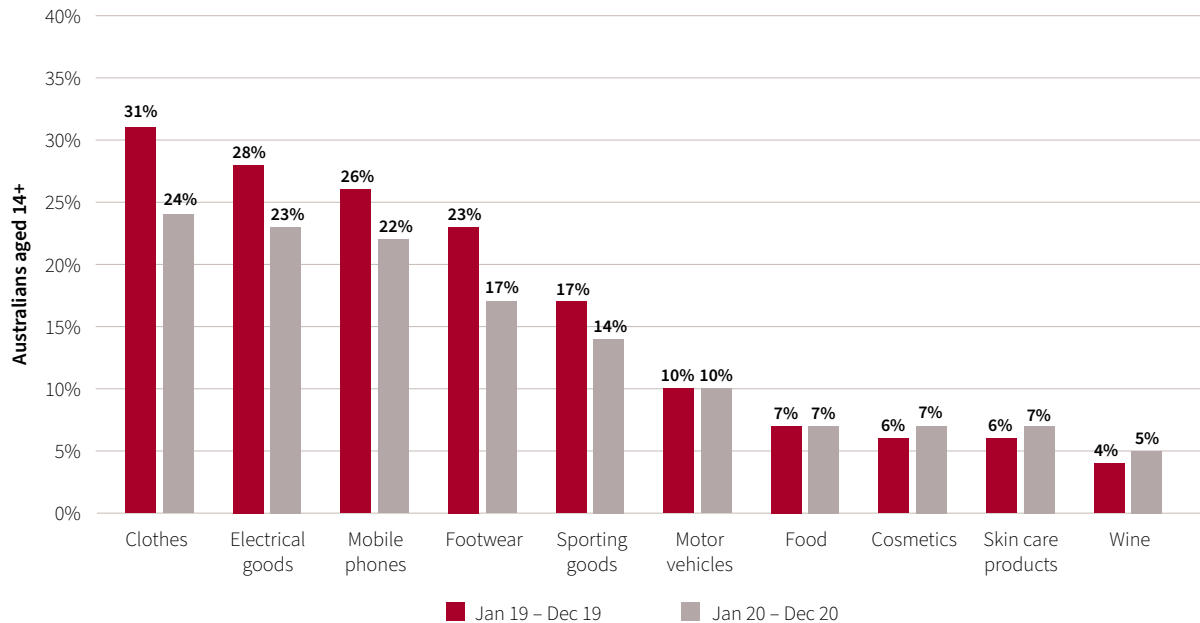


Source: Australian Bureau of Statistics, [online](#).

Again, Covid-19 had a big impact in early 2020, causing disruptions in manufacturing and supply and, as a result, imports were down 41% in February 2020 compared to January 2020. As with exports, we experienced an increase in imports during March and April 2020 to pre-Covid levels. The increase in the number of people working from home and supporting home-based learning drove large increases in imports of telecommunications equipment and office and ADP machines. Interestingly, imports of personal protective equipment also increased in April 2020.³¹

However, a recent Roy Morgan survey suggests that Australian consumers are increasingly less likely to purchase goods made in China.³² Figure 6 shows the results of the survey, which indicate that the largest declines were for clothes, electrical goods, mobile phones, footwear and sporting goods.

Figure 6: Percentage of people more likely to buy each product if it was made in China: 2019 versus 2020



Source: Roy Morgan, [online](#).

Such adverse consumer sentiment towards China is growing in other nations, and global manufacturers are responding. The company LG Display intends to invest \$1 billion to expand its manufacturing facilities for organic light-emitting diode (OLED) displays in Vietnam instead of China. Samsung is already heavily reliant on production in Vietnam, having invested a total of \$5 billion. The good news for consumers is that lower production costs in Vietnam are expected to lower the cost of OLED TVs in Australia—a consequence of the battle between Samsung and LG for market share in Australia. Germany-based Porsche is also responding to anti-China consumer sentiment, believing that ‘Made In Germany’ is preferred to ‘Manufactured In China’.³³

These specific examples demonstrate that companies are thinking deeply and acting decisively on issues of dependence and vulnerability, sometimes in the absence of changes to government policy and trade settings.

The overlap of economics and national security

In a globalised world, Covid is highlighting the extent to which our supply chains are interconnected and interdependent. China is demonstrating how it uses sources of leverage, for example through personal protective equipment supplies or even vaccines, to achieve other state goals. Shifts in public views and consumer sentiment are occurring because of the growing understanding that economic decisions are laced with security and even public safety considerations. And some corporate decisions are factoring in the need to better understand and mitigate supply-chain risks from both environmental and state-directed disruption.

However, this is a mixed story. There’s still a clear sense of confusion and also nostalgia when it comes to China policy, though it seems likely that, using that favoured economists’ term, *ceteris paribus* (all other things being equal), large numbers of Australian companies and chunks of our university sector would rush back to deepening their China market partnerships and exposure given the chance, despite the recent demonstration of how Beijing would use that engagement as a source of influence and leverage. Fortunately, Beijing seems highly unlikely to provide an environment in which that choice is available through the wholesale reversal of key government and parliamentary decisions.

At the same time, other, more trusted, economic partners with which Australia has functioning free trade agreements (Japan, the US and South Korea, to name a few) or with which we're negotiating (such as the UK, India and the EU) are avenues for market expansion for Australian businesses, which we made low priorities at the time of the now-ended China boom for the Australian economy. And those other partners are positives for our national security as well as for our prosperity.

But environmental risks and state power used against our interests are combining to collapse the boundaries between national security and economic issues. Some case studies illustrate this.

