



Options Paper

What does it look like for Australia to...

Navigate a New Era of Economic Statecraft in the Indo-Pacific

SUPPORTED BY



Australian Government

Australian Civil-Military Centre

Executive Summary



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Acts of economic statecraft – both positive incentives and negative sanctions – are key foreign policy tools. Countries use tools like development assistance, loans, visas, tariffs and investment as policy levers to achieve their aims.

Trends in economic statecraft – particularly due to geopolitical competition – are changing the Indo-Pacific region.

The current conception of economic statecraft challenges two traditional separations – between economics and security, and between domestic and international. Perceptions that economic statecraft need be confined to external acts have changed as countries implement domestic policies to strengthen specific industries for geostrategic purposes, such as the recent Future Made in Australia plan.

In this new global paradigm, Australia must treat its deployment of and response to economic statecraft with a sense of urgency. This includes devising structured policy responses to acts of negative economic statecraft and forging a coherent vision when it comes to the practice of positive economic statecraft. These responses must form part of a broader joined-up foreign policy architecture.

Consultations with 40 experts from Australia and across the region revealed growing recognition of the importance of economic statecraft across development, defence and diplomacy.

However, Australia has not yet engaged widely in the Indo-Pacific region on this topic, including assisting its regional neighbours. There is much more that Australia can do.

This paper sets out future focused actions for Australia in its practice of economic statecraft, including how it can support its partners in the Indo-Pacific.

The following pathways are discussed in this paper:

- Adopting a **vision for Australia's economic statecraft**, encompassing what Australia is seeking to achieve – and avoid – when utilising or responding to economic statecraft
- Establishing a **national coordinating mechanism** to engage on issues of economic statecraft
- Maintaining **close relationships with regional partners** through acts of positive economic statecraft – especially development assistance – and through assisting partners that are susceptible to acts of economic coercion
- Promoting and advancing a transparent, predictable and rules-based **global trading system**
- **Working closely with business**, including sharing information, creating certainty and ensuring business is aware of government economic statecraft policies

This paper focuses on contemporary economic statecraft within the Indo-Pacific – that is the Pacific Islands, Southeast Asia and the Indian Ocean.

However, acts of economic statecraft are far from new. They have a long history, dating back to Ancient Greece and Ancient China.¹

Most examples of economic statecraft involve the actions of larger states, in the main because they tend to have more active foreign policies and an ability to influence global affairs. For example, the SWIFT global payments system and the US dollar as the reserve currency gives the United States great economic power.

Acts of economic statecraft represent one of many foreign policy tools that countries have at their disposal. Economic statecraft may be preferred to defence or diplomatic measures owing to the various costs that accrue from acts of kinetic warfare; the vagaries and lengthy timeframes that may accompany diplomatic measures; and the relative speed and ease by which economic statecraft measures can be implemented.

Along with examples of one state influencing another, there are many cases where multiple countries are involved. It is common for countries to join together to impose sanctions on a target country either ad hoc or through a regional grouping. A recent example is the rounds of sanctions imposed by the European Union on Russia following its 2022 invasion of Ukraine. A further well-known example – and the most widespread use of sanctions since the end of World War II – are the decade-long sanctions imposed on Iraq by the United Nations Security Council following Iraq's invasion of Kuwait in 1990.

Australia has a significant role in multilateral economic institutions, including the World Trade Organization (WTO), G20, the Organisation for Economic Co-operation and Development (OECD), Asia-Pacific Economic Cooperation (APEC), the Indo-Pacific Economic Framework (IPEF) and the Inclusive Trade Action Group (ITAG) and Global Trade and Gender Arrangement (GTAGA).²

Australia is currently party to 18 international trade agreements, including four multilateral agreements: the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA), Pacific Agreement on Closer Economic Relations (PACER) Plus, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership Agreement (RCEP).

1 For an historical overview of economic sanctions see Gary Hufbauer, Jeffrey Schott, Kimberly Elliott and Barbara Oegg, 2009, *Economic Sanctions Reconsidered*, p. 9.

2 For an outline, see <https://www.dfat.gov.au/trade/organisations/wto-g20-oecd-apec>

WHAT DO WE MEAN BY ECONOMIC STATECRAFT?

Economic statecraft refers to a state's use of economic policy instruments to achieve foreign policy objectives.³

Another term that is frequently used interchangeably with economic statecraft is **geo-economics**. **Geo-economics** focuses on the broad strategic interplay between economics and geopolitics, encompassing a wide range of economic policies and global power dynamics.

Another term increasingly used in international economic and security policy discussions is **economic security**, defined as the way in which states use global economic connections to affect other states' economies and security.⁴ In this regard, economic security can be understood as an essential part of a state's national security.

3 For a list of definitions of economic statecraft see Helen Mitchell, *A Modern Economic Statecraft Framework*, Working paper for submission to the 2024 International Political Economy Society Conference, August 2023, pp. 7-8 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4548008. For an engaging introduction listen to Darren Lim and Hayley Channer on the *Australia in the World* podcast, May 2024 <https://australiaintheworld.podbean.com/e/ep-130-economic-security-made-in-australia/> or Bridi Rice and Darren Lim on *The Readout* podcast, June 2024: <https://www.devintelligencelab.com/readout/s6-darrenlim>

4 Helen Mitchell, "Unlocking economic security: A strategic playbook for Australia", *United States Studies Centre*, March 2024: <https://www.usssc.edu.au/unlocking-economic-security-a-strategic-playbook-for-australia>



Commonly Employed Carrots

- Official development assistance
- Development financing (e.g. concessional loans and grants)
- Talent, student and worker visas, including seasonal worker/labour mobility schemes and scholarships
- Trade subsidies, tariff reductions and free trade policies/agreements
- Foreign direct investment
- Investment guarantees
- Research cooperation agreements
- Mutual recognition agreements (e.g., standards and qualifications)



Commonly Employed Sticks

- Sanctions
- Travel bans and restrictions
- Trade embargoes or boycotts
- Suspension or cessation of official development assistance
- Tariffs
- Foreign investment screening and rules
- Anti-dumping penalties
- Regulatory standards including customs regulations and biosecurity measures
- Freezing of foreign assets including foreign reserves
- Limiting or prohibiting the use of international payment systems (e.g. SWIFT)
- Trade restrictions

A useful way to think about economic statecraft is in terms of **carrots and sticks** or, more formally, incentives or inducements versus coercion or sanctions.

Carrots – incentives – refer to policy measures which create or expand the flow of resources between countries, whether it be goods, services, people, money, information or ideas.

Sticks, by contrast, are actions which seek to halt or restrict these flows. Sticks aim to have a punitive effect on another country or countries. Another way to describe this is **economic coercion** – or coercive economic statecraft – where an **imposing country** or countries implement measures against a **target country** or countries that are intended recipients of coercive economic statecraft.

Some sticks may be transparent, such as multilaterally agreed sanctions in response to specific actions. In other cases, they may be masked as standard and reasonable regulatory behaviour and may never be acknowledged as sanctions. To distinguish, the latter behaviour will be referred to as "trade restrictions."

There is no strict delineation between carrots and sticks, and what may start as a carrot can end up being a stick. For example, China's Belt and Road Initiative has been characterised as both a carrot and a stick, while the United States' Inflation Reduction Act can be seen as a stick for China and a carrot for others.

Why it Matters

Australia has a compelling interest in a stable, peaceful and economically prosperous Indo-Pacific region.

Australia uses various tools of economic statecraft – including development assistance, loans, work visas, investment, travel restrictions, tariffs and foreign investment screening – as important foreign policy levers to achieve its aims.

Trends in economic statecraft – particularly due to geopolitical competition – are changing the region and need to be taken seriously. For example, the Trump Administration imposed tariffs on China from 2017 which have since been maintained by the Biden Administration. In Australia, economic statecraft became a topic of discussion and media attention stemming from China's 2020 imposition of wide-ranging trade restrictions.⁵

A feature of this changing context has been the diminishment of the global liberal market order. Supply chain weaknesses exposed by COVID-19 and the impact of Russia's invasion of Ukraine have also contributed to an undermining of open international trade.

Rather than lowering barriers to trade between countries, there has been a retreat from open economics to preferential deals with a limited number of trading partners, covering a limited number of sectors. There has been a re-emergence of purely nationalist approaches to trade.

China has been successful at projecting its growth and development as a positive for developing countries in terms of providing a source of markets, finance and technology. This growing economic gravity is pulling nations into its orbit. It raises the question of whether others have the strategic vision, sense of urgency, perseverance and tools to counter this pull.

As well as acts of economic coercion, within the Indo-Pacific there are many positive economic statecraft measures. The magnitude of these initiatives, their effect on livelihoods and their geopolitical significance demonstrates the contemporary importance of this tool of statecraft.

It is important to note that acts of seemingly positive economic statecraft – such as funding for infrastructure or

provision of loans – can risk morphing into negative acts of economic statecraft, becoming a burden for recipient states and undermining good governance. The United States has alleged that foreign adversaries are beginning to weaponise corrupt practices as part of their foreign policy to advance geopolitical intentions and goals.⁶

Within the Indo-Pacific, concerns have mainly centred on funding for infrastructure initiatives provided under China's Belt and Road Initiative (BRI), with suggestions that China is pursuing a deliberate strategy of lending to create indebtedness or 'debt trap diplomacy'. This has been described as a "myth",⁷ with the reality being much more nuanced.

