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OUTCOMES REPORT

Australia's economic security outlook: Trends and possible responses for 2026

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About this report

The United States Studies Centre's Economic Security program hosts an annual Track 2 meeting of Australian former officials, think tank analysts, academics, and private-sector professionals to consider global economic security trends and what they mean for Australia. The purpose of the roundtable is for participants to share knowledge and assessments with the intention of strengthening Australia's economic security policy responses.

Convened in December 2025, the participants considered four key topics:

- 1. How US tariff policy is reshaping global trade and geopolitics*
- 2. Prospects for Australia, the United States and partner countries to expand access to key critical mineral supply chains*
- 3. The race to rollout AI technologies and data centre infrastructure*
- 4. Practical policy ideas to help Australia navigate economic security challenges in 2026*

This report captures a collection of different perspectives expressed by participants on the day, as there was no consolidated viewpoint. It also highlights some key economic security trends to watch in 2026.

Economic security tools proliferate and intensify

Resorting to economic statecraft tools — like tariffs, trade and investment restrictions, and industrial policy — has become the norm for advanced economies in the 2020s. It is no longer a question of whether but where governments will intervene in their markets.

Undoubtedly, the biggest economic security development globally in 2025 was US tariff policy. With Donald Trump commencing his second presidency in early 2025, the year saw a step change across a series of US trade and economic policies. The ‘Liberation Day’ tariff hikes have led to the largest increase in US average import tariffs since 1930. These tariff increases shocked financial markets and analysts when they were introduced in April 2025, and the policy has remained fluid ever since. Other major developments included intensifying US-China competition over advanced technologies and raw critical mineral inputs, with on-again, off-again US technology controls on semiconductor chips directed at China and ongoing investments by both countries in Artificial Intelligence (AI) development and critical minerals.

While workshop participants assessed US trade and economic policies under President Trump as disconnected and failing to support a grand strategy, they also recognised that Trump was the first US president to articulate the economic challenge the United States faced in China. China had not adhered to agreed WTO rules, only conformed rhetorically, and exploited system weaknesses, while other WTO members opened their markets. Over decades, China had captured industrial power and, the more it industrialised, the more it cap-

tered economic benefits at the expense of other economies, particularly given China’s low level of consumption. President Trump (and the previous Biden administration) had recognised the United States was at a structural disadvantage and needed to change course. While participants understood what had driven the United States to change course on trade policy, participants were of the view that US tariff uncertainty made US-allied economic coordination difficult and unlikely.

With the rules-based trade order breaking down and a new global operating structure yet to take shape, there is huge uncertainty and risk for US allies, including Australia. Workshop participants described Australia as ‘straddling’ an old and new era. Australia was trying to preserve parts of the old order, such as the WTO, while attempting to break through to new eras, such as a Net Zero and AI-enabled world. In a less stable, more zero-sum global trading order, participants suggested that Australia needed to exercise greater strategic autonomy and prepare to hedge against more global shocks. More broadly, with the United States retreating from its traditional leadership role, participants suggested that US allies would need to exercise a higher degree of agency for the duration of President Trump’s term. There were already signs of this happening, such as with US allies deepening their existing bilateral relationships outside of the United States, such as Europe and Ukraine, as well as Australia and Japan. The year ahead and beyond will present a more challenging economic order for Australia to confront and a wait-and-see approach by the Australian Government and industry will not suffice.

In a less stable, more zero-sum global trading order, participants suggested that Australia needed to exercise greater strategic autonomy and prepare to hedge against more global shocks.

TIMELINE

Major economic security events in 2025

2 APRIL ■ UNITED STATES

'Liberation Day' tariff announcement

President Trump unveils his 'reciprocal tariff' rates to be applied to all trading partners, as well as a 10% baseline tariff on all countries. These tariff rates continued to fluctuate throughout 2025.

1 JULY ■ THE QUAD

Quad Critical Minerals Initiative established

Australia, the United States, Japan and India agree to collaborate to diversify mineral supply chains and reduce reliance on China.

11 AUGUST ■ UNITED STATES

Nvidia, AMD agree to pay 15% of China chip sales to United States

In an unprecedented move, chip giants Nvidia and AMD agree to pay the US Government 15% of their Chinese revenue.

20 JANUARY ■ UNITED STATES

President Trump pledges tariffs

President Trump is inaugurated for the second time, committing to overhaul the trade system to protect American workers. At his inauguration, Trump pledges to put 25% tariffs on imports from Canada and Mexico from 1 February, and later places a 10% tariff on Chinese imports.

4 APRIL ■ CHINA

Export control on rare earths

In direct response to the United States' new tariff policy, China places restrictions on the export of seven rare earths, including rare earth magnets. These restrictions require Chinese companies to apply for a license before they export.

6 JULY ■ EUROPEAN UNION

EU Critical Minerals Stockpiling Strategy

European Commission releases its strategy for stockpiling critical minerals, citing rising geopolitical tensions.

22 AUGUST ■ UNITED STATES

Trump administration buys up Intel shares

The Trump administration takes an US\$8.9 billion equity stake in Intel to support its semiconductor R&D and manufacturing.