Case study: Mallacoota

In our day-to-day lives, we don't often think about supply-chain resilience and what it means to communities until a disaster occurs. In late December 2019 and early January 2020, the Victorian coastal holiday township of Mallacoota experienced firsthand what lack of resilience and surety of supply means (Figure 7).

Figure 7: Mallacoota town centre sign



Source: Flickr/Caroline Jones, [online](#).

A small fire 30 km away at Wingan River ignites on 26 December 2019 and is soon out of control. For residents and holidaymakers, it is already too late to leave. The one road into and out of town is cut off. By 31 December 2020, Mallacoota is surrounded by bushfires and the town is without power.

Around 4,000 people gather on the beach hoping they will be safe from the fire. The Country Fire Authority (CFA) forms a ring of fire trucks around those on the beach to protect them and advises they should get under the water if they hear the sirens from the trucks. The only water and food they have is what they carry on them.

Four people are missing and dozens of homes are destroyed.

Around midday on 1 January, Esso deploys ships and helicopters, HMAS *Choules* leaves Sydney Harbour, and the Australian Defence Force (ADF) is deployed with food, water and fuel. It isn't until the morning of 3 January that HMAS *Choules* commences evacuations.³⁴

This reads like a scene from an apocalyptic movie but it highlights the precarious situation that many of our small towns and regional centres find themselves in during natural disasters. Within hours of the bushfires igniting, Mallacoota was cut off, power was out, the water supply was reduced to what people carried, telecommunications infrastructure was destroyed, and fuel stores were inaccessible. We've seen similar scenes in Greece and California in 2021, and floods causing similar devastation and fear in Germany.

Figure 8: Royal Australian Air Force C-27J Spartan pilots from No. 35 Squadron, work in arduous conditions as they assist evacuees during the bushfires in Mallacoota, Victoria



Source: Defence Image Library, [online](#).

In Mallacoota's case, recovery over the days, weeks and months that followed affected the community profoundly. Even in 2021, the town's telecommunications and power infrastructure isn't fully repaired. Not only was resilience found to be lacking, but there hasn't been a return to pre-fire levels of resilience, let alone a more fit-for-purpose level.

Case study: Critical minerals and rare-earth elements

Critical minerals are metals and non-metals considered essential for modern economies that are at risk because of geological scarcity, geopolitical issues, trade policy or other factors.³⁵ Rare-earth elements are a subset of critical minerals and comprise the 15 elements of the lanthanide series:

lanthanum (La)	promethium (Pm)	terbium (Tb)	thulium (Tm)
cerium (Ce)	samarium (Sm)	dysprosium (Dy)	ytterbium (Yb)
praseodymium (Pr)	europium (Eu)	holmium (Ho)	lutetium (Lu) ³⁶
neodymium (Nd)	gadolinium (Gd)	erbium (Er)	

Geoscience Australia has also ranked the minerals that the US, Japan, South Korea and the EU consider most critical:

rare-earth elements listed above	platinum-group elements, including platinum (Pt) and palladium (Pd)	magnesium (Mg)	nickel (Ni)
gallium (Ga)	niobium (Nb)	molybdenum (Mo)	tantalum (Ta)
indium (In)		antimony (Sb)	tellurium (Te)
tungsten (W)		lithium (Li)	chromium (Cr)
cobalt (Co)		vanadium (V)	manganese (Mn) ³⁷

Critical minerals are widely used in our modern digital world. For example, there are 0.15 grams of palladium (a noble metal) in an iPhone, 472 kilograms of combined rare earths in an F-35 fighter jet and 4 tonnes in a Virginia-class submarine.³⁸

Australia has the world's sixth-largest reserves of rare-earth minerals, though they remain largely untapped and only two mines produce them. The largest by far is the mine at Mt Weld in Western Australia, which is owned by Australia-based Lynas Corporation.³⁹

Despite the opportunities for Australia to become a critical mineral and rare-earth producer, we continue to be dependent on China, which dominates over 80% of the global rare-earth market.⁴⁰ Even with this obvious driver, Lynas is growing not because of Australian decisions and actions, but because of US policy and US investment to reduce the risk of over-reliance on China as the dominant supplier. But there's slow progress on developing refining and production, which is where the real value of high-quality employment exists and where China's incumbent advantage is strong and needing to be displaced.

Australia's federal, state and territory governments need to inject a national security perspective into decisions and policies that influence Australia's economy. That perspective must consider two clear focuses: resilience and sovereignty, each of which is best pursued in trusted partnerships with those who share our interests. In doing so, we need to revisit and reframe many of the assumptions that underpin our current thinking.

Shifts in geopolitics: economics and trade as a weapon

The 2020 DSU stresses that Australia can no longer rely on 10 years of strategic warning time, and that means that we no longer have time to gradually adjust to emerging challenges.⁴¹ However, that acknowledgement of reduced warning time is yet to translate down to the ADF's force structure, concepts for operations, force posture or tactical and operational activities, despite an increasingly coercive Chinese state that's directing its attention towards Australia specifically.⁴²

The Belt and Road Initiative

China's BRI has become a deliberate means to influence and coerce nations in our region and is a foundation for Beijing's new economic strategy of 'dual circulation', which aims to make China's economy more self-sufficient while also making other economies more dependent. Those are explicit policy goals, so it makes sense to consider how Beijing might use the increased leverage it seeks over other economies, given our experience to date, and to then consider how we might avoid a predictable and unpleasant future.

Introduced in 2013, the BRI is intended to improve connectivity and cooperation on a transcontinental scale (Figure 9). The initiative is more than an infrastructure investment program, given that it has 'links to trade, investment, debt, procurement, environment, poverty reduction and infrastructure'.⁴³

Figure 9: The geopolitical reach of the BRI



Source: World Bank, online.