However, there are documented concerns about misuse of funds within recipient countries, including the risks of corruption and political patronage. Within the Indo-Pacific, corruption can be difficult to regulate due to poor or weak governance structures, resource competition and limited consensus. The economic viability of various projects has been queried, as have their political, social and environmental impacts. Addressing these issues requires improved governance and regulation.⁸

Australia's support to regional partners through acts of positive economic statecraft and helping them to navigate acts of negative economic statecraft contributes to regional resilience and positions Australia as a reliable and trustworthy partner.

As well as these interests, economic statecraft matters to Australia because it is also about upholding international economic organisations, rules and the World Trade Organization system.

Economic power has shifted and will continue to do so. This means that countries in the Indo-Pacific are re-aligning based in part on their assessment of where things will be decades from now, factoring in that global institutions may look very different.

Australia needs to prepare for and strategically navigate the challenges of economic statecraft in a new era.

RECENT AUSTRALIAN STATEMENTS RELATING TO ECONOMIC STATECRAFT

Defence

Nations are drawing an explicit link between economic security and national security... [w]e must recognise there is a new and widespread willingness to make economic interventions on the basis of national interest and national sovereignty.

Australian Prime Minister Anthony Albanese, April 2024

[A]ctions that fall short of kinetic conflict, including economic coercion, are encroaching on the ability of countries to exercise their own agency and decide their own destinies.

Defence Strategic Review, April 2023

With the boundaries between conflict, coercion and competition becoming increasingly blurred, there is a need today for a greater integration of power [which] involves military power being brought together with other elements of national power – economic, diplomatic, trade, financial, industrial, scientific and informational.

Chief of Defence Force, General Angus Campbell, May 31, 2022

Development

Australia's development finance will need to align with evolving strategic objectives ... [W]ithin the next five years, Australia's development finance will need to: continue to strengthen Australia's position as partner of choice in the Pacific, in part by ensuring financing of productive, quality assets... and offering Pacific partners a meaningful alternative to competitors without leading to unsustainable debt burdens... [and] strengthen economic resilience and sustainability in the region, particularly in the Pacific.

Development Finance Review, 2023

Diplomacy

Australia's security demands economic strength as well as diplomatic reassurance and military deterrence... growing our economic security in this way is a key element of our statecraft and central to our national interest.

Minister for Foreign Affairs Penny Wong, September 2023

5 At the time of writing the last vestiges of these are being lifted.

6 The White House, *Memorandum on Establishing the Fight Against Corruption as a Core United States National Security Interest*, 2021: <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/06/03/memorandum-on-establishing-the-fight-against-corruption-as-a-core-united-states-national-security-interest/>

7 Shahar Hameiri, "Debunking the myth of China's 'debt-trap diplomacy'", *Lowy Interpreter*, 2020, <https://www.lowyinstitute.org/the-interpreter/debunking-myth-china-s-debt-trap-diplomacy>

8 Lee Jones & Shahar Hameiri, "Debunking the Myth of 'Debt-trap Diplomacy': How Recipient Countries Shape China's Belt and Road Initiative", Chatham House, 202: <https://www.chathamhouse.org/2020/08/debunking-myth-debt-trap-diplomacy/6-conclusion-and-policy-recommendations>

A New Era of Economic Statecraft

The growth of economic statecraft over the last 50 years largely stems from an evolving geopolitical context.

Today, economic statecraft is practiced in an economically integrated world. It is a world in which armed aggression is far less frequent and where economic tools are more likely to be invoked as weapons of conflict. This has led some to observe that economic statecraft is now the most commonly employed form of inter-state warfare.⁹ There are now more sanctions per capita than since World War II.¹⁰

The number of economic policy responses available to states has increased as the global economy has expanded and as new ways of doing business have emerged. Increasing links bring with them new security vulnerabilities.

Across much of the developed world a tension has emerged between economic and security policy and the emphasis or priority that should be placed on both. This has made the traditional method of separating economics from security no longer workable.

“Essentially, economic security is about a key question for the state: how does the state decide to manage the risks and opportunities of global flows of resources — goods, services, people, money, information and ideas — in an interconnected and dangerous world?”

Helen Mitchell, Unlocking economic security: A strategic playbook for Australia

The current conception of economic statecraft is one which challenges perceptions that it need be confined to externally oriented acts. An expansive use of the term – referred to as ‘domestically-oriented economic statecraft’ – involves promoting policies intended to strengthen specific domestic industries for geostrategic purposes.¹¹

These policies are directed at assisting production which is at the forefront of new technologies, such as artificial intelligence or green energy technology.¹² The objective behind strengthening these industries is to specifically outmanoeuvre or ‘outflank’ an identified geoeconomic or geostrategic rival. One example of this variety of domestic economic statecraft can be found in South Korea’s support of its robotics industry.¹³

In May 2024, the Australian Government announced its ‘Future Made in Australia’ plan. It follows similar measures in the United States, Japan, South Korea, Canada and the European Union seeking to localise research, technology and manufacturing in select industries to promote long-term economic stability and resilience. A common feature of these types of initiatives is to diversify and shift supply chains for national security purposes.

The Future Made in Australia response, comprising new legislation and a National Interest Framework, is designed to compete with industry incentives offered by other countries and nurture the development of new industries stemming from the sustainable energy transition. It not only seeks to promote the transition to a green energy future but also aims to address security concerns that have emerged as a result of global economic integration.

This announcement has arguably brought Australia into a new era of economic statecraft, seeking to best place Australia within the changing and churning global economy.

Too often contemporary Australian politics has assumed an artificial distinction between our prosperity and our security.... We recognise that in facing the most challenging strategic environment since World War II, economic resilience is an essential component of assuring our national security. This is part of what our government means when we talk about the need for unprecedented coordination and ambition in our statecraft, harnessing all elements of our national power to advance Australia’s interests.... it would be preposterously self-defeating to leave our policies unchanged in the face of all this industry policy taking shape and taking hold around us.

Australian Treasurer Jim Chalmers, Address to the Lowy Institute, 1 May 2024

FUTURE MADE IN AUSTRALIA

In May 2024, the Australian Government dedicated \$22.7 billion of long-term spending on clean energy and strategic industries as part of its Future Made in Australia plan.

According to the government, the Future Made in Australia Framework “will focus on industries that contribute to the net zero transformation where Australia has a comparative advantage, and where Australia has national interest imperatives related to economic resilience and security.”¹⁴

Priority industries and investments include:

- \$2 billion towards large-scale renewable hydrogen projects
- \$1 billion towards support for solar panel production subsidies and grants
- \$1.7 billion for a Future Made in Australia Innovation Fund
- \$466.4 million to build the world’s first commercial-scale quantum computer
- \$566 million for mineral exploration including mapping Australia’s critical minerals

A National Renewable Energy Supply Chain Action Plan has also been developed. The Government will invest funds to work with partners to support global rules on unfair trade practices and to negotiate benchmarks for trade in high quality critical minerals.

¹⁴ Investing in a Future Made in Australia | *Budget 2024–25*: <https://budget.gov.au/content/03-future-made.htm#m1>

⁹ Darren Lim, “Economic Statecraft and The Revenge of The State”, *Australian Outlook*, 5 December 2019: <https://www.internationalaffairs.org.au/australianoutlook/economic-statecraft-and-the-revenge-of-the-state/>

¹⁰ Helen Mitchell, *A Modern Economic Statecraft Framework*, Working paper for submission to the 2024 International Political Economy Society Conference, August 2023: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4548008

¹¹ Elizabeth Thurbon, Sung-Young Kim, Hao Tan and John Matthews, *Developmental Environmentalism: State Ambition and Creative Destruction in East Asia’s Green Energy Transition*, Oxford University Press, 2023.

¹² For a discussion of the latter, see Elizabeth Thurbon, “We urgently need \$100bn for renewable energy. But call it statecraft, not ‘industry policy’”, *The Conversation*, Sept 2023: <https://theconversation.com/we-urgently-need-100bn-for-renewable-energy-but-call-it-statecraft-not-industry-policy-213351>

¹³ Elizabeth Thurbon and Linda Weiss, 2021, “Economic statecraft at the frontier: Korea’s drive for intelligent robotics”, *Review of International Political Economy*, 28:1.

Contextual shifts have also had a bearing on the consequences of negative economic statecraft. Whereas acts of economic statecraft once involved a relatively straightforward causal relationship – the imposition of a sanction economically harming target countries – the contemporary position is much more complex.

The multi-layered nature of supply chains is one reason for this. For example, the lengthening of supply chains through sourcing in intermediate countries means that the consequences of acts of economic statecraft can be much more difficult to ascertain and measure.

Linked with this are considerations around the outcomes states are trying to achieve through their actions. Acts of economic statecraft are imposed with certain results in mind, not all of which are economic. In addition to being a form of punishment (sticks), economic statecraft may be used to strengthen alliances, stimulate economic growth, reduce poverty and expand or create new markets (carrots).