8 SEPTEMBER ■ EUROPEAN UNION

Expanded dual-use export control list

The European Union updates its dual-use export control list, introducing controls on a series of advanced technologies including quantum, semiconductor manufacturing, and high-performance alloys.

9 OCTOBER ■ CHINA

Export controls on rare earth materials

China tightens export controls on rare earth materials and technologies, prompting serious concerns from automobile, electronics and defence industries.

22 OCTOBER ■ UNITED STATES AND RUSSIA

The United States sanctions major Russian oil companies

The United States imposes additional sanctions on Russia's two largest oil companies (Rosneft and Lukoil) as a result of its continued conflict with Ukraine.

4 DECEMBER ■ EUROPEAN UNION

ReSourceEU Strategy

The European Union details its €3 billion strategy to stockpile critical raw materials, protect industry from geopolitical and price shocks, and require industries to diversify away from concentrated supply chains.

29 SEPTEMBER ■ UNITED STATES

Affiliates Rule is introduced to tighten export controls on listed entities

The United States issues a new rule that extends export restrictions to businesses that are majority-owned by listed entities.

20 OCTOBER ■ UNITED STATES AND AUSTRALIA

US-Australia Critical Minerals Framework

A landmark agreement between the United States and Australia is formalised, committing US\$8.5 billion to critical mineral mining and refinery projects in both countries.

1 NOVEMBER ■ UNITED STATES AND CHINA

US-China trade deal

The United States and China agree to a series of trade concessions, including a pause on China's new rare earths export controls announced on 9 October and a pause on the United States' Affiliates Rule.

12 DECEMBER ■ UNITED STATES AND ALLIES

Pax Silicia Declaration

The United States and its partners, Australia, Japan, South Korea, the United Kingdom, Singapore, and Israel, sign the Pax Silicia Declaration, an initiative focused on strengthening and coordinating supply chains for advanced technologies — semiconductors, AI infrastructure, critical minerals, data centres and others.

US tariff policy and navigating trade uncertainty

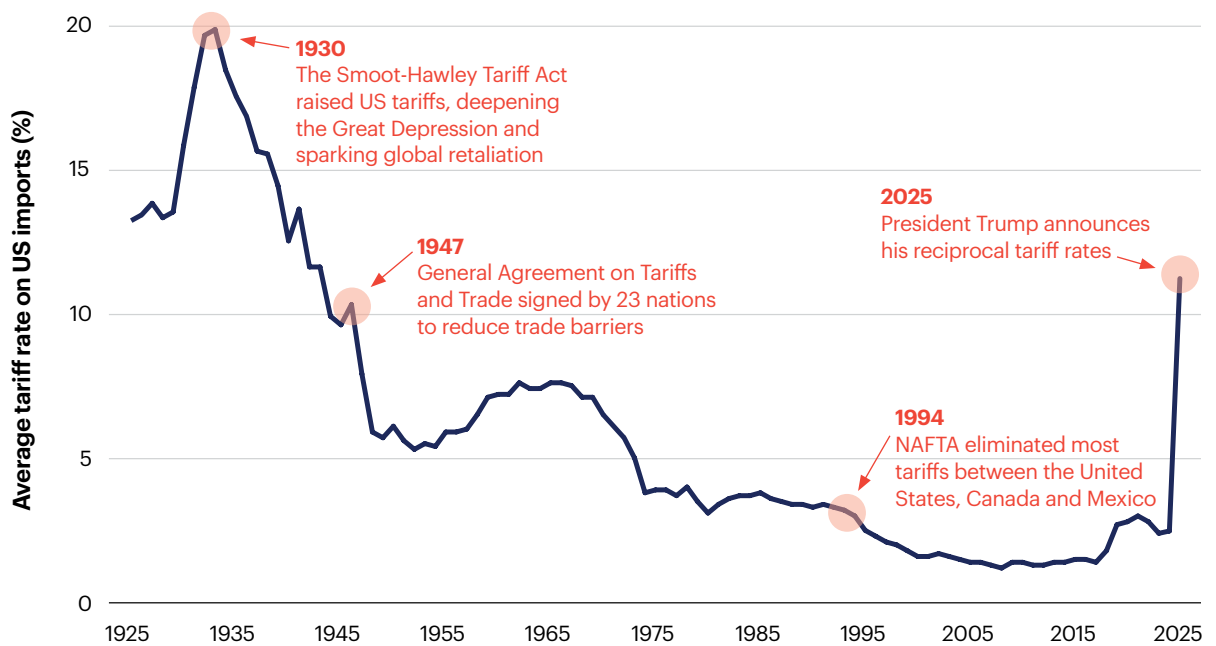
Prior to Donald Trump taking office in 2025, Australian analysts' concerns about a second Trump presidency centred on his approach to trade.¹ President Trump's 'Liberation Day' tariff announcement proved these concerns to be well-placed, with the introduction of the largest single increase in US import tariffs since 1930. Estimates suggest that this policy increased the effective US tariff rate from less than 2.5% to over 11%.² The Trump administration's rationale for this on-again, off-again tariff strategy has been inconsistent, including to support the reindustrialisation of the US economy, improve terms of trade, protect national security, generate higher revenues for the US Government, and give the United States leverage to pursue a series of 'deals' with Europe, Japan, and others.