The World Bank has been monitoring the impacts of the BRI since 2018; the BRI now affects 60% of the world's population and one-third of global trade.⁴⁴

The key concern about the BRI is that debt and governance risks could influence BRI recipients to align with China in coercive action towards other nation-states. That alignment is currently most prevalent in the establishment of Chinese military bases within the borders of BRI nations, including within the Indo-Pacific region. For Australia, this has the potential to bring a strategic threat physically closer than previously envisaged.

Australia's strong trade with China is a challenging and at times vexed trade relationship. In May 2021, the Australian Government used new powers to cancel four agreements that the Victorian Government had entered into with China, two of which were part of the BRI.⁴⁵

Australia's relationship with China

Historically, Australia's relationship with China was limited until the opening to China under the Whitlam government. There have also been periods of tension and difference since then. During 1996, Australia's policies on China and deep alliance relationship with the US led to criticism by China. That criticism escalated when Australia supported the US dispatching naval forces into the Taiwan Strait in response to Chinese missile tests during the Taiwanese elections.⁴⁶ The Australian Government was among the first to speak out against Beijing's massacre of its own citizens in Tiananmen Square in 1989, providing citizenship for Chinese nationals in Australia at the time and joining international sanctions against the regime. But Australia was also among the first to re-engage deeply with China's economy in the post-Tiananmen years and joined with others, including the US, in seeking a future in which China's model of governance converged with our own. That set the scene for negotiation of the ChAFTA, which was finalised during the new leader Xi Jinping's visit to Australia in 2014 by then prime minister Abbott, marking the high tide of Australia-China relations.

Since then, the Australia-China relationship has entered a new period. The longstanding national consensus established when Australia established diplomatic relations in 1972 has now been broken by the reality of Chinese power being used against Australian interests, domestically, economically and in our region. The old, successful formulation that Australia and China should focus on mutually beneficial economic engagement and put strategic and security differences into the background has been ended by China's aggressive use of its growing power, which has brought the security and strategic differences into the foreground in ways Australia sought to avoid or deny.

Australian policymakers have responded reluctantly and haltingly to that use of power, but a settled framework has emerged slowly since 2015. That framework involves strengthened cybersecurity to identify and mitigate continued wholesale-level cyber hacking against Australia's government, parliament, corporate and research sectors; laws to counter covert and corrupting foreign interference in Australia's public debate and political decision-making; strengthened national security scrutiny of foreign investment proposals; and tighter national security regulation of Australia's digital backbone (as we see in the case of 5G). There's also a strong national and bipartisan political consensus about the need to resist China's economic coercion, which is currently affecting some \$20 billion of trade. Business and university voices who would like this not to be true at some level understand it, albeit reluctantly.

Overall, despite messy internal dynamics, the clear trajectory of Australia's China policy is to make China matter less and so mitigate any further use of Chinese power to degrade Australian sovereignty and security, noting the implications here for access to the China market. The fact that exposure to the China market is now subject to greater risk of unpredictable and highly disruptive Chinese state intervention, as numerous foreign firms are now experiencing (see box), provides a sound basis for this new approach, and opportunities for partnership with others as they take this same path.

Trade lessons from the US

In 2018–19, in a bid to boost US manufacturing production, the Trump administration imposed levies on Chinese imports, making them more expensive. However, the planned boost to US manufacturing didn't occur, as US companies sourced their imports from other countries in Asia.

Several countries benefited, including Taiwan and Malaysia, and more so Vietnam, which moved from twelfth in 2018 on the list of the import partners of the US to sixth.

Current imports of telecom equipment and computer accessories from China are down US\$15 billion from 2018. Notably, the US Treasury has seen tariff revenue drop from US\$76 billion in February 2020 to US\$66 billion in March 2021. This contrasts to non-tariffed goods from China, which, following a downturn during the Covid-19 pandemic, were worth US\$472 billion in the 12 months to March 2021, but still lower than the 2018 peak of US\$539 billion.⁴⁷

Despite an agreement signed by the US and China in 2020 to end the trade war, the US has kept its tariffs in place and China has done likewise.

Some commentators suggest that the trade war between the US and China will have a more enduring negative impact on China despite its continued high level of economic growth. However, China has shown itself to be determined and resourceful in its pursuit of coercive economic measures as a means of bolstering its national security, enhancing its national resilience and protecting its sovereignty.

The US has shown continuity on China policy between the Trump and Biden administrations, and there's little congressional support for any shift back to concessions as the price for 'engagement'. Further, the effect of the US tariffs has been an unexpected one: it hasn't resulted in Trump's desired 'onshoring' of manufacturing back into the US, but Southeast Asian imports have displaced the tariff-affected Chinese imports, which is an entirely positive economic and strategic outcome.

The trade landscape is complex, and unintended consequences are often difficult to imagine. Australia's governments need to recognise that the red line between economics and national security is no longer as applicable as it once was. Policy choices need to move beyond the binary position that favours economics to position economics alongside national security, sovereignty and resilience. Public expectations are already there, so this is a case of policy catching up.

Rethinking the cult of the MBA

If Australia is to rethink trade, then it must do so hand in glove with corporations. But, to do that, greater understanding of how corporations and managers think is needed. Despite its decline in popularity over the past 10 years, the MBA and its underpinning theories remain at the core of modern corporations.⁴⁸ That should come as no surprise, given the close relationship between business schools, their MBAs and business history.

The second industrial revolution brought with it a demand for a new and rapidly expanding cohort of workers: the skilled management professionals. Out of that demand came an all-new education demand, and in 1908 the Harvard Graduate School of Business Administration created the first MBA.⁴⁹ And there can be no doubt that, despite its detractors, MBA offerings slowly increased across the globe.

