Research Paper

UK and the World Programme

November 2026

Safeguarding the UK against economic coercion

Policy lessons from middle powers

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Summary

With geo-economic risks to the UK rising, this paper assesses what the UK can learn from other 'liberal democratic middle powers' – Australia, Canada, the EU, Japan and South Korea – to strengthen its economic security.

- The global economy is shifting from a system shaped by multilateral rules and open markets to one defined by strategic competition, weaponized interdependence and the use of economic tools for geopolitical ends. Rising competition between the US and China is driving this trend – reflected in a growing willingness by both powers to use trade and industrial policy, as well as control over strategic value chains, as instruments of coercion.
- The UK and other 'liberal democratic middle powers' – advanced, open economies that have historically benefited from a rules-based trading system – face significant challenges in this new environment. This paper assesses the effectiveness of the UK's current framework for mitigating geo-economic threats, examines how Australia, Canada, the EU, Japan and South Korea are adapting their responses in the face of similar challenges, and draws lessons for UK policy.
- For analytical purposes, we break economic security policy down into four conceptual pillars or sub-agendas – which we label **'protect'**, **'promote'**, **'defend'** and **'partner'** (our terminology expands on frameworks used by the UK, the EU, Japan and others). 'Protect' refers to the use of investment screening, export controls, and research security measures designed to keep sensitive assets and intellectual property from hostile actors. 'Promote' is about using industrial strategy, public investment and procurement to build domestic and allied capability. The 'defend' pillar focuses on resilience, deterrence and the use of anti-coercion countermeasures. Finally, a critical – but currently underdeveloped – 'partner' pillar encompasses aspects of policy that rely on bilateral, minilateral and multilateral cooperation to manage risks collectively.
- Economic security thinking has evolved as the geo-economic order has gone through three phases in recent years. Between 2010 and 2020, the economic security regimes of the liberal democratic middle powers examined in this study (hereafter generally referred to, for convenience, as 'liberal middle powers') were reactive and ad hoc. Policy during this period was often a response to US or Chinese pressure. Between 2020 and 2024, economic security policy

among liberal middle powers was rapidly institutionalized. Nascent collective frameworks, anchored by the US under the Joe Biden administration, included G7 economic security and resilience workstreams, the Minerals Security Partnership and trilateral early-warning systems. The third phase, since 2025, has seen the US's unilateralist turn lead to the disruption or dismantling of many of these mechanisms.

- This paper argues that while middle powers are now being more individually strategic in their approach to economic security, there is a risk of their becoming collectively weaker without stronger coordination. 'Protect', 'promote' and 'defend' tools are being rapidly strengthened, but the 'partner' element increasingly consists of bilateralism. More ambitious collective frameworks are underused. While bilateral deals can secure resource and technology flows, they cannot, on their own, address problems such as economic coercion, China's industrial overcapacity or systemic geo-economic shocks. More action is needed to strengthen the institutions and norms on which liberal middle powers' long-term security and prosperity depend.
- In this new landscape, the UK faces distinct challenges. It is fiscally constrained, has a services-dominant economy, lies outside any major trading bloc, and has only recently – following its exit from the EU at the end of 2020 – started to take charge of its own trade policy. The UK government has built a sophisticated and transparent 'protect' regime, but industrial strategy remains early-stage and the country's trade defence is underdeveloped. Moreover, despite moves to 'reset' relations with a range of states and groupings since leaving the EU, the UK's international cooperation on economic security has been limited.
- Consequently, this paper makes five recommendations for the UK. The government, supported by other relevant UK institutions and stakeholders, needs to:
  - **Use the recent creation of the Department for Business, Innovation, Science and Trade (DBIST) to establish clearer leadership and coordination on economic security.** DBIST – which now combines responsibility for industrial strategy, trade policy and investment screening – should act as the institutional base for economic security policy, setting priorities and policy direction across these areas. It should also be the primary point of contact for business, building on the Economic Security Advisory Service (ESAS, which helps firms manage geo-economic risks) as a two-way channel between government and the private sector. Economic security should remain a whole-of-government effort: the Foreign, Commonwealth and Development Office (FCDO) should lead on international partnerships, while cross-government priorities should be agreed through a reinstated Economic Security Sub-Committee of the National Security Council (NSC).
  - **Strengthen the UK's 'protect' regime by improving the monitoring of greenfield foreign investment.** The National Security and Investment Act 2021 (NSIA) primarily focuses on acquisitions of *existing* entities. It can capture details of some greenfield investments – that is, new ventures or entities – but these are not subject to mandatory notification in the same way as existing entities, and their risks often emerge only as projects