While acts of economic statecraft are imposed principally with foreign policy objectives in mind, they will often also have significant domestic consequences. For example, the imposition of a sanction preventing or restricting the importation of certain goods or services may have positive economic consequences for producers of those goods or services in the imposing country, increasing domestic demand for their products (and negative economic consequences for consumers in the form of increased costs).

Similarly, sanctions or trade restrictions may be imposed on specific goods and services from a country while others from the same country may be exempted owing to scarcity or domestic demand. In such circumstances, the imposing country or countries will be mindful not to practice 'self-harm' by restricting the flow of these critical imports, such as China not including much-needed iron ore in restrictive trade measures imposed on Australia.

This position points to 'net economic impact' being an important consideration for any economic policy.

An example of this could be the sanctions imposed on Russia following its invasion of Ukraine, where the EU has avoided applying sanctions on imports of Russian crude oil by pipeline, justifying this on the basis that various EU member countries "suffer from a specific dependence on Russian supplies and have no viable alternative options."¹⁵ To date, a blanket ban on imports of liquified natural gas from Russia has also been avoided in order to maintain energy flows to Europe and elsewhere.

Imposing countries may also be seeking to send a signal to third party states through their actions, amplifying their messaging through the use of carrots or sticks. The imposition of sanctions or trade restrictions on a target state may be intended to deter others – to signal that if they act in a similar fashion, they can expect comparable treatment.

These signals may also be directed at a domestic audience or as a show of strength to allies, demonstrating the willingness of an imposing state to act in instances when a strategically important issue is at stake. The psychological consequences of economic statecraft have also been evidenced in circumstances where businesses proactively curb trade with target countries in anticipation of future sanctions or interruption to their business.¹⁶

However, it is clear that often the imposition of economic sticks does not lead to target countries changing their position or behaviour, and in fact can undermine an implementing country's influence. A study of economic sanctions dating back to the early 1900s found that economic sanctions only achieved their objectives around one-third of the time.¹⁷

This appears to be the case with the recent trade restrictions imposed on Australia by China. It has been widely argued that China's imposition of tariffs and regulatory requirements on various Australian commodities did little to change elements of Australia's foreign policy towards China.¹⁸ This is not to say that there were not economic consequences and that China's actions did not send a signal to other countries, but for Australia the costs of disrupted Australian goods exports to China were successfully mitigated.¹⁹

A risk for imposing countries when they engage in acts of economic coercion is that they may come to be viewed as less reliable economic actors, resulting in target countries strengthening their economic relationships with others. In particular, punitive acts may ultimately prove to be ineffective where these measures encourage targeted industries to diversify their markets. While this will not be possible for all products, where producers can redirect their goods or services to alternate countries, it will assist in cushioning the impact of lost markets. This is important for assessing the policy responses open to Australia and others.

There is a longstanding debate... around the effectiveness of economic sanctions as a foreign policy tool. Sanctions are often criticised as being ineffective, particularly where they have not changed behaviour on the part of target countries. This in turn has often been taken as an example of broader limits on the scope and potential of geoeconomic statecraft.

*Steven Kirchner, A geoeconomic alliance:
The potential and limits of economic statecraft*

15 European Council, "EU sanctions against Russia explained": <https://www.consilium.europa.eu/en/policies/sanctions-against-russia/sanctions-against-russia-explained/#pricecap>

16 Helen Mitchell, "Unlocking economic security: A strategic playbook for Australia", *United States Studies Centre*, March 2024: <https://www.usssc.edu.au/unlocking-economic-security-a-strategic-playbook-for-australia>

17 Gary Clyde Hufbauer, Jeffrey J. Schott, Kimberly Ann Elliott and Barbara Oegg, *Economic Sanctions Reconsidered*, 3rd Edition, PIIE, June 2009. See also Nicholas Mulder, 2022, *The Economic Weapon: the rise of sanctions as a tool of modern war*.

18 See, for example, Stephen Kirchner, "A geoeconomic alliance: The potential and limits of economic statecraft", *US Studies Centre*, 2021: <https://www.usssc.edu.au/a-geoeconomic-alliance-the-potential-and-limits-of-economic-statecraft>; Roland Rajah, "The big bark but small bite of China's trade coercion", *Lowy Interpreter*, 2021: <https://www.lowyinstitute.org/the-interpreter/big-bark-small-bite-china-s-trade-coercion>; Richard McGregor, "Chinese coercion, Australian resilience", *Lowy Institute*, 2022: <https://www.lowyinstitute.org/publications/chinese-coercion-australian-resilience>; Matt Ferchen, "Does China's Coercive Economic Statecraft Actually Work?", *USIP*, 2023: <https://www.usip.org/publications/2023/03/does-chinas-coercive-economic-statecraft-actually-work>.

19 James Laurenceson & Shiro Armstrong, "Learning the right policy lessons from Beijing's campaign of trade disruption against Australia", *Australian Journal of International Affairs*, 2023, 77:3

Perspectives

This paper is the culmination of five months of consultations with 40 experts from Australia and across the region.

Commencing with a dialogue event in February 2024, the process was led by a working group drawn from academia, civil society, the private sector and public policy experts from across the development, diplomacy and defence communities. These were supplemented by 11 smaller meetings.

To gain a broader range of perspectives from various stakeholders, three regional discussions were held involving participants from the Pacific Islands and Southeast Asia, as well as drawing on consultations for a recent Indian Ocean paper. This has enriched the analysis and reflected a more comprehensive understanding of the regional dynamics.

This paper is a synthesis of these contributions.

AP4D is grateful to those who have contributed to the development of this paper. Views expressed here cannot be attributed to any individuals or organisations involved in the process.

A full list of individuals and organisations consulted can be found at the end of the paper.

AUSTRALIA

Consultees differed in how they saw Australia's economic statecraft in terms of carrots and sticks.

On the carrots side, Australia was seen as being aware of the long-term benefits of economic statecraft in engaging with the Indo-Pacific region.

Positive acts of economic statecraft have the potential to build connections between states in ways that are markedly different from defence cooperation or diplomatic ties. Economically interdependent relationships can help to shore up strategic relationships, binding countries together in a tangible manner and in a way that a treaty or defence agreement may not be able to do.

An example is the Pacific Australia Labour Mobility (PALM) Scheme which connects Australia with the Pacific region through people-to-people links as well as economic ties.

In terms of responding to coercive economic statecraft, consultees suggested that increasing use of economic coercion has not been factored into Australia's framework. Acts of economic statecraft directed towards Australia and many of its partners, largely in the form of sticks, have typically been responded to in an ad hoc and reactionary manner. They have not invoked a predictable, structured, whole-of-government response.

Similarly, Australia has not engaged widely in the region on issues relevant to economic statecraft. While Australia has been quick to come to regional partners' assistance in instances of complex emergency or natural disasters, there has not been the building of capacity to respond to economic statecraft as such. This is understandable, given that Australia is building up its own capacity to respond to economic coercion, so has limited resources to offer other countries. However there is a strong base to build on in the capacity-building work that Australia has been doing over decades in terms of development assistance, good governance and anti-corruption.

The importance of non-state actors was broadly acknowledged. While states are key to economic statecraft, they are not the only actors. A range of other entities may also be involved in acts of economic statecraft, including sub-national governments, state-owned enterprises, companies and individuals. The private sector is a critical geostrategic and geopolitical player, frequently involved in advancing state policies. This position can become blurry in those instances where the line between state and private enterprise is difficult to discern, as in some countries.

Today, the success of official economic policy can be based on how much the private sector understands and is willing to comply with and interact constructively with government imposed regulatory regimes. Private organisations often have immense influence on issues of economic statecraft. Equally, they can present a key barrier for states, stemming their sphere of influence. Global corporations working in the information technology, artificial intelligence and media sectors, for example, engage across multiple jurisdictions in complex and fast-changing industries and often with minimal government oversight.

Consultees noted that it is not governments alone that are impacted by acts of economic statecraft. Frequently, it is non-state actors in the form of consumers, producers and others that are most affected. Concerning the former, tariffs and trade bans can be a burden on an imposing country's citizens by making goods and services more expensive. In contrast, alternate suppliers in third-country states can benefit as they fill the void left by producers of the target good or service.

This demonstrates that modern-day economic statecraft frequently involves far more than the straightforward imposition of an economic sanction by one state on another.

It was also pointed out in discussions for this paper that there may be a subjective element involved when it comes to classifying acts of economic statecraft. This means that the objectives underpinning certain acts, and the incentives behind the use of various economic statecraft techniques, also need to be considered when assessing the actions of states. There is often a perceived divergence between the public statements of an imposing country and what others believe to be their true motivations through their use of carrots or sticks.

[N]ational governments are not the only ones pursuing statecraft. ... Focusing only on what national governments do misses these complex webs of authority and influence.

Joanne Wallis, Henrietta McNeill, Alan Tidwell, Czeslaw Tubilewicz, 2022, Statecraftiness: weaving webs of statecraft in the Pacific Islands.