From the start, MBAs, despite offering a variety of theoretical core courses such as economics, focused exclusively on management and analysis that serves corporations' bottom lines.

Historically, there's been a need for enhanced cooperation between corporations and governments in Western liberal democracies during the massive national mobilisations during the first and second world wars. The MBA provided a cohort of managers focused on efficiency, effectiveness and cost, which aligned well in countries such as the US, where, during World War II, outproducing the Axis powers was the key to victory.

By the time of the third industrial revolution and the arrival of electronics, telecommunications and of course computers, the core offerings for the contemporary MBA were accounting, applied statistics, human resources, business communication, business ethics, business law, business strategy, finance, managerial economics, management, entrepreneurship, marketing, supply-chain management and operations management. As communism retreated, and finally the Berlin Wall fell, the focus for MBA graduates was the benefit of globalisation and the benefits of such things as just-in-time supply chains.

As a career option, the MBA was a flagship offering and a career-maker throughout the third industrial revolution, until the 2007 GFC. The GFC wasn't the first time that the MBA, and the thinking associated with its approach, were criticised. The crisis did, however, expose serious problems. But, of course, correlation and causality are two very different things. Robert Giacalone and Donald Wargo convincingly argue that 'Almost all of the financial executives involved in the crisis, from CEOs to middle managers, are products of our business schools.'⁵⁰

Today, the fourth industrial revolution, and 'Industry 4.0',⁵¹ bring accelerated fundamental changes to every corner of 21st-century life. This is more than the arrival of all-new technology, but is also about convergence and connectivity. With it have come all-new economic opportunities, and things were looking good until the arrival of Covid-19.

The traditional business theories that value efficiency, effectiveness, profit maximisation, just-in-time production and logistics as core cost-reduction strategies, vaguely defined concepts of globalisation—orbiting around assumptions about the retreat of the significance of the sovereign state—have been tested by the twin arrivals of Covid-19 and coercive Chinese power and found to be wanting.

The core of our business leaders, and their middle management, have been educated in business schools and MBA programs underpinned by theories that don't give adequate consideration to the rapidly evolving geopolitical context. And national security practitioners and policymakers can also have limited grasp of economics and corporate imperatives and incentives, making dialogue with the business sector harder. As a result, while Australian businesses are preparing to wrangle with the challenge of Industry 4.0, many are yet to consider the tangible and intangible value of business models that consider sovereignty, cascading risks and resilience and their intersection during a period of increased geopolitical uncertainty and great-power competition.

In part, many MBA-educated business leaders hang on to assumptions about the world and the primacy of economics that no longer help to explain events. Therefore, the unprecedented nature of today's geopolitical environment has been difficult for many to reconcile. Little wonder, then, that many, with the experience of the Asian and global financial crises, expect—or at least hope for—a return to 'the way things were'.

There's evidence that MBAs in Australia need to change to meet the latest challenges in this new context. For example, Australia's business leaders need to understand international dynamics, strategy and geopolitics and be afforded greater exposure to alternative explanations and constructs.

Second, policymakers must be more confident that business entrepreneurialism and market forces will, in anything other than the short term, act in the national interest to build national resilience. This change isn't about demonising corporations or innovators and entrepreneurs. Instead, there's a need to be more courageous about when and how governments can leverage regulation and what government investment and policy directions are needed to intervene when corporations' decisions don't align with, neglect or sometimes undermine national priorities because of their own environments and incentives.

Finally, this also illustrates that the Australian Government needs to work much more closely with corporations in nation-building efforts.

Risk, opportunity and nation building

Our post-Covid recovery focus requires a more holistic, joined-up view of nation building.⁵²

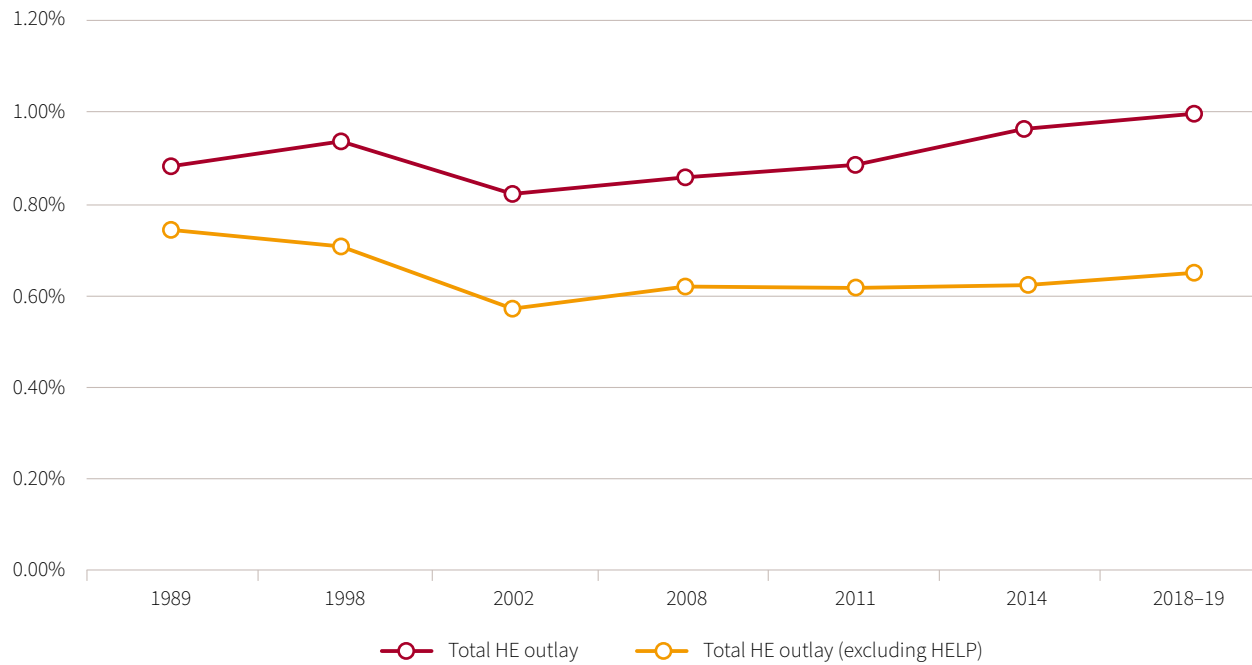
Modern nation building starts with rethinking business and trade to mitigate the risks of coercive trade, optimise national resilience and take advantage of national strengths and trusted partners. It requires a paradigm shift away from the focus on short-term economic performance to longer term thinking that integrates economic, social and national security outcomes. Protecting and defending policy continuity in an environment that's changed radically from the time when policies were formed will simply ensure that we're surprised by events and we continue to 'respond in crisis' instead of shaping directions that create national wellbeing, prosperity and security.