develop. Rather than expanding mandatory notification, the government should introduce targeted monitoring of greenfield investment in the most sensitive sectors, led by the Investment Security Unit and drawing on the Supply Chain Centre and the ESAS, so that existing regulatory powers can be used as risks emerge. In doing so, the UK can learn from other middle powers, such as Canada, that have brought new businesses within the scope of screening.

- **Build 'strategic indispensability' in industrial strategy.** Learning from the experiences of Japan and South Korea, this will require joining up supply-chain and economic vulnerability assessments with public investment decisions. It will mean coordinating the UK's existing strategic funds – the National Wealth Fund, the National Security Strategic Investment Fund (NSSIF), the Advanced Research and Invention Agency (ARIA), Innovate UK – to focus on areas where the UK can capture specific niches in critical supply chains and build up leverage in an adversarial trade environment. The government's current approach to semiconductor investment is a good model to build on. The government should also expand strategic procurement preferences under the Procurement Act 2023.
- **Build a credible trade defence and deterrence framework.** The UK should define economic coercion. It should set a tiered escalation and response pathway running from diplomacy to (as a last resort) the use of countermeasures. The UK should expand its countermeasures toolkit to cover the exclusion of coercive or high-risk entities from procurement, research funding and access to certain services markets. And it should embed a strategic anticipatory function in the Trade Remedies Authority (TRA). The UK's approach and apparatus for addressing coercion will unavoidably be distinct from the EU's Anti-Coercion Instrument (ACI), as the UK does not need the same type of framework as a 27-country bloc, but it can draw lessons from the ACI's development and structure.
- **Revitalize the 'partner' pillar.** The UK should build on the recently announced Dialogue on Economic Security with the EU as a priority. First steps could involve: (a) a structured dialogue on geo-economic risks and priorities; (b) closer alignment on investment screening, research security and export controls; (c) stronger industrial cooperation in priority areas; and (d) coordination on responses to economic pressure and coercion. The UK should also build on bilateral partnerships with Australia, Canada, Japan and South Korea to establish wider minilateral cooperation on sharing supply-chain data, setting minimum standards for investment screening and coordinating responses to coercion. Finally, the UK should champion reform of the rules-based trading system, building on its 2025 accession to the World Trade Organization's Multi-Party Interim Appeal Arbitration Arrangement (MPIA), including by supporting applications from Commonwealth partners and emerging economies to join the MPIA, and by using Britain's G20 presidency in 2027 to put supply-chain resilience and collective economic security on the international agenda.

01 Introduction

As the rules-based international system weakens and fragments, a more adversarial geo-economic order is emerging. This presents profound strategic challenges for mid-sized powers such as the UK.

Geo-economic competition is reshaping economic policies globally. Governments are increasingly using trade and economic tools for national security and geopolitical purposes: to reduce dependencies on foreign suppliers and markets, protect and bolster domestic strategic industries, and leverage their own economic networks and advantages to exert pressure and extract concessions from other states. Even as most global trade continues to follow predictable rules and norms, a growing share of trade is shaped by restrictions, pressure and coercion.[1] While such practices are not new, their growing sophistication, technological underpinning and frequency of use threaten to transform the geopolitical landscape and upend traditional alliances.

The US and China are driving this evolution through aggressive trade and industrial policies, and through a willingness to weaponize control over strategic value chains to coerce and pressurize other states. These dynamics have heralded the emergence of what some consider a new geo-economic order,[2] characterized by a rise in protectionism, coercion and technological competition.

1 Kose, M. A. and Mulabdic, A. (2024), 'Global trade has nearly flatlined. Populism is taking a toll on growth', Voices (World Bank Blogs), 22 February 2024, https://blogs.worldbank.org/en/voices/global-trade-has-nearly-flatlined-populism-taking-toll-growth.
2 Roberts, A., Moraes, H. C. and Ferguson, V. (2019), 'Toward a Geoeconomic Order', *Journal of International Economic Law*, 22(4), pp. 655–76, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3389163.