Australia's PALM Scheme

The Pacific Australia Labour Mobility (PALM) is an example of positive economic statecraft where Pacific Islanders from nine countries and Timor-Leste are employed in select industries in Australia. Key industries involved in the PALM scheme include agriculture, meat works, aged care and hospitality.

The economic benefits of the scheme flow both ways: Pacific Island economies benefit from remittances sent home by workers, and Australia benefits from a labour force in industries where it has historically been difficult to attract and retain workers. This is not to say that there are not any negatives. A key concern of Pacific labour schemes has been their potential to deplete local labor markets.²⁰

The economic benefits that the PALM scheme contributes to Pacific Island countries are significant. By June 2023 there had been 39,000 Pacific Islander workers engaged under the scheme. Since 2018, PALM scheme workers are estimated to have sent home over \$200 million in remittances with workers remitting an average of \$1,500 per month.²¹

The PALM scheme is a key tool of Australian economic statecraft in the Pacific Islands region. Demonstrating that acts of economic statecraft can have benefits beyond the economic, various ancillary benefits flow from the scheme. These include person-to-person links, cultural exchange and skills and knowledge transfers.

The PALM scheme is a key example of economic complementarity with both the sending and receiving state benefitting. The costs of economic statecraft are lower when they take advantage of complementarity between countries, Australia's need for labour means that PALM is a win economically for Australia as well as a policy that delivers important statecraft benefits.

20 See Cara Tinio, "Rough Sailing: Navigating Labor Shortages and Remittance Needs in the Pacific", *Asian Development Blog*, 2024: <https://blogs.adb.org/blog/rough-sailing-navigating-labor-shortages-and-remittance-needs-pacific>

21 Department of Foreign Affairs and Trade, 2024, *Performance of Australian Development Cooperation Report 2022–23*, available at: <https://www.dfat.gov.au/publications/development/performance-of-australian-development-cooperation-report-2022-2023>

PACIFIC ISLANDS

While there are subjectivities around identifying economic carrots and sticks, consultees suggested that it is rare to see acts of economic coercion imposed on Pacific Island states – or being imposed by Pacific Island states – although this is not unheard of. An example is China’s travel ban on Palau.²²

By contrast, there are numerous instances of positive economic statecraft directed at Pacific Island countries, often in recognition of the important geostrategic position they occupy as well as their levels of socioeconomic development.²³ China’s Belt and Road Initiative (BRI) is a significant example of this, as too is Australia’s official development assistance.

Pacific Perspectives

Pacific experts consulted by AP4D perceived Australia’s acts of economic statecraft in the Pacific Islands region positively. Particular initiatives that were singled out for praise were the Pacific Labour Mobility Scheme and the new Pacific Engagement Visa. At the same time it was acknowledged that amongst some in the Pacific region there is scepticism regarding the motivations underpinning Australia’s actions, with a belief that they largely stem from recent geopolitical rivalries.

Because of Australia’s long-term engagement with the region, and its understanding of Pacific Islands governments, it is well placed to assist states in the region in their engagement with relevant multilateral bodies, particularly those with an economic remit. This may encompass issues of standards and membership.

It was suggested that Australia also has a role in sensitising international institutions to be responsive to the needs of Pacific Island nations. An example was in the banking system and difficulty in accessing international payment systems and the effect that this has on small to medium businesses that are seeking to expand their markets overseas. There was a belief Australia could assist in this regard, for example in Papua New Guinea.

Flexible twinning relationships between Pacific Islands economic institutions, such as Treasuries, and their Australian equivalents were presented as a positive example of Australian assistance in the economic statecraft space. Free trade agreements involving Australia and countries in the Pacific Islands region were raised in discussions.

The Pacific Agreement on Closer Economic Relations (PACER) Plus is the key example of Australian involvement in this space. Concerns were raised in relation to PACER Plus,²⁴ particularly the absence of Papua New Guinea and Fiji.

Past critiques have centred on the trade imbalance between Australia, New Zealand and the Pacific Islands.²⁵ A belief was expressed that to be a genuine partner Australia needs to move beyond official development assistance and do more to improve the equity of the trading relationship between itself and its Pacific Islands neighbours.

Australian support to the 2050 Strategy for the Blue Pacific Continent was also seen as an important measure. One of the seven thematic areas in the Strategy is ‘Resource and Economic Development’. Support provided to Pacific regional strategies, institutions and policies sees the bringing together of diplomacy and economic statecraft in a coordinated approach that enhances Australia’s role and reputation in the region.

22 Pacific Beat, “China’s ‘tourist ban’ leaves Palau struggling to fill hotels and an airline in limbo”, 26 August 2018: <https://www.abc.net.au/news/2018-08-26/china-tourist-ban-leaves-palau-tourism-in-peril/10160020>

23 It has been said that “development aid is the most used economic tool of statecraft” in the Pacific region, reflecting relatively low levels of development: Joanne Wallis, Henrietta McNeill, Alan Tidwell, and Czeslaw Tubilewicz, 2022, *Statecraftiness: weaving webs of statecraft in the Pacific Islands*, 2022: <https://www.adelaide.edu.au/stretton/ua/media/665/statecraftiness.pdf>

24 For an overview of PACER Plus, <https://pacerplus.org/pacer-plus/history-of-pacer-plus>

25 See, for example, Adam Wolfenden, “PACER Plus: the case against”, *Devpolicy*, 2020: <https://devpolicy.org/pacer-plus-the-case-against-20201125-2/>

SOUTHEAST ASIA

Southeast Asian consultees raised recent examples of economic carrots and sticks across the region. Views were expressed that, as a powerful country, China has weaponised its economic power to call for the support and even submission of other states by coercing those whose interests contradict Beijing’s. Some saw Southeast Asian countries as being particularly vulnerable to Chinese economic coercion by virtue of trade dependencies.

It was noted that the coercive use of trade restrictions and sanctions is likely to be a continuing feature in the Southeast Asian region. As remarked during an AP4D dialogue, “I think we are going to see this movie again”.

Two examples of how Southeast Asian countries can respond that were raised in discussions were Vietnam and the Philippines. Both countries have long historical ties with China, and consultees considered that, despite being the target of Chinese economic coercion, the strength of this bond meant that economic discussions are often ringfenced, with the force of the existing relationship seeing an emphasis placed on other elements of the bilateral partnership.

There can be a need to divorce acts of economic statecraft, particularly the use of various sticks, from the need to maintain diplomatic relations for other purposes, including those of an economic, security and/or geostrategic nature. This means a target country may not respond as forcefully as it might otherwise like to – or it might mean that an imposing country is selective in only targeting specific goods or services.

Australia has also recently been a practitioner of acts of negative economic statecraft in the region in response to the 2021 coup in Myanmar. For example, Australia imposed financial sanctions and travel bans on individuals responsible for the coup, following on from past sanctions that it has imposed.²⁶

Some consultees regarded sanctions by Southeast Asian countries against Myanmar as a non-starter, both due to a perceived lack of influence (“we don’t have enough economic power to coerce anyone”) and also the size of informal economic interaction. There was concern they could inflict economic pain on the country imposing sanctions.

Consultees suggested that Australia has a role in promoting the economic resilience of Southeast Asian states in a response to economic punitive measures. The strengthened economic cooperation between Australia and Vietnam was cited as an example.²⁷ However it was noted that where Australia focuses predominantly on issues around coercion this may cause Australia to speak a different language to its neighbours, limiting its persuasive power.

Consultees also observed that Southeast Asian countries such as Indonesia and Thailand have established their own international development programs,²⁸ creating potential tools for strategic economic diplomacy.²⁹

26 Details of these sanctions can be found at: <https://www.dfat.gov.au/international-relations/security/sanctions/sanctions-regimes/myanmar-sanctions-regime>

27 Viet Dung Trinh, “Same problems, same solutions: Australia and Vietnam react to economic coercion”, *The Strategist*, March 2024: <https://www.aspistrategist.org.au/same-problems-same-solutions-australia-and-vietnam-react-to-economic-coercion/>

28 *Thailand International Cooperation Agency*, <https://tica-thaigov.mfa.go.th/en/index>; *Indonesian Agency for International Development*, <https://ldkpi.kemenkeu.go.id/en/>

29 Eko Sumando, Indonesia strategically shaping international cooperation through foreign aid, *East Asia Forum*, 27 May 2024: <https://eastasiaforum.org/2024/05/27/indonesia-strategically-shaping-international-cooperation-through-foreign-aid/>

Southeast Asian Perspectives

Much of the discussion about economic statecraft with Southeast Asian experts centred on infrastructure investment.

While China was considered a key contributor in this regard through the BRI, the historical importance of Japanese investments in the region was highlighted. Digital investment in the Southeast Asian region was also singled out, particularly Chinese hardware which has generally been more affordable than that sourced from other countries.

Diversification was seen as a positive way to reduce vulnerability – “it’s a problem to be too dependent on one country for our economic development” – but it was pointed out that some countries are often more prepared to invest in sectors in the region where other countries have been less willing. This makes China, for instance, an attractive economic partner. The example of China’s investment in Indonesia was raised, in particular its financing of nickel smelters owing to Indonesian’s ban on the export of raw minerals.³⁰

Consultees highlighted the private-public character of successful economic statecraft. Some were sceptical of the extent to which governments played a key role in economic statecraft: “investment is done by the business sector; we can’t direct them, it’s market-driven”.