There's no doubt that the thinking driven by economic policies and assumptions about the world that served us well in the 1990s and through the 'unipolar moment' between the Cold War's end and the rise of Chinese power has led us to where we are today. Our economy and security are enmeshed in a trading relationship with a nation that's increasingly engaging in economic coercion and that intends to grow that coercive power. While the current focus is on our longstanding relationship with the US, Australia has contributed to our region in many ways including through our economic, social and education policies.

The higher education sector is an example of how national policies have driven an opportunistic approach that, given the impacts of Covid-driven border closures, has demonstrated how unsustainable the sector has become. The key challenge for the sector over successive decades has been the need to fill the funding gap created by the decisions of successive governments.

Figure 10 shows that total Australian Government higher education spending as a percentage of GDP increased from 0.88% in 1989 to just under 1% in 2018–19. Excluding Higher Education Loan Program (HELP) loans, higher education grants for teaching and learning and research have declined from 0.74% of GDP in 1989 to 0.65% in 2018–19.⁵³

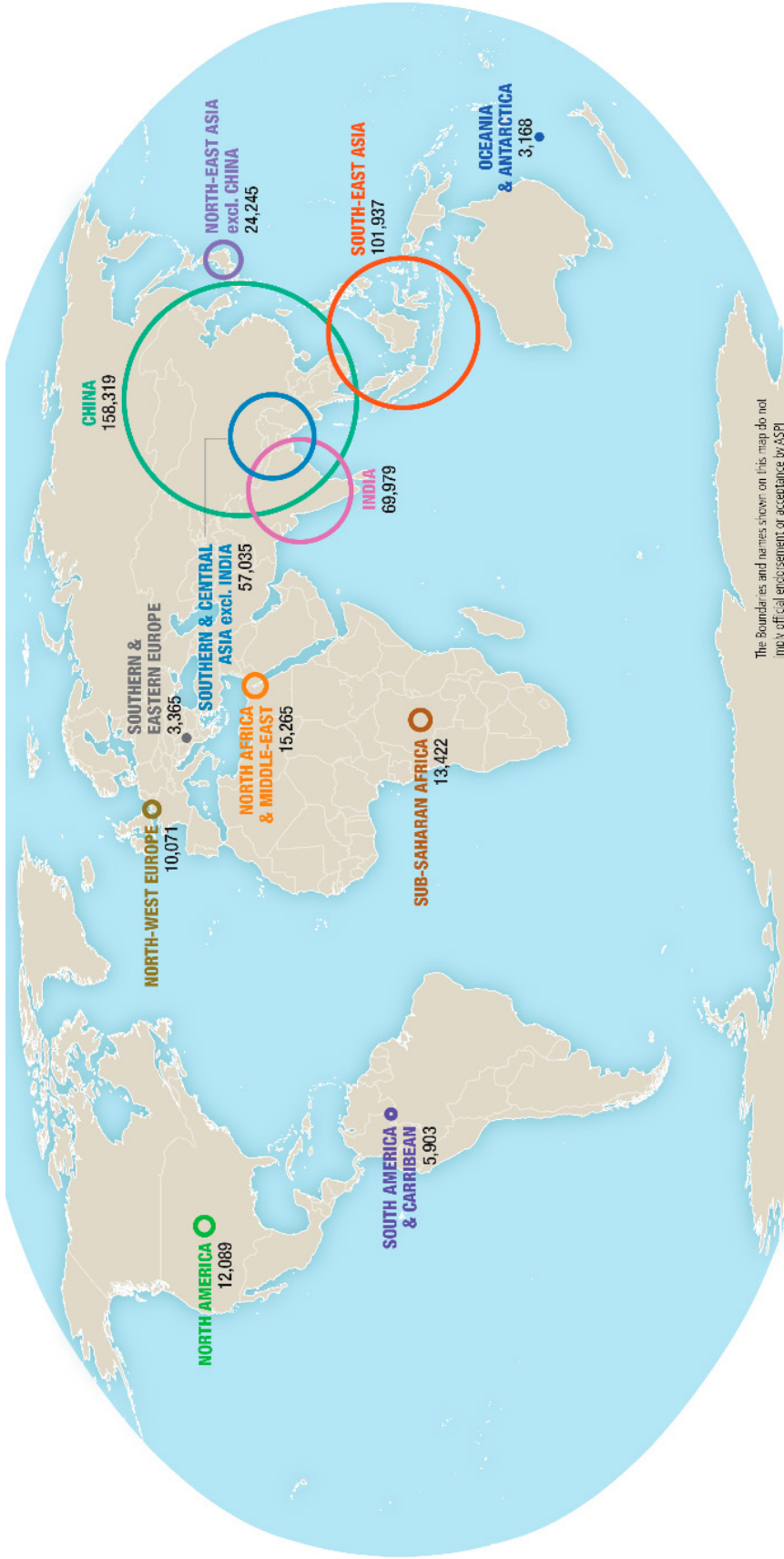
Figure 10: Australian Government higher education spending as a percentage of GDP



Source: Universities Australia, [online](#).