Domestically, tariffs are becoming increasingly unpopular among US voters, even within Trump's own voter base — 60% of Trump voters believe tariffs are hurting the US economy in the short term.³ So far, Trump's tariff policy has stuttered on a series of fronts:

- Tariffs brought in US\$250 billion in revenue in 2025, well short of the estimated US\$600 to US\$700 billion a year.⁴
- Inflation has been persistent at 3%, despite the full effects of higher tariff rates yet to be felt in the US economy.⁵
- Key parts of the US economy are under pressure from higher tariffs — particularly agriculture, for which the Trump administration announced US\$12 billion in economic assistance, and manufacturing, where output contracted for nine months straight.⁶

Figure 1.

Average tariff rate on US imports (1925–2025)



Source: Tax Foundation.

If cost-of-living pressures continue to mount across US industry and households, tariffs on some key consumer goods could fall. For example, in November 2025, President Trump issued an Executive Order to remove tariffs on food products (including Australian products) to mitigate rising grocery prices.⁷

The severity of US tariff policy shocked foreign governments and industry and sent shock waves through global financial markets. Albeit receiving the minimum 'baseline' 10% tariff rate, Australia was unable to secure a full exemption, even in the context of its US treaty ally status and running a trade deficit with the United States. Australian efforts to seek an exemption to tariffs, particularly on steel and aluminium exports, have been largely unsuccessful. Australia was, however, influential in having the global tariff removed from certain agricultural and resource goods, including beef and some critical minerals.

Participant views

While tariff increases had been expected, their scale and coverage caught Australian analysts offguard. Ultimately, workshop attendees felt that the Trump administration's tariff policy and subsequent dealmaking reflected short-term thinking. One participant contended that "Trump's only strategy is winning each day." It was unclear whether US trade and economic policy was bringing short- or long-term benefit to the United States or to its alliance network. In this context, Australia would need to make 'hard choices' in its foreign and domestic policies and concentrate its engagement with the United States on key issues such as AUKUS and critical minerals.

Roundtable participants were of the view that structurally high US tariffs are the new norm. The Trump administration was expected to continue to use high tariffs as a bargaining chip to strike deals with other countries (and tariffs had already proven to be a high-value asset in US negotiations with the European Union, Japan, and South Korea). In light of this, Australia needed to hedge its position in the global economy by diversifying its trade partners. However, participants commented that this could

become challenging if the United States required Australia to sign onto any trade agreement that included a so-called 'poison pill' clause. Recent US deals with Cambodia and Malaysia had included 'poison pill' clauses that allowed the United States to terminate agreements if these countries entered into a trade agreement that "jeopardizes essential U.S. interests" (Malaysia) or "poses a material threat to economic or national security" (Cambodia).⁸ These effectively amounted to a loyalty clause that prevents these countries from engaging in meaningful trade negotiations with US competitors. Participants underscored that the competitive trade dynamics between China and the United States were likely to intensify throughout 2026.

Looking globally, participants viewed China as seeking to position itself as a counterpoint to the United States' perceived unreliability. While China was demonstrably not a reliable and open trading nation, Beijing had been promoting itself as such, including touting renewed free trade agreements, including with ASEAN.⁹ Attempts by China to signal its support for trade openness could be seen in Chinese Premier Li Qiang's comments about standing up against "economic bullying" at a recent trade agreement's signing.¹⁰

In this context, Australia would need to make 'hard choices' in its foreign and domestic policies and concentrate its engagement with the United States on key issues such as AUKUS and critical minerals.

For Australian industry, the question around the table was whether business was appropriately capturing and responding to these geopolitical risks in its decision-making. Australian banks and mining companies were the most successful at operating in overseas markets while businesses from other industries were simply not competitive outside Australia. Many businesses were used to considering geopolitical risks in countries where they might have assets and operations, such as a mine or offices delivering financial services. However, geopolitical risks were moving along the whole supply chain, from crucial material and technology inputs to end-use markets. Moreover, China had sought to punish businesses that acted to diversify away from China. Effectively assessing these geopolitical risks across the supply chain was complex and costly for Australian business, which is why they had been sluggish to respond.

Put simply, without the Australian Government being more explicit about the strategic risks, business would not act. To that end, more could be done to improve information sharing on geopolitical risks between government and industry. Businesses would also need to increase visibility of their supply chains, beyond immediate suppliers and into the upstream sub-components that feed into their key inputs. One idea that was floated was to undertake corporate 'wargaming' which would help businesses to anticipate and plan for supply chain disruptions.