However, there was an acknowledgement that there was a role for government to play – at a minimum, government strategies needed to be paired with private sector willingness to invest.

A largely unrecognised form of economic statecraft discussed was cyberattacks and cyber-espionage operations targeted at private companies. China was identified as the source country for many of these attacks with alleged instances of state-sponsored cyber operations having been documented.³¹

Participants believed Australia could do more to raise awareness of how to counter economic coercion, including how to build resilience, drawing on its own experiences. Australia was commended for publicly attributing past acts of economic coercion that had been directed towards it.

Some consultees identified Australia’s political system as a strength in being able to withstand coercive economic statecraft. It was noted that during recent Chinese import restrictions on commodities like lobster and wine, despite the economic fallout in these industries, the Australian public appeared to support the government’s position to not acquiesce. This contrasts with some countries in Southeast Asia which were perceived to have less robust political systems and therefore a reduced ability to withstand domestic pressures resulting from coercion.

In addition to higher market dependence, some consultees identified factors they considered to affect a country’s susceptibility to economic coercion to include geographic proximity and overall bilateral relations. It was noted that some governments, out of a reticence to “rock the boat”, tended to stay quiet on issues of potential disagreement, in some cases self-censoring.

Consultees suggested that Australia can play a crucial role in supporting ASEAN economic integration through facilitating dialogue on the digital economy and supporting trade initiatives that help to build long-term resilience against economic coercion.

Some consultees emphasised a preference for multilateral fora in building resilience against economic coercion, such as through free trade agreement frameworks like the Regional Comprehensive Economic Partnership or ASEAN-Australia-New Zealand Free Trade Area. In the words of one consultee, “we get our strength from working with other countries rather than going it alone.”

The idea of an Australian ‘brand’ of economic diplomacy was discussed. This would involve presenting the distinct characteristics of Australia’s economic statecraft, emphasising Australia’s attractiveness to the region such as reliable economic partnerships without resorting to debt trap practices. Examples cited of where Australia could direct assistance were the Luzon Economic Corridor in the Philippines and supporting ASEAN smart city initiatives.

While Australian investment in infrastructure was welcomed, it was noted that Australia faces constraints in being able to match China’s level of investment.

Australia’s Southeast Asia Economic Strategy To 2040

Southeast Asia is one of the fastest-growing regions globally. The Southeast Asia Economic Strategy is an example of the Australian Government seeking to drive industry to the region, including by helping businesses de-risk potential investment deals.

Initiatives to implement the Strategy were announced during the ASEAN-Australia Special Summit in March 2024 include:

- A new ASEAN-Australia Centre to strengthen business, education, cultural and community connections.
- A Southeast Asia Investment Financing Facility.
- Regional technology “Landing Pads” in Jakarta and Ho Chi Minh City.
- \$222.5 million in funding for the Mekong-Australia Partnership.
- An additional \$140 million for the Partnerships for Infrastructure program.
- \$40 million in new funding to enhance Australia’s Southeast Asia Maritime Partnerships.
- Additional funding for climate and clean energy cooperation.
- 120 new Aus4ASEAN Scholarships and Fellowships.
- Enhanced visa access.
- 10 Business Champions to facilitate greater commercial links with regional economies.

30 For further details on the investment, see, Angelo Tritto, “How Indonesia Used Chinese Industrial Investments to Turn Nickel into the New Gold”, *Carnegie Endowment for International Peace*, 2023: https://carnegie-production-assets.s3.amazonaws.com/static/files/files_Tritto_Indonesia_Nickel.pdf

31 For a discussion on cyberattacks and cyber espionage in Southeast Asia see Gatra Priyandita, “Chinese economic coercion in Southeast Asia: Balancing carrots and sticks”, *Hybrid CoE*, 2023: <https://www.hybridcoe.fi/wp-content/uploads/2023/10/20231026-Hybrid-CoE-Working-Paper-25-Chinese-economic-coercion-WEB.pdf>, 17.

INDIAN OCEAN

In comparison with the Pacific Islands and Southeast Asia, Australia has mostly had limited interaction with Indian Ocean countries from an economic statecraft perspective, reflecting the less developed links with the region.

There is growing recognition that the North-East Indian Ocean region is of geoeconomic importance to Australia, including as home to some of the world's fastest growing economies.³² The rise of India as a burgeoning major power has contributed to a shift in Australia's focus. Bangladesh, often overlooked due to the mammoth size of India, has also recently experienced strong rates of growth.

As a powerful state within the Indian Ocean, India actively employs tools of economic statecraft. In recent years it has expanded its investment screening regime, prohibited the domestic use of 59 apps from Chinese tech firms and put in place a de facto ban on the import of Chinese power equipment on cybersecurity grounds.³³ India has simultaneously sought to entice foreign firms to shift production to India and boost local manufacturing.³⁴

In 2021 India joined with Australia and Japan to announce a Supply Chain Resilience Initiative in response to supply chain disruptions caused by a range of factors, including the COVID-19 pandemic, but also implicitly in response to coercive economic practices.³⁵

Indian Ocean Perspectives³⁶

Australia is an active economic partner in the Indian Ocean region. It has existing trade and investment framework arrangements with India, Bangladesh and Sri Lanka.

Market opportunities throughout the Indian Ocean region are mostly being led by private industry. There is the potential for more support from Export Finance Australia and Australian Development Investments. There is also the potential for Australia to engage with local experts to provide targeted development assistance and capacity-building to promote economic security. For example, Bangladeshi products currently enter Australia duty-free and quota-free, however Bangladesh is projected to graduate out of least-developed country status in 2026. Australia has announced that it will maintain these conditions.

There is a potential for Australia to engage with local experts to help understand local priorities, which can in turn better inform Australian engagement through more targeted development assistance and capacity building.

A further example is also drawn from Bangladesh. In 2024 Australia's High Commission in Dhaka commissioned a multidisciplinary study from local Bangladeshi experts to look at the country's economic security.³⁷ The objective was to obtain a picture of where and how Bangladesh's economic and trade policies intersect with geopolitics and geo-economics, identify opportunities and vulnerabilities, and assess options that might strengthen and enhance the resilience of the country's economy.

Australia has previously undertaken a study related to its economic partnership with India containing a raft of recommendations, many of which remain highly relevant. These types of empirical programs could be extended to other countries across the region.

Indian Tourism to Maldives

In January 2024 Indian Prime Minister Narendra Modi visited the Indian territory of Lakshadweep and made a post on social media promoting the island as a destination for Indian tourists. Some interpreted this as India trying to draw visitors away from Maldives, itself a globally popular island destination with tourism a top contributor to the country's GDP.

The dispute escalated following derogatory remarks about the Indian Prime Minister by three Maldives deputy ministers, leading to a deterioration in bilateral relations.

Maldives President Mohammed Muizzu's perceived anti-India, pro-China stance – particularly his request that Indian troops be withdrawn from the island nation, and his visit to Beijing before visiting New Delhi (as had previously been convention) – added to tensions.

Indian ministers, politicians, and celebrities then called for a boycott of Maldives tourism, leading to a 40 per cent decline in bookings to the Maldives among Indian tour operators,³⁸ and a 33% drop in Indian arrivals to Maldives in 2024.³⁹

32 Asia-Pacific Development, Diplomacy & Defence Dialogue (AP4D), "What does it look like for Australia to Strengthen its Indian Ocean Engagement", 2024: <https://asiapacific4d.com/idea/indian-ocean-engagement/>

33 Matthew P. Goodman, Matthew Reynolds, and Julianne Fittipaldi, "Economic Security in Emerging Markets: A Look at India, Vietnam, and Indonesia, Center for Strategic and International Studies", 17 May 2022, <https://www.csis.org/analysis/economic-security-emerging-markets-look-in-dia-vietnam-and-indonesia>; Karunjit Singh, "Amid bilateral chill, India-China trade marks record surge in 2021", The Indian Express, 26 January 2022: <https://indianexpress.com/article/business/economy/amid-bilateral-chill-india-china-trade-marks-record-surge-in-2021-7741805/#:~:text=In%20June%202020,network%20upgrading%20process;https://pib.gov.in/PressReleasePage.aspx?PRID=1635206>

34 Ibid.

35 Department of Foreign Affairs and Trade, Joint Statement on the Supply Chain Resilience Initiative by Australian, Indian and Japanese Trade Ministers, 27 April 2021: <https://www.dfat.gov.au/news/media-release/joint-statement-supply-chain-resilience-initiative-australian-indian-and-japanese-trade-ministers>

36 These perspectives are drawn from AP4D's published consultations on the Indian Ocean: <https://asiapacific4d.com/idea/indian-ocean-engagement/>

37 Bangladesh: Multi-disciplinary study and report on Bangladesh's Economic Security, SANEM, 2024, <https://sanemnet.org/bangladesh-multi-disciplinary-study-and-report-on-bangladeshs-economic-security/>

38 Bharat Bhushan, "India-Maldives Row: Coercive diplomacy often backfires", Deccan Herald, 12 January 2024: <https://www.deccanherald.com/opinion/india-maldives-row-coercive-diplomacy-often-backfires-2846305>; Samatha Mallempati, "Maldives-India political fallout tests tourism ties", East Asia Forum, 9 May 2024: <https://eastasiaforum.org/2024/05/09/maldives-india-political-fallout-tests-tourism-ties/>

39 Tessa Walker, "'India Out': What this campaign means for South Asian neighbours", The Interpreter, 14 May 2024: <https://www.lowyinstitute.org/the-interpreter/india-out-what-campaign-means-south-asian-neighbours>

Vision

What does it look like for Australia to Navigate a New Era of Economic Statecraft in the Indo-Pacific?