This funding situation drove the higher education sector to pursue revenue from overseas students, in particular from China, and Chinese investment in Australian research. Figure 11 shows that, in 2018, China was the biggest source of international students at 33%, followed by India at 15%.⁵⁴

Figure 11: International higher education students in Australia, by country or region of origin, 2018

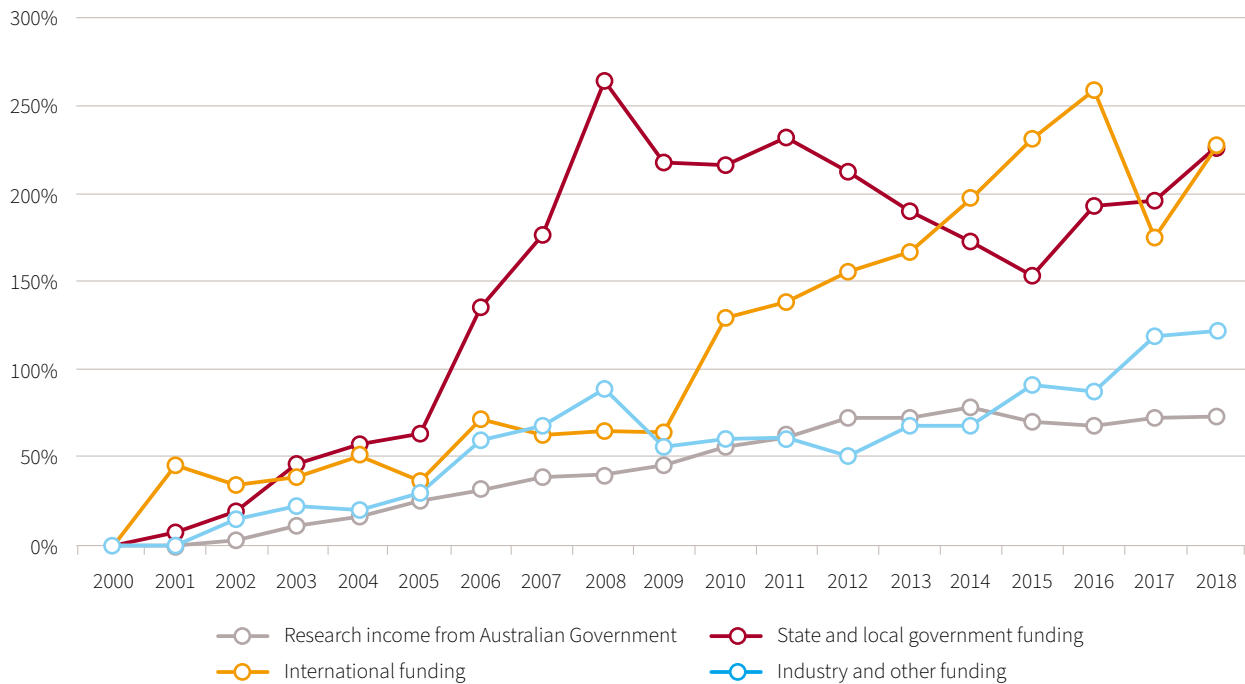


Source: Universities Australia, online.

Note: The size of the circle represents the number of international students from the country or region in 2018—the larger the circle, the larger the number of students from the country or region. Data includes non-university higher education providers that provide data through the Higher Education Information Management System (HEIMS).

Figure 12 shows total sources of university research funding from 2000 to 2018. Australian Government funding increased by 74% in real terms, from \$2.4 billion in 2000 to \$4.2 billion in 2018, and contributed 68% of total research income in 2018. Over the same period, there was a tripling in funding (starting from a low base) from international sources, which peaked in 2016.⁵⁵

Figure 12: Growth in sources of funding for university research since 2000 (2018 dollars)



Source: Universities Australia, [online](#).

The university sector has been criticised for having pursued an ‘all eggs in one basket’ approach that, through the impacts of Covid, has proven to be unsustainable. The key point here is that the interconnectedness of the system masked the risks and eroded the resilience of the sector to withstand the shocks of both the pandemic and the sovereignty implications of a research sector dependent on Chinese funding.

The higher education sector provides an example of how the broader system is failing to address current sovereignty challenges or is not enhancing the resilience needed for open trade and a fit-for-Australia manufacturing sector. The calls for sectors such as higher education to diversify are too late and miss the point. The unintended consequences of decades of decisions and policies are real today.

A longer term view focused on achieving a broader mix of defence, mining, agriculture, technology, higher education and tourism measures is needed to minimise our economic fragility and enhance national sustainability.

What we can do

The most prominent fact for Australia is that the CCP's intervention in the Chinese economy and China's trade and economic relations with companies, universities and governments will continue to increase. It will be the dominant risk factor for interacting with the Chinese economy—exposing everyone involved to higher levels of risk. This risk will manifest in several first- and second-order impacts, ranging from the loss of intellectual property to economic coercion.

Risk will be high for every 'discretionary' area of trade and interaction. Only those areas where the Chinese economy is structurally dependent on external parties are at lower risk.