2026 trends and possible responses

- 1.** US tariff policy will continue to be dynamic. If domestic cost-of-living pressures begin to mount, tariffs on key consumer goods could be removed. US tariff policy could become more targeted towards key sectors and markets.
- 2.** China will continue to present itself as a reliable and open trading partner in the region. This includes pursuing its Standards 2035 strategy which seeks to influence global standards around AI and 5G.¹¹
- 3.** It may be increasingly difficult for Australia to maintain its economic relationship with China and its strategic relationship with the United States. Whether China begins asking for more from trading partners, such as its attempts to 'de-dollarise' iron ore purchases from BHP,¹² remains an area of interest.
- 4.** Australia should focus on long-term policy goals over focusing too much on relationship management with the United States under President Trump.
- 5.** Australian businesses should consider 'wargaming' different disruption scenarios to help them anticipate and plan for geopolitical pressure and supply chain disruptions.

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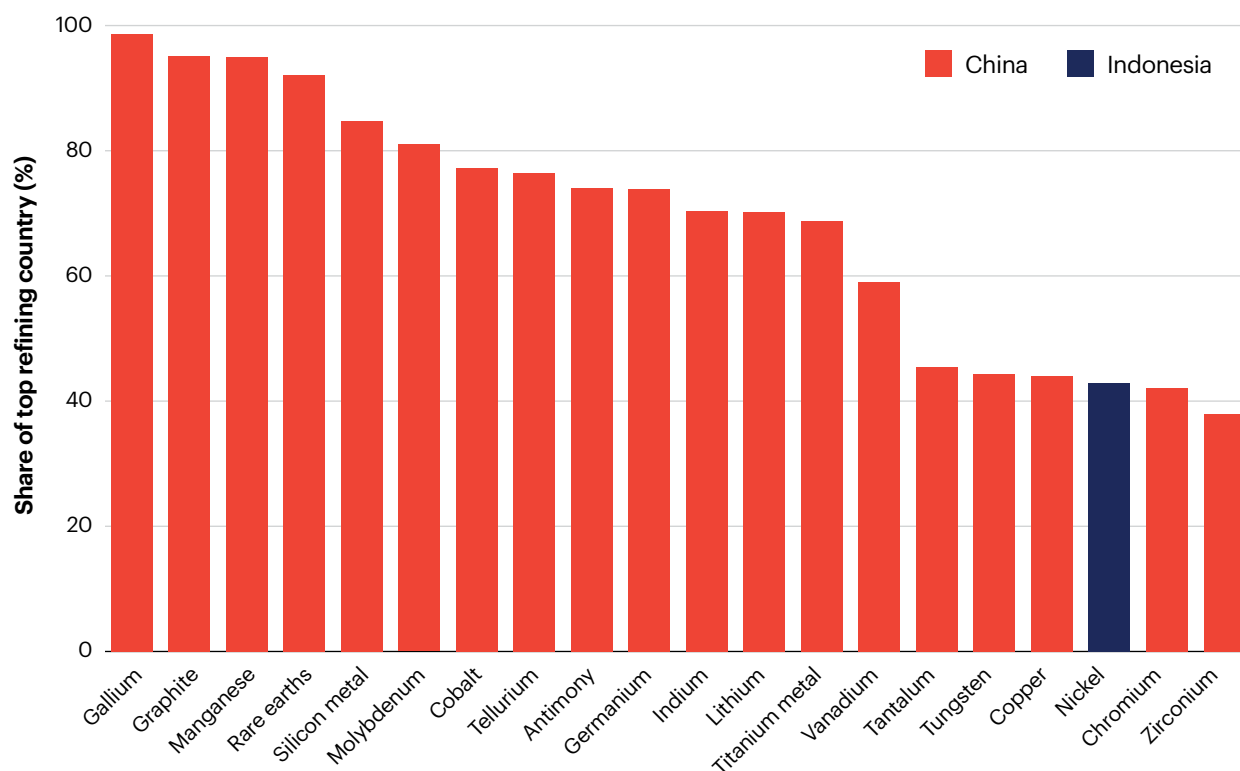
Australia's position in the global critical minerals trade

The race to secure critical minerals supply accelerated in 2025. Critical minerals, particularly rare earth elements, are key inputs into a wide range of technologies, from smartphones to renewable energy and defence assets. They are crucial to Australia's and its partners' economic and national security and they have unique properties that make them difficult to substitute. China dominates 19 out of 20 critical mineral supply chains¹³ required to support economic prosperity, the renewable energy transition, and modern defence systems.

This is not just a theoretical concern. In 2025, China leveraged this dominance to restrict rare earths supply to the United States and its allies by implementing a series of export controls. In response to this, the United States, European Union, United Kingdom, and Australian governments all announced major market interventions, including significant capital injections, mineral stockpiling and price floors. Most

notable are the US Government's combined US\$1.8 billion investments into rare earths producers MP Materials and Vulcan Elements, its introduction of a ten-year price floor guarantee for neodymium-praseodymium magnets and its US\$2.23 billion loan to Lithium Americas.¹⁴ In response, China — and, to a lesser extent, Indonesia and the Democratic Republic of the Congo — has sought to maintain its place in critical mineral supply chains through export controls and restrictions. In early October 2025, China went as far as requiring foreign companies to obtain export licenses to purchase Chinese rare earth materials — previous export controls only applied to Chinese companies. China then agreed (as part of a broader trade deal with the United States) to place a one-year pause on these restrictions. All this points to a more challenging critical minerals market moving forward. As Chinese supply becomes constrained, other countries will jostle for the limited remaining supply.