This paper explores how a specific subset of middle powers – liberal democratic middle powers (hereafter, for convenience, 'liberal middle powers') – are navigating this new geo-economic landscape.[3] While their political, economic and military characteristics vary, liberal middle powers generally see economic security as the ability to withstand geo-economic shocks and coercion, protect sensitive national assets from hostile interference, ensure strategic competitiveness and long-term economic growth, and uphold the international rules and norms that underpin their security. In other words, economic security means pursuing national security objectives and geopolitical influence through a combination of defensive and offensive economic measures.

The challenge has been to find an approach to economic security that balances objectives spanning multiple domains, from national security to economic growth, economic equity and the green transition.

The challenge in many cases, however, has been to find an approach to economic security that balances objectives spanning multiple domains, from national security to economic growth, economic equity and the green transition. Liberal middle powers cannot invest equally in each of these objectives, and governments do not have perfect information about where to target resources.[4] At the same time, geo-economic shocks and great power competition have created new pressures, often disrupting assumptions about what underpins economic security and how to strengthen it. This has led to uneven and inconsistent policy.

In this shifting geo-economic context, this paper explores two principal questions:

- How do middle powers comparable to the UK (Australia, Canada, the EU, Japan and South Korea) approach economic security, and how are their strategies evolving in response to a more adversarial geo-economic order?
- What lessons can the UK draw from these cases? How can it improve its economic security policies, and how can it work more closely with partners?

To explore these questions, the paper undertakes a comparative analysis of selected liberal middle powers. Our analysis finds that, with the US and China playing increasingly disruptive roles in the global economy, liberal middle powers have

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3 For the purposes of this study, we define middle powers as states or blocs that lack the military and geopolitical power of the huge powers – the US, China and, arguably, Russia – but that nonetheless are of sufficient size and importance to be able to shape the international agenda and determine their own paths to some degree independently. We consider the term 'middle power', on its own, to be neutral as to the political system(s) of a given state or bloc: many middle powers are democratic, and many (not all) are also politically liberal; however, the definition also includes authoritarian states. Hence our use of the term 'liberal democratic middle powers', which refers to a subset of the overall group. For convenience, we shorten this to 'liberal middle power' in most instances in this paper. On most measures, the EU can arguably be considered an *economic* superpower, but in this study we include it with other liberal democratic *middle powers* because many of its individual member states would fall into that category.

4 Arezki, R. and Landau, J.-P. (2024), 'Picking Winners Is Difficult and Costly', IMF *Finance & Development Magazine*, September 2024, https://www.imf.org/en/Publications/fandd/issues/2024/09/picking-winners-is-difficult-and-costly-arezki-landau.

moved away from tactical economic security approaches. Instead, they are developing more comprehensive regimes spanning industrial policy, trade defence, and a variety of national security-justified economic exclusion measures.

But while it is rational for mid-sized powers such as the UK to use these tools more strategically, the current trajectory towards a more fragmented, unilateralist geo-economic order poses significant risks to liberal middle powers' long-term economic security. While the logical response to emerging geo-economic pressures is more strategic cooperation on economic security, collective action is challenging in the absence of the US as a coordinating anchor. Coordination is further complicated by the fact that liberal middle powers compete with each other economically and must accommodate domestic policy pressures. The result is a fragmented policy environment.

Yet this makes cooperation all the more important. The more that collective mechanisms for managing economic security are ignored, and efforts to uphold liberal norms, rules and practices frustrated, the more the fundamental risks to liberal middle powers' long-term security and prosperity are likely to increase.

About this paper

Structure of the paper

The rest of the paper is structured as follows. Chapter 2 explores what economic security means to liberal middle powers and traces how understandings of economic security – along with approaches to protecting it – have evolved through three phases of the post-2010 geo-economic order.

Chapters 3–6 explore how Australia, Canada, the EU, Japan and South Korea, alongside the UK, approach different aspects of economic security, with each chapter devoted to a different aspect or 'pillar' of policy. These pillars, which essentially correspond to different categories of response, are labelled 'protect', 'promote', 'defend' and 'partner' respectively. The four chapters set out the principal differences and similarities in the tools and tactics used by selected liberal middle powers, and identify the policy trade-offs and tensions each state (or, in the case of the EU, bloc) encounters.