This increasingly challenging context involves risks that individuals, companies and industry sectors can control—and it's not a risk that more nuanced diplomacy by Australia or others will moderate significantly. It comes from the nature of the CCP and how Xi is wielding power in China and the world.

So, the only option is to lessen exposure to the China market except in areas where, after a clear-eyed assessment, it's apparent that China has structural dependencies on what Australia seeks to sell.

For the broader Australian economy, this will drive a need for greater diversification. Diversifying doesn't mean finding a single magical replacement for the China market, because no single substitute exists, and, regardless, the lesson from Covid-19 is that we must avoid new 'single points of failure'. This kind of outcome will be reliant upon corporates and governments economically appreciating the intangible value of resilience and the tangible value of risk mitigation.

The explicit US–China (and Russia) strategic, technological and economic struggle was raging well before the arrival of Covid-19. The pandemic has made that struggle more akin to competition and even more evident and intense.

Before the pandemic, the Chinese Government had already stated that it was working to make more of the world more dependent on China and China less dependent on the rest of the world—through Made in China 2025.⁵⁶ Since the pandemic, prospects of a 'trade deal' between Beijing and Washington that would create a truce in their struggle have diminished at least the economic aspects of that struggle.

Beijing has become much more aggressive across most spheres of activity. It's obviously and explicitly coercing the Australian Government by inflicting trade damage on Australian companies and security risk on Australians in China. Australia isn't alone in seeing this effect: think the India–China border and fiery threats from Beijing, and the increasing of the rate of coercion by Beijing that we've seen over the past 10 years, in 2020 and so far in 2021.

The Chinese Government has had the key insight that future strategic and economic power will come from high technology and data dominance. This is true economically, politically and militarily. And the CCP intends for Chinese companies and state agencies to be the dominant ones.

Beijing also prioritises silencing those who have different interests and values from the Chinese Government—whether domestically inside mainland China or internationally. This isn't about the export of ideology that seeks to make 'socialism with Chinese characteristics' the governing approach in Australia or the EU. Instead, it's about making the world safe for the CCP by silencing its critics and creating a compliant environment for CCP policy crises and directions.

This is creating sources of opposition, and also partnerships, in understanding and dealing with this challenge to states and to international governance. For example, the need to mitigate systemic risk resulted in Germany and France increasing their sovereign independence and in decisions on 5G suppliers in the UK and soon in the EU.

The considerable near-term risk is that this doesn't matter to corporate decision-makers. Many will be tempted to just follow the money of the faster-recovering economies and operate as if the previous global economy were still in place. For Australia, and Southeast Asian as well as some European countries, this would mean increased exposure to the Chinese economy. But that simply creates greater risk in the medium term, perhaps in quite confronting ways.

And, for governments, there's a risk that they'll also fail to appreciate the fundamental shift in planning assumptions and will put in place a policy framework that would have worked to plug into a global economy like it did in 2008. This kind of framework would include moves focused on 'enhancing international competitiveness' by deregulation, tax cuts and labour market changes to increase mobility and the flexibility of conditions. Those aren't necessarily bad policies; they just fail to recognise that economic success isn't now only about offering the lowest cost, most efficient centres of production.

The pandemic has created a clear ranking of the competent and trustworthy and the less competent and untrustworthy. Australia is a high-value partner on both criteria—for nations that have overlapping values and interests. Like-minded and high-trust jurisdictions are wonderful foundations for building trusted supply chains that we expect to rely on during times of crisis and disruption. Multilateral groups such as the Quad, the Five Eyes and the EU, and Australia and countries such as Indonesia, South Korea, Singapore and Vietnam, present excellent opportunities.

Australia needs to get into the data and technology game. Large-volume resource and energy trade will continue as a source of wealth, but a diminishing one. One big area of trade and investment diversification is biotechnology. For example, a single biotechnology product can be as valuable as Australia's annual iron-ore trade.

A low-carbon and renewable energy future for industry is good news for Australia. Australia is at the start of global supply chains in natural resources, energy and food. Yet, we don't take advantage of that fact in seeking to add value into the production chains, but with some exceptions proving the rule such as wine and infant formula.

A clean steel industry that uses hydrogen, not fossil fuel, to make steel is something in which the trillion-dollar ecologically sustainable investment funds will invest. The German auto and high-technology manufacturing sectors want stable, competitive sources of clean inputs such as these. They'll partner with Australian firms and our government to achieve that.

Likewise, a renewable energy industry that exports renewable energy and renewable energy technologies will attract investment. That's the hydrogen energy future the government is talking about, but earlier than after a decade or so of continued LNG production.

Food insecurity will increase globally and in our near and broader region. Investing in agritech will position Australia to continue to be a substantial net exporter of food, and investing in higher value food production based on our primary production will bring us growing wealth at the same time.

Critical minerals and rare earths for all kinds of high-technology goods, including batteries, are a whole new area for us to shift from exporting unprocessed minerals to refining and manufacturing end products in partnership with nations, such as South Korea, Japan, India, Taiwan, Germany and the US, and with companies.

The defence industry is a vast new area for domestic co-production, with the trusted partners listed above, of critical military inputs essential during war. This is a strategic, technological and economic opportunity. But it will take the highest level of political leadership to make it happen, given entrenched, hard-to-move trade and economic mindsets and bureaucracies and the nativist and protectionist instincts of the world we find ourselves navigating.

Lastly, Australian genetic data—from our multi-ethnic population and our native flora and fauna—is probably the most valuable information asset we own. Our future wellbeing is dependent on how we understand and exploit the knowledge held in this data, and our future prosperity is also bound up in how well we do that. Our future security is dependent on us doing it well and protecting and managing this critical data resource.