The vision is that Australia is proactive in dealing with economic statecraft through forward-looking policy responses. This includes:

- a clear articulation of what Australia wants to achieve and avoid through its acts of, and responses to, economic statecraft
- the appropriate architecture and mechanisms in place to coordinate on acts of economic statecraft
- a close working relationship with regional partners
- promoting and advancing a transparent, predictable and rules-based global trading system
- working closely with business, including sharing information, creating certainty and ensuring business is aware of government economic statecraft policies

Within Australia, there is coordination and collaboration on matters of economic statecraft across applicable government departments and agencies, tiers of government, the private sector and other relevant stakeholders.

Australia invests in evidence-based policy development drawing upon expertise across a variety of fields including economics, business, foreign affairs, security, defence and international law.

Australia has in place robust data collection tools and gathers evidence which informs forward-looking responses, including towards acts of coercive economic coercion directed at partners.

Australia's policy responses strike the right balance, allowing the market to function freely without undue government interference but ensuring issues of national interest such as security are appropriately accommodated, conscious of the costs imposed on taxpayers. The private sector is a partner in matters of economic statecraft, in the sense that government shares timely information and assists business to respond to acts of negative economic statecraft, including through assistance with diversification and access to markets. In turn, business shares relevant information with the government.

Australia assists its regional partners, underpinning the concept that countries are 'stronger together'. This is achieved through acts of positive economic statecraft and through helping partners that are susceptible to acts of economic coercion. It calls out instances of economic coercion in relevant forums and assists others, both through acts of positive economic statecraft – presenting as a viable and trustworthy alternate to other countries – and helping to respond to acts of negative economic statecraft, including through the provision of information and technical assistance.

Australia continues to engage with and support relevant global bodies (for example, the World Trade Organization's dispute settlement system, APEC, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership Agreement) and partnerships (for example, the Australia-United States Climate, Critical Minerals and Clean Energy Transformation Compact). Not only are these important fora through which Australia practices and responds to acts of economic statecraft, but they are also platforms through which Australia can help shape the global rules pertaining to economic statecraft.

Australia should coordinate and cooperate with other countries on issues of economic coercion. Australia is well placed to push for international collective action on matters of economic statecraft, including through relevant fora where it is a respected voice.

Australia recognises that economic tools will remain an important part of international statecraft. Whatever the system of international order – whether bipolar, multipolar or a "multiplex" world characterised by multiple actors and intricate global interdependence – Australia will need to employ its own economic statecraft and respond to others' economic statecraft.

Pathways

1. ADOPTING A VISION FOR AUSTRALIAN ECONOMIC STATECRAFT

In line with this vision, Australia should have an ambitious outlook for its economic statecraft agenda encompassing what it is seeking to achieve – and avoid – when utilising or responding to acts of economic statecraft.

This vision should detail how various domestic actors will work together: how all of the organs of economic statecraft can combine to advance common objectives. An element of this vision should be a role for Australia in the region, including how Australia will seek to assist its regional allies in responding to acts of economic coercion.

Accompanying this vision, Australia requires a detailed and practical pathway of best practice approaches to implement and respond to acts of economic statecraft. Efforts in this regard have variously been described as a 'playbook'⁴⁰ or 'strategic playbook'⁴¹, a 'toolkit'⁴² and a 'modern economic statecraft framework'.⁴³ Drawing on international best practice and recognised expertise, this response should help those working in this space to identify the appropriate economic statecraft tools they can call upon in order to achieve desired outcomes.

40 Darren Lim, 2024 on <https://australiaintheworld.podbean.com/e/ep-130-economic-security-made-in-australia/>

41 Helen Mitchell, "Unlocking economic security: A strategic playbook for Australia", United States Studies Centre, March 2024: <https://www.usssc.edu.au/unlocking-economic-security-a-strategic-playbook-for-australia>

42 Hayley Channer, 2024 on <https://australiaintheworld.podbean.com/e/ep-130-economic-security-made-in-australia/>

43 Helen Mitchell, A Modern Economic Statecraft Framework, Working paper for submission to the 2024 International Political Economy Society Conference, 2023: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4548008

2. ESTABLISHING A NATIONAL COORDINATING MECHANISM

There is currently no single Australian government agency, ministry or public official responsible for economic statecraft or security issues. This poses challenges when it comes to matters of coordination and collaboration, as well as knowledge collection and dissemination.

Learning from other countries, Australia should establish a national coordinating mechanism to engage on issues of economic statecraft with wide representation, including from the state and territory level.

The permanent coordinating body should have a wide and proactive remit to engage on issues of economic statecraft. One of its key objectives should be to coordinate inputs from across relevant stakeholders, adopting a whole-of-nation response to matters of economic statecraft.⁴⁴ This should be part of a system that is well-placed to evaluate and respond to a wide set of threats and opportunities.

A coordinating mechanism would provide clear priorities and pathways for action, bridging departments and stakeholders, and may contribute as a deterrent to countries considering instigating acts of coercive economic statecraft against Australia.

This body would be responsible for undertaking data collection, analysis and policy development and dissemination. It would routinely examine long-term economic security issues and forecast possible scenarios.

Responding to acts of economic statecraft requires information. Countries need data and analytical capability to grapple with what are often complex matters of international trade, including the ability to forecast and weigh the implications of different responses. This has become more difficult in a world of advanced technologies – such as the production of sophisticated and complex hardware like semiconductors and microchips which require highly specialised knowledge of supply chains and industrial capacity.

One of the key objectives of the body would be to respond to acts of economic statecraft in a coordinated manner, pulling in a variety of actors. A key objective would be to break down government silos by coordinating inputs from across different departments, including defence, diplomacy and development, as well as applicable trade and economic stakeholders.

Such a body would be well-placed to assist Australia's regional allies with the provision of technical assistance on matters of economic statecraft and security.

There is scope for Australia to learn from Japan regarding government coordination. Japan's *Economic Security Promotion Act* is directed towards protecting Japan from coercion by other countries on the basis of economic dependency.

... Canberra could benefit from a 'joined-up' economic security policy group, comprised of officials. The group should link government and external nodes involved across the economic security landscape together. Better communication and coordination can help Australia to strengthen its response to economic security challenges and seize opportunities.

Helen Mitchell, Unlocking economic security: A strategic playbook for Australia

A further example can be found in the United States. First, the US incorporates a response to economic statecraft and security issues within its National Security Council structure. This does not involve officials attached to a single government agency or body responsible for economic security issues. Rather, as needed the National Security Council convenes relevant actors from departments such as Commerce, Defense and Treasury.⁴⁵ Second, the US has an eight-person team within the State Department with a mandate to assist countries that have been targeted by acts of economic coercion. Amongst other things, this team assists partners with diversifying their export markets. This team provided trade, finance and market access assistance to Lithuania when it was subject to Chinese trade restrictions in 2021.⁴⁶

Australia's response in this space must be an element of a broader repertoire of a joined-up foreign policy architecture. In addition to there being formalised coordination amongst the array of actors directly involved in matters of economic statecraft, Australia currently lacks broader structured engagement across its different arms of statecraft, including defence, diplomacy and development. There is a clear interconnectedness across these different spheres when it comes to matters of economic statecraft and the nature of the various statecraft 'levers' at Australia's disposal. This requires effective structures, coordination mechanisms and resourcing to support an "all tools" approach to Australian statecraft.⁴⁷

As raised in discussions, a particular concern arising from the absence of a joined-up approach of the kind discussed here is the potential weakness this creates in Australia's security conceptualisation and architecture. A broader structured economic statecraft engagement across Australia's different arms of statecraft, including intelligence, would be much better placed to evaluate and respond to a wider set of threats and opportunities.

... it is incumbent on Australian policy makers to work together to develop sound policy frameworks and institutional arrangements that match the times. That take the long view and protect both our economic and strategic interests.

This is not a simple or trivial task — we must strike a fine balance.

Secretary to the Treasury, Dr Steven Kennedy, June 2024

Japan's Approach to Economic Statecraft

Japan has taken several steps to advance its economic-security agenda since adding an economic division to its National Security Secretariat in April 2020. Prime Minister Fumio Kishida has made economic security a key focus of his government's agenda since coming to office in October 2021. This has included the creation of a new ministerial position, the Minister of Economic Security Promotion, overseeing economic security issues, and the passage in May 2022 of the Economic Security Promotion Act.