Figure 2.
Share of top refining country for key critical minerals (% , 2025)



Source: IEA, Global Critical Minerals Outlook 2025.

Participant views

Discussions around the room centred around three key policy challenges: 1) the complexity of multi-lateral coordination to create ex-China (without China) supply chains; 2) the need to clearly define Australia's role in critical mineral markets; and 3) the lack of high-quality intelligence available to governments on supply chain vulnerabilities.

1. The coordination challenge in building ex-China supply chains

Chinese mining, refining and manufacturing are deeply ingrained in critical mineral supply chains. To build ex-China supply chains, the United States and others would need to coordinate on where alternative production capacity should be developed. This would likely entail a significant multi-lateral effort, highlighting the potential value of multilateral frameworks like the Minerals Security

Partnership (MSP).¹⁵ Few economies have the combination of abundant mineral resources, low-cost labour and energy, technological know-how, and end-use demand to compete with China's critical minerals industry. Different countries would need to play to their individual strengths to help build resilient value chains. While momentum is building for greater multilateral efforts on securing supply chains, participants raised the importance of translating these initiatives into concrete actions and investments.

Australia and partner nations should also be conscious of how more unilateral policies, like stockpiling and direct onshoring, could impact broader critical mineral markets. Aggressive stockpiling, particularly of limited ex-China mineral supply, could lead to significant price increases of key mineral-intensive technologies such as solar panels, electric vehicles or defence technologies. Stockpiling also removes minerals from other productive uses, which could lead to shortages in critical technologies.



Australia's Prime Minister Anthony Albanese and US President Donald Trump after signing an \$8.5 billion rare earth minerals agreement during a bilateral meeting at the White House, October 2025. Source: Getty

Additionally, any push to onshore critical mineral refining should acknowledge the commercial realities of such initiatives. Onshoring was likely to require some level of long-term government support and require scale to be cost-effective. Without sufficient end-use demand for critical minerals from advanced manufacturing sectors such as permanent magnets, batteries or semiconductors, participants highlighted the risk that onshore critical mineral production may not have enough offtake to support any real economies of scale. Further, if several countries each tried to onshore the same set of critical minerals in the hopes of circumventing China, they may cannibalise each other. Already, massive investments and efforts from the United States to secure long-term critical minerals supply had EU officials worried that they could get squeezed out of the market.¹⁶

All this points to a complex and dynamic coordination challenge across the United States, allies and partners.

2. The need to clearly define Australia's role in critical mineral markets

Australia has remarkable resource endowments — it is home to over 40 of the minerals identified on the US Critical Minerals List.¹⁷ Australia's strengths as a reliable mining partner are globally recognised, however it was unclear to participants where Australian government support would be best placed, particularly to support downstream refining. Participants acknowledged that Australia's high labour costs, energy costs, and stricter environmental and land use standards made it unsuitable for any energy-intensive refining processes. Similar commercial challenges existed in Europe and North America. The sense in the room was that Australia should look to more clearly define its critical mineral strategic objectives, including where and how comprehensively it would pursue downstream processing.

One option could be to further refine Australia's Critical Minerals List. A view expressed across the group was that critical minerals lists from Australia, the European Union, and the United States were too broad and high-level, listing 26, 34 and

60 minerals as 'critical', respectively. This made it challenging for industry and policymakers to prioritise from the list as well as inform decisions around where government support should be targeted or where industry should explore and develop new resources.

Governments could consider segmenting their critical minerals lists into a few key areas, such as:

- High geological potential, where exploration and mining efforts could be directed.
- Import vulnerabilities, where onshoring or 'friendshoring' could be warranted.
- Export vulnerabilities, where export diversification is required.
- Strategically important to defence and critical technologies, where price floors or a price premium may be needed.

The sense in the room was that Australia should look to more clearly define its critical mineral strategic objectives, including where and how comprehensively it would pursue downstream processing.

3. The lack of high-quality intelligence on supply chain vulnerabilities available to governments

Economic security risks primarily lie with the private sector: businesses are at the coalface of economic coercion and global supply chain disruptions. As a result of geopolitical competition, they must increasingly navigate tariffs and trade barriers and consult with government bodies to find solutions. However, business is in some cases reluctant and in other cases unable to provide complete information on its vulnerabilities to government. Yet without the extensive cooperation of business, simply mapping supply chains — even raw materials like critical minerals cross many borders as they are processed and turned into intermediate inputs — is very difficult.

Given the trade secrets and complex supply chains involved, participants acknowledged that Australian and partner governments were hamstrung from accessing the accurate data needed to design effective market interventions. Workshop participants raised a series of blind spots around critical minerals including:

- Detailed and structured information on Australian resource deposits, including deposit size, mineral purity, and ownership.
 - This information is currently collected by federal, state and territory government agencies from public stock market announcements but there is scope to formalise these data collection processes.
- Offtake agreements, cost structures, and where Australia's competitive advantages lie.
- The critical inputs into key manufacturing sectors, where they are sourced from, and what alternatives exist if access to those critical inputs becomes constrained.
- Greater visibility of over-the-horizon risks and early warning systems to detect potential price fluctuations or supply chain blockages.