The global economic shock from the pandemic provides the ideal opportunity to take stock of what we're doing and the decisions we're making, rather than continuing with default policy settings.

Any new approach to policy and direction for Australia's trade and investment needs to create a deeper, closer partnership between governments and the corporate world and foster cohesion across federal, state and local governments.

A hands-off approach simply gives an advantage to others who don't operate this way. But we must maintain our open, inquiring approach to research and freedom of expression—those are Australia's competitive advantages.

Conclusion

The 2019–20 Black Summer, Covid-19 and the CCP's thinly veiled economic punishments have had a broad egregious impact on Australians. Those shocks have also exposed many deep economic and national security vulnerabilities for our governments as well as for everyday Australians. Under normal circumstances, such sudden awareness has a limited life span, but the CCP's continuous rhetoric has unintentionally sharpened our focus and commitment to change.

There are growing calls within the Australian community for greater diversification of our industries and investment in our resilience. However, diversification and resilience have time and resource implications and need to sit within a national policy framework that's strategic, long term and purposefully pursued.

While this report has touched on some possible opportunities, there are many others that could and should be considered.

The value of our growing trade and investment relationships as part of closer strategic, technological and economic partnerships with Indonesia, India and Vietnam makes good sense. Each is an 'underdone' relationship, and each nation has solid growth prospects. Most importantly, their governments can be trusted partners for Australia, owing to an alignment of interests. With India and Indonesia, we share democratic values.

There are some risks here with India, owing to the current government's Hindu nationalist character. Also, Vietnam is under an authoritarian regime—but the stronger converging interest for Australia and Vietnam is our common interest in not being coerced by Beijing in ways that diminish our sovereignty, prosperity and wellbeing.

We need thinking and approaches that are different from the well-worn policies, procedures and mindsets that were designed for a different, less challenged and slower paced environment.

Change has occurred, and will continue to occur, and the only path forward is to harness Australia's entrepreneurialism and innovation by developing and implementing a new resilience-focused economic framework.

Regardless, the message is clear. All the wishing and dreaming for things to go back to the way they were won't work.

Notes

- 1 Genius, *New beginnings*, Daydreamer, June 2021, [online](#).
- 2 'Long peace' refers to the period following World War II from 1945 to the present day.
- 3 Department of Defence, *2020 Defence Strategic Update*, Australian Government, Canberra, July 2020, [online](#).
- 4 Scott Morrison, 'Address, ASPEN Security Forum—Tomorrow in the Indo-Pacific', transcript, 5 August 2020, [online](#).
- 5 In 1964, Donald Horne was the first to apply the phrase 'lucky country' to Australia. He intended it as a reproach.
- 6 Australian Trade and Investment Commission, 'Economic analysis', June 2021, [online](#).
- 7 Ross & Ross International, 'Change is the law of life—JFK', June 2021, [online](#).
- 8 Keith Johnson, Robbie Gramer, 'The great decoupling', *Foreign Policy*, 14 May 2020, [online](#).
- 9 Tim Hetherington, David Shephardson, 'Boeing urges US to separate China trade and human rights', *Reuters*, 1 April 2021, [online](#).
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Acronyms and abbreviations

ADF	Australian Defence Force
ADP	automatic data processing
BRI	Belt and Road Initiative
CCP	Chinese Communist Party
CDI	consolidated debt instrument
CFA	Country Fire Authority
ChAFTA	China–Australia Free Trade Agreement
DSU	2020 Defence Strategic Update
EU	European Union
Five Eyes	diplomatic partnership between Australia, Canada, New Zealand, the UK and the US
GDP	gross domestic product
GFC	global financial crisis
HELP	Higher Education Loan Program
LNG	liquefied natural gas
MBA	Master of Business Administration
OLED	organic light-emitting diode
Quad	diplomatic partnership between Australia, the US, Japan and India
5G	fifth-generation wireless technology

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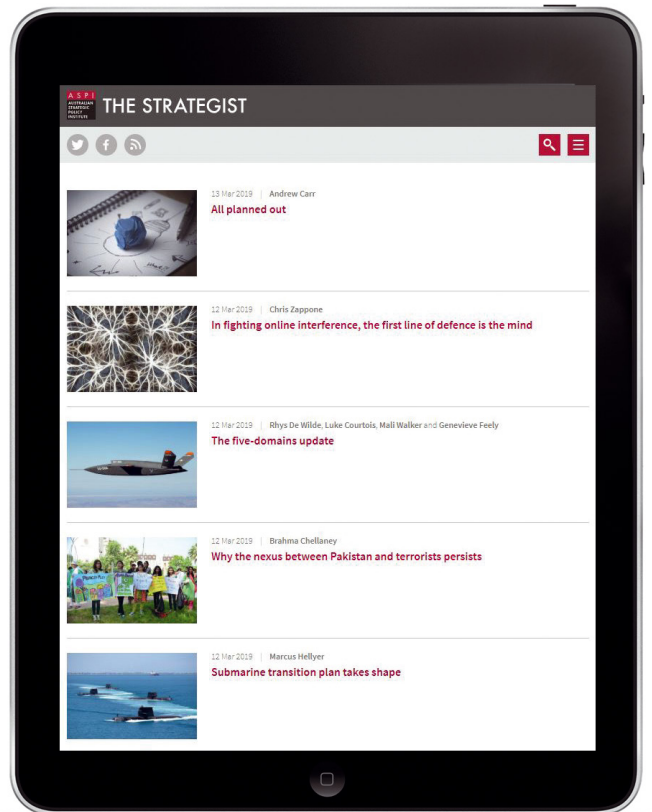


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