The new Act aims to protect Japan from coercion by other countries on the basis of economic dependency. It seeks to pursue "strategic indispensability" through Japanese technologies and establishes a framework for enhancing the development of critical technologies with government funding.⁴⁸

44 Asia-Pacific Development, Diplomacy & Defence Dialogue (AP4D), "What does it look like for Australia to take a Whole-of-Nation Approach to International Policy", 2024: <https://asiapacific4d.com/idea/whole-of-nation/>

45 See Justin Muzinich, "American National Security Has an Economic Blindspot", *Foreign Affairs*, 2023

46 James Mayger and Peter Martin, "Supply Chain Latest: How the US Counters Chinese Trade Pressure", *Bloomberg*, 2024: <https://www.bloomberg.com/news/newsletters/2024-04-29/supply-chain-latest-how-the-us-counters-chinese-trade-pressure>

47 *Asia-Pacific Development, Diplomacy & Defence Dialogue (AP4D)*, "What does it look like for Australia to take a Whole-of-Nation Approach to International Policy", 2024: <https://asiapacific4d.com/idea/whole-of-nation/>

48 Additional details concerning Japan's initiatives can be found here: <https://www.edelmanglobaladvisory.com/insights/Japans-ESPA>

3. MAINTAINING CLOSE RELATIONSHIPS WITH REGIONAL PARTNERS

Australia should continue to play an active role in the realm of positive economic statecraft, especially in development assistance. The relationships born from development assistance can transform into economic opportunity. For example, 10 of Australia's current 15 top export markets are countries where Australia once provided foreign aid. This makes development assistance not only a moral imperative, but a critical and proven tool of economic statecraft.⁴⁹

It was pointed out in regional roundtables that Australia is a valued, long-term development partner and one that shares similar values to many of its closest neighbours. A positive perception of Australia's influence in the Pacific region has been reiterated in recent public surveys in select countries.⁵⁰ A desire was expressed in discussions that Australia continue, and expand, its official development assistance, particularly with respect to infrastructure.

... Australia can help to help us Pacific Islanders become more engaged members of the international economy.

From AP4D Consultations

As recognised in Australia's 2023 Development Finance Review, Australia needs to be a credible alternative to other development actors.⁵¹ Australia's assistance comes with less risks of the kind presented above when discussing the BRI, and its investments should continue to be implemented in a manner that is transparent, accountable, promotes good governance and offers a viable alternative to other donors. Not only does this contribute to positive economic benefits for recipient countries, but it helps to shore up regional relationships and position Australia as a generational partner. Elsewhere, helpful recommendations have been made concerning how countries like Australia can most appropriately structure their overseas infrastructure investments, including through prioritising strategic infrastructure and coordinating efforts with other partners.⁵²

Australia should support its regional partners, particularly those in the Pacific region, to be engaged members of the international economic community. It was pointed out in consultations that Australia brings a degree of credibility when it supports its Pacific Island partners' priorities in international and regional bodies.

Where requested, the permanent national coordinating mechanism described above should work with Australia's neighbours to build their capacity to counter economic coercion. This may include helping countries to assess risk. One area where it was suggested that technical expertise from relevant Australian government officials could assist is working with Pacific Island states in trade negotiations. In this regard, Australia should learn from the United

States example presented above, specifically the State Department approach of providing tangible assistance to countries that are subject to economic coercion.

Concerns about the potential for corruption linked to development projects has often centred on funding for infrastructure initiatives. There are various examples of donor efforts in the Indo-Pacific to address corruption. The Indo-Pacific Partnership on Transparent, Responsive and Open Networks for Good Governance, funded in part by the Australian Government, is an example of this. It seeks to add value to anti-corruption movements and enhance good governance in the Indo-Pacific.

To the extent that acts of positive economic statecraft such as infrastructure investments risk contributing to corruption, it is beholden on Australia and other donors to continue to ensure that appropriate safeguards, complaint mechanisms and risk mitigation strategies are incorporated into their project designs or funding. Australia should also continue to fund contextually relevant anti-corruption efforts, including at a regional level.

Where acts of economic coercion are directed at regional partners, Australia is, as an open liberal democracy, well placed to spotlight these. An immediate response to perceived unjustified acts of economic coercion would be for target countries and their partners to publicly denounce the actions of an imposing state, including condemning any disinformation which may accompany an imposing state's actions.

Given the inherent trade off in calling out a coercive country when not directly impacted, there is a benefit in acting as a group to raise public awareness and garner wider support. Australia is particularly well positioned to raise issues of economic coercion directed at neighbours in relevant international bodies.

A commonly raised obstacle is the difficulty that partner countries experience in maintaining a collective stance in the face of acts of economic coercion.

In the case of sanctions or trade restrictions, friends of a target country may step in and take the opportunity to take market share in the target country. An example is that when Australian wine was subject to high Chinese tariffs in 2020, United States winemakers and others were quick to fill the gap left by Australia, despite statements of support by US government officials.⁵³ In this regard, private companies can be seen to be acting rationally by pursuing markets which offer the easiest and most lucrative returns.

This illustrates that states are not the only actors when it comes to acts of economic statecraft. A key barrier to countering economic coercion is the inability of governments to respond when private companies in allied countries increase trade flows to imposing countries. This is because liberal democratic governments have little ability to impede the actions of private exporters with domestic laws limiting the ability of states to intervene in the commercial activities of businesses.⁵⁴

There is something in countries condemning it [coercive economic statecraft] loudly, pushing back against it, using the WTO... but there's no magic bullet.

From AP4D Consultations

... just because you're a trusted ally doesn't necessarily mean that your firms aren't competitors.

From AP4D Consultations

49 Asia-Pacific Development, *Diplomacy & Defence Dialogue (AP4D)*, "What does it look like for Australia to Strengthen its Indian Ocean Engagement", 2024: <https://asiapacific4d.com/idea/indian-ocean-engagement/>

50 See Meg Keen, "Australians watching Pacific with concern and care", *Lowy Interpreter*, June 2024: <https://www.lowyinstitute.org/the-interpreter/australians-watching-pacific-concern-care#>

51 Development Finance Review: New approaches for a changing landscape: <https://www.dfat.gov.au/sites/default/files/development-finance-review-2023.pdf>, p. 22

52 See Hayley Channer, "Can Rubber Meet the Road? Reassessing US and Indo-Pacific Allies' Infrastructure Response to China", Perth USAsia Centre, 2022: <https://perthusasia.edu.au/research-insights/publications/can-rubber-meet-the-road-reassessing-us-and-in-do-pacific-allies-infrastructure-response-to-china/> p. 14. See also Asia-Pacific Development, *Diplomacy & Defence Dialogue (AP4D)*, "What does it look like for Australia to be an effective Infrastructure Partner for the Pacific and Southeast Asia", 2023: <https://www.asiapacific4d.com>

53 Peter Hartcher, "US-China relations won't improve until Australia trade war ends: Biden administration", *Sydney Morning Herald*, 2021: <https://www.smh.com.au/world/north-america/just-not-going-to-happen-us-warns-china-over-australian-trade-stoush-20210316-p57b4l.html>

54 See Naoise McDonagh, "Responding to Economic Coercion: Can Allies Be Trusted to Cooperate?", *Australian Outlook*, 2023: <https://www.internationalaffairs.org.au/australianoutlook/responding-to-economic-coercion-can-allies-be-trusted-to-cooperate/>

4. PROMOTING AND ADVANCING A TRANSPARENT, PREDICTABLE AND RULES-BASED GLOBAL TRADING SYSTEM

This raises the importance of an open global trading system as a counter to attempted economic coercion. Open global markets allow industries targeted by sticks – or those at risk of being targeted – to seek out alternate markets for their goods or services.

Diversification can mean agnostically increasing the number of markets, to reduce the risk of disruption in any one country market – but often proponents of diversification are specifically interested in selling more to countries which are perceived as allies and friends, and less to rivals and adversaries.

The effort to partner with allies in the economic statecraft sphere can be termed ‘friend-shoring’. This describes working with trusted countries, particularly collaborating on supply chains and foreign investment.

“In reality, friend-shoring is driven by geopolitical rather than purely economic logic, and involves relocating critical supply chains away from nations considered likely to weaponise economic dependency and towards safe nations, be they “friends,” formal allies, or partners who are geopolitically low risk.”

Dr Naoise McDonagh, 2023, “Friend-Shoring”: From Rhetoric to Reality and Options for Australia.

While diversification was mentioned, it did not feature prominently during consultation discussions. There are various reasons for this. Foremost, diversification can be difficult and expensive. For relatively niche industries there may be limited options to redirect trade, such as for Australian wine producers targeted by China’s trade restrictions in 2020. It has been argued that Australia’s wine producers had acted in a rational manner by directing such a large proportion of their trade to China.⁵⁵

Nevertheless, where diversification is possible, it can help to reduce the risks associated with acts of economic coercion and offset lost markets. Accordingly, the Australian government should assist as much as possible in this regard, helping those industries that are most likely to be targeted by sticks with proactive efforts to diversify. Measures may include trade promotion initiatives and export finance assistance. Previous AP4D consultations have, for example, looked at market opportunities in the Indian Ocean region and the potential for more support from Export Finance Australia and Australian Development Investments.⁵⁶

“While the concept of ‘trusted trade’ might hold superficial appeal, a closer examination reveals it offers very limited practical applicability.... Operationalising the ‘trusted trade’ concept is also problematic. How might a policymaker decide if, and to what extent, a particular trade partner can be ‘trusted’, and so preference it in policy settings?”