Filling these information gaps could include informal public-private intelligence sharing and collaboration or legislating more formalised reporting requirements.

2026 trends and possible responses

1. US and allied governments will continue to invest in ex-China critical minerals mining and refining capability. This could lead to structurally higher prices across key minerals, particularly if price floors are introduced.
2. Questions remain around how offtake agreements with ex-China mineral processors will be structured in terms of volume and price — whether there is sufficient demand for critical minerals at a higher price will be a key determinant of how successful these ex-China mineral processors will be.
3. Australia should consider refining its Critical Minerals List to provide more clarity around what policy measures are required.
4. Critical mineral partnerships should become more multilateral and targeted to help governments prioritise. The recent Pax Silica agreement between the United States and six partner countries is an example of a multilateral framework targeted at a discrete issue with prioritised actions.

The US-China race to dominate AI

Technology competition between the United States and China intensified in 2025, with both countries releasing national strategies to become global leaders in AI. Investments from governments, large technology companies, and private investors into the full-stack of AI technologies (computer chips, data, AI models, and energy infrastructure) now reaches into the trillions. Company valuations in the tech field, and project capital investments, are far outstripping revenues, so much so that the US economy would likely be in a recession without these investments.¹⁸ Crucially, the AI boom is driven by a handful of co-dependent companies like Nvidia, OpenAI, Microsoft, Oracle and CoreWeave who are investing heavily in each others' success through sales, deals and licensing arrangements. This has fuelled speculation that the AI boom is unsustainable and headed for a correction in the near future.

While large language AI models like ChatGPT and DeepSeek have had significant uptake, artificial general intelligence (AGI) could be the real game

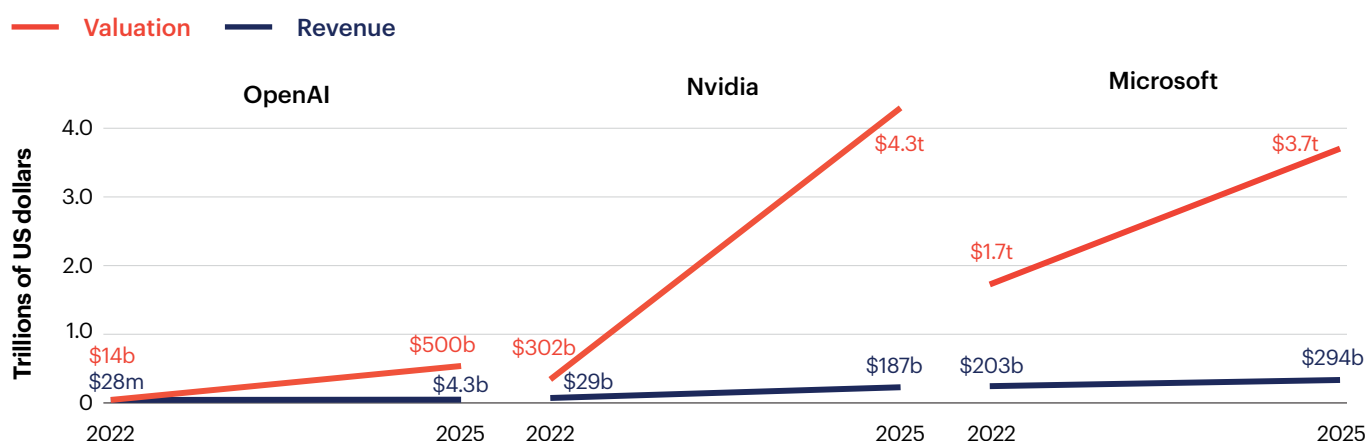
changer. AGI is an extension of existing AI models that can understand, learn and apply knowledge and could reshape economic, strategic, and security structures. This type of technology would possess human-like cognitive abilities and abstract thinking. AGI is being actively pursued by major companies and some prominent tech business leaders suggest that it could be achieved as early as the next two years.¹⁹ But while US companies are striving to achieve AGI, China's approach is grounded in diffusing and integrating AI across the economy.²⁰

The battle for AI technological supremacy is at the heart of US-China strategic competition. This competition extends beyond AI products and services to setting global standards and exporting AI models to partners. These ambitions are set out in the United States' AI Action Plan and China's Global AI Governance Action Plan, both released in July 2025. The endgame for both countries is to dominate the foundational infrastructure of the future global economy and to be the global partner of choice for AI.

Figure 3.

Valuations for major AI companies far outpace revenues

Change in the market capitalisations and revenues from 2022 to 2025 for three leading AI companies



Source: The Economist.

