

Economic tools for statecraft and national security

Australia's regional partners' economics-security positions vis-a-vis China (Table 2)

Country	Security posture	Trade policy settings	Foreign investment	Infrastructure	Technology
Japan	Alliance Framework Stepped up Quad security cooperation, maintaining FOIP vision amid periodic incidents in East China Sea but maintaining political and diplomatic dialogue with China. Defence budget increases slow compared to neighbours.	China–Japan trade relationship third largest globally. Ineffective subsidies (~US\$2b) for Japanese companies to onshore and invest in SE Asia (relocate production from China). Leading role promoting quality regional trade rules (CPTPP) and in the negotiation of RCEP. CJK (see below).	Changes in 2020 to a more restrictive screening regime. Closed to FDI generally. Largest non-Chinese source of investment in China, continues to grow. Stock of J FDI in China is US\$143.5 billion (increasing by \$11.3b in 2020).	Heightened joint infrastructure cooperation without signing on to China's Belt and Road Initiative (BRI). Key driver of G20 outcomes on quality investment principles.	Introduced regulations phasing out Huawei, ZTE from government procurement under US pressure. Joint investment with the United States and Germany in future telecoms technology. Economic security policies to manage US-China technology decoupling.
South Korea	Alliance Framework and Hedging Undertaking significant defence build-up while maintaining stable relations with US and China. Pursuing a New Southern Policy but committed not to join the Quad.	Bilateral FTA with China since 2015, both signatories to RCEP, and ongoing talks on trilateral FTA with Japan. Second phase China FTA under negotiation. China-Japan-Korea FTA negotiations slowly progressing; trilateral investment treaty in 2012.	Foreign Investment Promotion Act revised slightly in 2020; Foreign Investment Committee that screens national security implications of inbound FDI now includes a member from the security ministry. Ongoing negotiations with China to expand the investment chapter of China–Korea FTA.	Focus has been on lending niches in which Korean construction companies can compete (smart cities projects in particular), since it cannot outspend Japan and China.	Rebuffed US invitation to join Clean Network Initiative; reliant on Chinese suppliers for inputs to own technology manufacturing; the carrier LG UPlus uses Huawei technology for its 5G offering. Korea Telecom, SK Telecom and Samsung networks use Huawei equipment.
Indonesia	Hedging Joint military exercises with China and the US in 2021; alongside increased military cooperation with Japan, Australia and India. Against AUKUS and strongly promotes ASEAN centrality, Treaty of Amity and Cooperation (TAC) and Zone of Peace Freedom and Neutrality (ZOPFAN). 'Independent and active' foreign policy.	Indonesia crucially initiated and led the RCEP process through which China can be engaged on trade issues with ASEAN. Indonesia benefits from trade diversion away from Australian coal.	Major liberalisation of foreign investment regime under the Omnibus Law of 2020 and in the New Investment List (replacing the 2016 Negative List). Foreign investment in critical infrastructure like energy and airports is now encouraged.	Significant participation in the BRI. Also significant Japanese infrastructure investment in Indonesia — Indonesia leveraging strategic competition in infrastructure space to maximise investment.	Using Huawei, ZTE, Nokia and Ericsson to build 5G network. Large increase in Chinese investment in Indonesian tech sector in response to Indian protectionist measures. Signed MoU with China on cybersecurity; first such agreement China has signed with foreign country. Jointly producing Sinovac.
Malaysia	Hedging A classic hedging strategy. The first Defence White Paper, published in 2019, stressed Malaysian strategic interest in the South China Sea. As part of efforts to modernise its navy Malaysia has acquired ships from China. Against AUKUS citing TAC and ZOPFAN.	Launch of the Digital Free Trade Zone in 2018 and associated payments platforms largely controlled by Alibaba have sparked some concerns over the contestability of some services sector markets. Chinese tech firms market leaders.	China Special Channel established in 2019/20 to coordinate investment in Kuala Lumpur tech sector from Chinese sources.	Full engagement with BRI under Najib administration, but mounting criticism of corruption and profligacy associated with major projects a factor in the defeat of the government. Mahathir was critical of projects but kept many and renegotiated others.	Huawei lost out to Ericsson to supply the 5G network. However, there will be a joint Malaysia–Huawei cybersecurity hub established. Need for cyber warfare capabilities discussed in 2019 Defence White Paper.
Singapore	Hedging Signed new defence agreement with China in 2019 including commitment for regular bilateral ministerial dialogues on defence and security. Joint naval exercises with Chinese PLAN. Close to the US and advocates stable strategic dialogue between US and China.	Severely affected by the US–China trade war, because of extensive integration into regional supply chains for US-bound exports.	No major recent changes. Very liberal regime, but national security exemptions exist.	Chongqing Connectivity Initiative — intergovernmental and private sector cooperation with China on infrastructure. Singaporean firms have been involved in BRI projects mainly offering ancillary services (finance, risk management, project management etc).	Huawei not included in the 5G buildout in favour of Ericsson and Nokia. Singapore has expanded cooperation with the US on cybersecurity, signing a MoU this year. Huawei may be involved in broader 5G ecosystem at reduced capacity.
Vietnam	Qualified Hedging Continuing tensions over territorial issues in the South China Sea have led to some softening of the 'Three Nos' policy in the 2019 updated Defence White Paper to allow foreign naval vessels to use Vietnamese ports. Reaffirms 'One China Policy'.	A major beneficiary of the US–China trade war, with substantial trade diversion and supply chain diversification in its favour. Position in regional supply chains underlies the economic benefit of a neutral posture towards major powers.	Amended Law on Investment in 2020: allows the government to terminate any foreign investment deemed a risk to national security; rest of law broadly liberalising.	Vietnam officially participated in BRI in 2015 and some BRI projects since then, as well as Japanese ODA projects.	Huawei is not included in the 5G rollout in Vietnam, though officially for technological reasons.