James Laurenceson & Shiro Armstrong (2023) Learning the right policy lessons from Beijing’s campaign of trade disruption against Australia, Australian Journal of International Affairs, 77:3

It is also important to note that while most focus is on diversification of markets for the purpose of sales and exports, acts of diversification can go further than this. They also encompass diversifying supply sources for inputs and capital and not being dependent on any single country or region. There is also scope for government assistance in this regard.

Many successful examples of diversification in the face of economic coercion exist. Again, calling on the Australian example following China’s 2020 trade restrictions, in the main Australia was able to diversify targeted commodities, redirecting them to other markets: “Australian exports to China in affected sectors dropped sharply but this was largely offset as Australian exporters for the most part successfully diverted their goods to other markets.”⁵⁷

Equally, the suggestion that government assistance should be provided to targeted industries was also met with caution in consultations. It was noted that in any economic policy decision the benefit and beneficiary need to be identified to see whether this exceeds losses.

Recommendations in this regard have included payments to workers in affected industries, the creation of a permanent fund to assist exporters who suffer losses, and schemes to retrain and reskill impacted workers. One of the difficulties identified with these measures is the possible distortions they can create and their potential misuse. The view was expressed that government intervention risks creating a disincentive for business to appropriately manage their political risk. A broader concern was raised around the use of public funds to assist private businesses and the public appetite for such a course. Caution was expressed in using defence to drive economic agendas.

This links with the perceived need for Australian businesses to be ‘match fit’. This means ensuring Australian businesses are robust enough to be able to deal with acts of negative economic statecraft. Countries with a competitive economy are likely to fare much better when faced with economic coercion. Contributing to match fitness is a flexible business environment. Government can contribute to this through policy settings that help businesses to recalibrate quickly when they experience acts of negative economic statecraft.

Consultees discussed the importance of the global economic system and noted that Australia has a significant role in multilateral economic institutions, including financial contributions. For example, Australia is consistently the second or third largest contributor to the Asian Development Bank’s Asian Development Fund. Similarly, Australia is a member of regional bodies with an economic mandate such as the Asia-Pacific Economic Cooperation (APEC).

Not only is membership of such bodies an important act of economic statecraft in its own right, but it helps to extend Australia’s economic influence. This can assist when it comes to raising matters of economic statecraft such as condemning acts of coercion and encouraging collective responses.

States are more effective in imposing costs when they work together, embarking on a collective response. This can be done, for example, by ensuring sanctions are imposed uniformly by a group of countries or by coordinating export restrictions on select items, including securing supply chains in critical and emerging technologies.

55 See Jane Golley and James Laurenceson, “The Future of Australian Wine: Fabulous Friends or Dedicated Diplomacy?”, *Australian Outlook*, May 2023: <https://www.internationalaffairs.org.au/australianoutlook/the-future-of-australian-wine-fabulous-friends-or-dedicated-diplomacy/>

56 See *Asia-Pacific Development, Diplomacy & Defence Dialogue (AP4D)*, “What does it look like for Australia to Strengthen its Indian Ocean Engagement”, 2024: <https://asiapacific4d.com/idea/indian-ocean-engagement/> p. 41.

57 Roland Rajah, “It’s no surprise Australia shrugged off China’s campaign of trade coercion”, *Lowy Interpreter*, July 2023: <https://www.lowyinstitute.org/the-interpreter/it-s-no-surprise-australia-shrugged-china-s-campaign-trade-coercion>

Collective action is commonly undertaken through international and regional groupings, including the United Nations Security Council, G7, G20, and the EU. All have an important part to play when it comes to monitoring, imposing and enforcing acts of economic statecraft. Others have called for an expansive grouping of 'like-minded' countries – however that might be defined⁵⁸ – and agitating for the establishment of an international taskforce on countering economic coercion with an extensive mandate.⁵⁹

The G7 released a statement on economic resilience and economic security in 2023.⁶⁰ Amongst other things, the G7 seeks to strengthen member states' ability to respond to acts of economic coercion, including through a Coordination Platform on Economic Coercion. Australia should engage with relevant G7 initiatives, building on its existing relationship with the grouping.

Australia has recognised the importance of working with partners on issues of economic statecraft and security. For example, in 2021 the Australian Prime Minister raised the prospect of an economic dialogue between Australia and the United States as part of the regular AUSMIN talks, with economic coercion being a key agenda item.⁶¹ A similar suggestion has been advanced by others working in this space, recommending that the two governments establish a working group on geoeconomic cooperation involving security and economic officials.⁶²

“Within this Coordination Platform, we will use early warning and rapid information sharing, regularly consult each other, collaboratively assess situations, explore coordinated responses, deter and, where appropriate, counter economic coercion, in accordance with our respective legal systems. We will also coordinate, as appropriate, to support targeted states, economies and entities as a demonstration of solidarity and resolve to uphold the rule of law.”

2023 G7 Leaders' Statement on Economic Resilience and Economic Security

58 Melissa Conley Tyler and Megan Vu, “The Translator: “Like-minded countries”, *Lowy Interpreter*, April 2024: <https://www.lowyinstitute.org/the-interpretor/translator-minded-countries>

59 See Fergus Hunter, Daria Impiombato, Yvonne Lau and Adam Triggs with Albert Zhang and Urmika Deb, “Countering China's coercive diplomacy”, *Australian Strategic Policy Institute*, 2023: <https://www.aspi.org.au/report/countering-chinas-coercive-diplomacy> p. 40.

60 G7 Leaders' Statement on Economic Resilience and Economic Security, 2023: <https://www.international.gc.ca/world-monde/international-relations-relations-internationales/g7/documents/2023-05-20-statement-security-secureite-declaration.aspx?lang=eng>

61 Phillip Coorey, “US-Australia talks needed to combat economic coercion: PM”, *Australian Financial Review*, 2021: <https://www.afr.com/politics/federal/us-australia-talks-needed-to-combat-economic-coercion-pm-20210811-p58hpk>

62 Darren Lim, Zack Cooper and Ashley Feng, “Trust and diversify: A geoeconomic strategy for the Australia-US alliance”, *US Studies Centre*, September 2021, <https://cdn.sanity.io/files/ooh1fq7e/production/e6ef24092e8db54eddb0c9e019dd032becb947b.pdf/Trust-and-diversify-A-geoeconomic-strategy-for-the-Australia-US-alliance.pdf> p. 19.

5. WORKING CLOSELY WITH BUSINESS

The Australian Government will inevitably need to work in partnership with the private sector on some matters of economic statecraft.

The private sector is a critical partner, its importance having grown in tandem with globalisation. Today, the complexity of supply chains and advances in digital technology make it difficult for government alone to grasp all of the moving parts of the global economy.

A government-established national coordinating mechanism should ensure that the private sector is appropriately represented.

Sanctions demonstrate the importance of working closely with the private sector. Without appropriate awareness of the government's sanctions regime, including what it is seeking to achieve, there is a risk of non-compliance or businesses pursuing loopholes.

The amount of regulation, including legislation, that often accompanies acts of economic statecraft can create significant compliance costs. Conforming with rules requires an understanding of the legal frameworks governing certain economic measures – for example targeted sanctions. This means businesses may need to monitor sanctioned companies and people. Contravening Australian sanctions laws can be a serious criminal offence attracting lengthy terms of imprisonment for individuals and substantial fines.

The Australian Government needs to work closely with business in advancing its economic statecraft agenda. This includes collaborating, sharing information and ensuring business is aware of what government policy is seeking to achieve, be it from a security, economic, human rights or foreign policy perspective.

In this regard, an imperative for business is certainty. Through working with the private sector on matters of economic statecraft, government contributes to a stable and predictable business environment.

Consultations discussed the risks associated with government intervention in markets. It was noted that certain policy responses can lead to market distortion and that the market is better left to operate freely without government intervention.

The Future Made in Australia plan presented above is an example of government intervention across multiple industries with subsidies and incentives being offered to the private sector. The government has been keen to point to the diverse objectives that the plan is directed towards, including the requirement that Australia be able to compete with other economies. Various criteria have been presented as a prerequisite for temporary government intervention, designed to “incentivise private investment not replace it”.⁶³

A further element of the Future Made in Australia plan is the need to balance economic and security policy. Given the tension that has emerged between these, a potential barrier to policy movement in this space is an unwillingness to give up economic gains to advance security imperatives. For Australia – which has experienced an unprecedented period of uninterrupted economic growth over the last three decades – this is a difficult trade-off to make.

There is likely to continue to be debate around the net cost to taxpayers for proposed security gains.

63 Treasurer The Hon Dr Jim Chalmers MP, “Economic security and the Australian opportunity in a world of churn and change”, Address to the Lowy Institute, May 2024: <https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/speeches/address-lowy-institute-sydney>

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