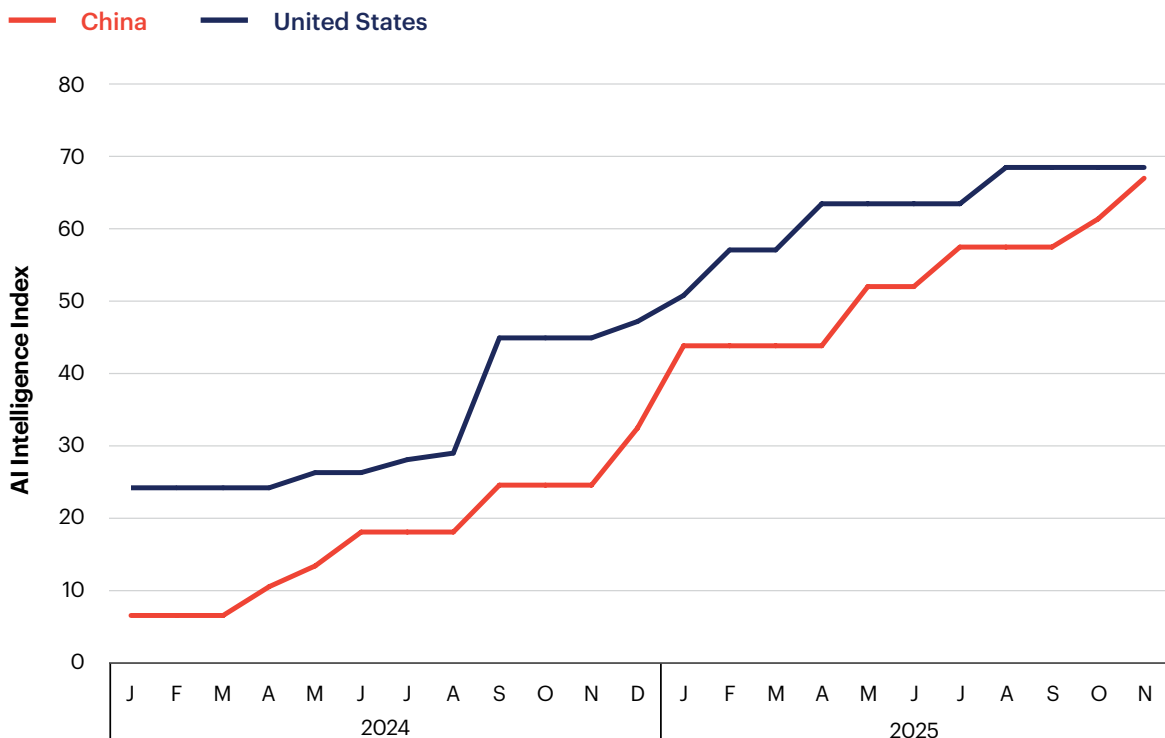
Across 2025, Chinese AI models closed the gap on the United States' AI frontier, beginning with DeepSeek's R1 model released in January 2025. The October release of Moonshot AI's Kimi K2 model further demonstrated the capability of Chinese AI companies, even in the face of US export controls on cutting-edge AI chips and hardware. Chinese companies have differentiated themselves by making their models open source, allowing firms to download and fine-tune for free or under flexible licenses.

As this race continues, a number of limitations are emerging. The first is the massive amounts of energy required to power data centres needed to run AI models. AI models are incredibly power hungry and have contributed to a 300% increase in IT power demand in the United States since 2020, with a further 250% increase forecasted by 2027.²² Data centres require constant, 24-hour power supply, which increases pressure on energy grids to provide firm and reliable power.

This is particularly challenging for energy grids transitioning to intermittent renewable generation. Data centres are primarily expected to be powered by a mix of renewable energy technology during the day and fossil fuels overnight.²³ A rapid rollout of data centre infrastructure, without appropriate firming, storage, network planning and investment, could lead to a more expensive, less reliable, and more carbon-intensive electricity grid. In light of this risk, AI models will increasingly need to compete on energy efficiency.

The second limitation is financial. Unprecedented investments have already been made into AI, so much so that some financial analysts are questioning whether we are seeing an AI boom or bubble. At some point, investors who have poured in millions will need to see some tangible returns before committing further funds. Currently, AI developers are far from profitable. By 2028, OpenAI expects its operating losses to reach US\$74 billion — around three-quarters of projected revenue.²⁴ Even an impressive 97% reduction in the cost of AI tokens²⁵ has not led to a material fall in the cost of AI.²⁶

Figure 4.
Performance of US and Chinese AI models



Source: Artificial Analysis benchmarking studies.²¹

Further, OpenAI and Anthropic — two leading AI developers — are not publicly listed companies, meaning they are not required to publish detailed financial results. This presents a blind spot for financial analysts and regulators. It remains an open question whether investors will be able to accept years of heavy losses until profits emerge. Another question is whether the US Government could underwrite any investments into chip spending or data centres if private investors become skittish or if China is perceived to be pulling ahead in AI development.²⁷

Participant views

The consensus around the room was that Australia is unlikely to be a major AI player globally. Although Australia has strong research talent and foundational STEM skills, firms struggle to commercialise and grow. Any significant home-grown AI innovation or talent is likely to look to overseas markets for investment and growth or be acquired by a big US firm.

However, there are three key pillars where Australia can play its part:

1. Being a reliable and stable supplier of critical minerals and energy resources needed to power the hardware and infrastructure underpinning the AI industry, particularly renewable technology (lithium, vanadium, copper), natural gas, and semiconductors (germanium, gallium, silicon).
2. Attracting investments into data centres, leveraging its land and energy abundance to become a data centre hub for the Indo-Pacific region. Australia now ranks among the world's top data centre markets, behind only the United States in new investments in 2024.²⁸
3. Becoming a leader in AI entrepreneurship and application, which can help Australia unlock the sought-after domestic productivity gains of AI. Two Australia-based firms — Sovereign AI Australia and Maincode — launched in 2025 to support homegrown AI capability and innovation.

2026 trends and possible responses

1. The financial health of US-based AI developers, and their ability to continue to raise capital, will be a major deciding factor in the United States' ability to compete with China. Any downgrade in financial projections or slowdown in investment could be met with a major fall in company valuations, with flow-on impacts for US-China competition.
2. Chinese open-source AI models are likely to continue to improve and provide a cheaper alternative to US products.²⁹ US firms could respond by releasing their own open-source models, such as OpenAI's 'gpt-oss' model, and pushing ahead with plans to export 'full-stack' US AI products to strategic markets.
3. The Australian Government is expected to release a set of national data centre principles in 2026. The principles should seek to streamline planning approvals for data centres and related infrastructure, while proactively addressing community concerns about energy and environmental impacts. This will help to lock in Australia's competitive edge.
4. The AI regulatory space is evolving rapidly, with more countries passing or considering domestic AI laws. The United States is internally divided on the appropriate balance of regulation and innovation. China, meanwhile, is positioning itself as a champion of AI governance for developing countries. Australia has signalled a light-touch approach to regulation and will rely heavily on the newly established AI Safety Institute to monitor emergent risks and harms.

Strengthening Australia's economic security capacity

The economic security issues facing Australia are clearly complex, dynamic, and cut across numerous policy areas. While roundtable participants canvassed a number of potential policy options, two key proposals were discussed in detail.

The first was setting up a **centralised policy institute within the Australian Government**, which could support government to navigate and respond to national and economic security issues. As economic security issues are broad and dynamic, many policy areas have to contend with foreign policy and international relations issues with which they may not have significant familiarity with or understanding of. Having a central policy institute provide support to officials could allow government to better tailor its approach to specific economic security issues as well as help coordinate a whole-of-government response.

Having a central policy institute would address a number of current structural constraints that limit strategy and policy effectiveness:

1. National and economic security issues are necessarily spread across a broad number of agencies, which often leads to a siloed or uncoordinated approach to issues when a national response is required.
2. The nature of political and media cycles, and limits on available public service resources, mean agencies tend to focus on the immediate, with medium- and long-term strategy and policy thinking and planning receiving limited attention.
3. There is often limited industry and academic engagement during the policy development process — in part because these relationships are not entrenched but also because there are few individuals with security clearances outside the public sector.
4. Demand for advanced policy modelling and data science capabilities is growing but many APS agencies are struggling to attract qualified staff.

The national and economic security institute could have a remit to focus on long-term, whole-of-nation issues, with secondees from across national and economic security agencies, as well as security-cleared representatives from industry and academia. Its work program would be focused on issues of significance to ensure a balance of innovation and practical solutions.

It could also provide a centralised modelling and data science service for relevant national and economic security agencies, act as a front door to industry seeking to assess geopolitical risks, help businesses to 'wargame' their supply chain risks, and facilitate information sharing between government and businesses.

There are some complexities to this. Responsibility for economic security issues is shared with State and Territory governments, which can sometimes take different (or disjointed) approaches. For example, the Queensland, Western Australian, and Tasmanian governments have each committed to setting up or are exploring the potential for common use critical mineral processing facilities. A centralised policy institute could help coordinate these initiatives to drive efficiencies and avoid duplication.

The second option was developing a **strategic framework for economic resilience**. This framework could help policymakers and industry assess where risks lie and prioritise actions to build economic resilience. The Future Made in Australia National Interest Framework (NIF) is a good starting point but could be further developed. In particular, there is scope to include guidance around how supply chain risks could be quantified and what 'threshold' levels are manageable — effectively outlining Australia's risk appetite to supply chain vulnerabilities.

Preparing Australia for the year ahead

In 2026, Australia faces some major uncertainties. In some ways, Australia is well-positioned for the challenge ahead — with a strong critical minerals sector, the ability to scale up gas exports to meet domestic and global demand, flexibility for Australian exporters to diversify (where other countries' industries cannot), and public investments being made in strategic industries. In other ways, Australia remains highly vulnerable — it continues to over-rely on traditional trading partners like China due to the economic complementarities (making trade diversification to Southeast Asia

challenging), has a modest industrial policy and risk-averse AI strategy compared with comparable countries, and the Australian Government has not moved quickly enough to engage the private sector to support national security objectives. These vulnerabilities place a premium on policymakers and industry working together to jointly assess and respond to risks, anticipate deeper and more sustained trade and economic disruption, and be willing to make harder trade-offs. We look forward to working with government and industry to prepare both for the challenge ahead.



A liquefied natural gas floating storage unit. Source: Getty

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