Based on these findings, Chapter 7 presents recommendations for how the UK can strengthen its approach to economic security. It proposes how the British government can work with others – whether the EU or individual states – on collective economic security. The focus is on what the UK needs to change to become more strategic in its industrial policy, trade defence and use of security exclusions. Also explored are ideas for strengthening the UK's cooperation with other middle powers to counter policy fragmentation and build approaches that establish mutually beneficial interdependencies and collective economic security.

Methods and approach

The case studies in this paper were developed in part through desk-based research, including analysis of official policy and strategy documents, legislation and open-source information. In total, the authors identified more than 170 economic security 'tools' or measures across five countries plus the EU, classifying these instruments by objective and mechanism. Our findings were complemented by more than 20 in-depth interviews with policy practitioners and experts between September 2024 and May 2026, as well as by several roundtables held with experts, officials and industry representatives. Interview data have been anonymized and cited in footnotes.

02 Liberal middle powers, economic security and the UK

Since the COVID-19 pandemic and Russia's 2022 full-scale invasion of Ukraine, economic security has become more formalized in policymaking among liberal democratic middle powers. However, the challenges are only increasing.

Australia, Canada, the EU, Japan, South Korea and the UK are all what might be described as liberal middle powers (or, in the EU's case, a collection of states including prominent liberal middle powers[5]). They consist of advanced economies, less dominant than the US or China but deeply integrated into global supply chains and thus vulnerable to economic coercion. At the same time, each of the liberal middle powers studied here has security dependencies on the US that can create political pressure to align with American geopolitical or trade agendas.

As US allies and members (or close partners) of the G7, the major liberal middle powers share many strategic interests. They often face similar challenges, arising both from the US's increasingly transactional international relationships (even with allies) and from China's growing dominance across global value chains. Moreover, while not homogeneous, liberal middle powers share similar challenges, constraints and characteristics in terms of their political economy, making comparison helpful for informing UK policy. These characteristics include the following:

5 While the EU is arguably more than a 'middle power' on many measures, given the size and importance of its economy and given its regulatory and geopolitical reach, we have included the EU here because it comprises a collection of middle powers similar to the UK, and because events or trends in the EU are of direct policy relevance to the UK's economic security.

- Compared to the US and China, liberal middle powers face greater **fiscal constraints** on public investment. Industrial policy tends to be quite narrowly targeted (as funding for more expansive support is typically lacking). In practice, this often means promoting selected strategic sectors, and seeking to establish market leadership in niche, high-value subsectors rather than along entire value chains. The imperative to secure or preserve geopolitical leverage in this way is often described as the pursuit of 'strategic indispensability'. Put another way, middle powers can't dominate every part of every sector or supply chain, but they can make themselves indispensable in key niches.
- While the jurisdictions studied here vary in terms of their economic model, they tend to be **market-oriented economies** and face domestic resource allocation pressures that influence public investment decisions. Moreover, they tend to be bound (at least in theory) by **transparent legal frameworks and international treaties**, as well as by principles of limited state intervention in markets.
- Liberal middle powers have traditionally valued **openness in flows of capital, information and research**, which they see as central to promoting innovation and investment. But this openness increasingly comes with risk, including the potential for hostile foreign actors to penetrate critical infrastructure and industries or access sensitive national assets without authorization. Consequently, policymakers face a balancing act between maintaining openness in their economies and innovation ecosystems and imposing security-related exclusions on foreign participation in sensitive sectors.

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- By and large, the liberal middle powers studied here have a continued **interest in upholding the multilateral system** and the rules, norms and practices that have underpinned their growth and economic security in the post-Second World War era. While their policies have not always adhered to these ideals in practice, the weakening of global economic governance poses significant risks. Although liberal middle powers are not beyond engaging in more nationally focused industrial policy and trade defence, they largely continue to support free trade through international partnerships and multilateral cooperation.
- The **US's unilateralist shift** to an assertive 'America First' geostrategic outlook poses significant challenges for liberal middle powers, which not only depend heavily on the US in matters of defence but have long been accustomed to US hegemony providing a buttress for coordination on economic security. With the US no longer seen as a reliable partner, liberal middle powers must find new ways to work together that do not rely on US cooperation.

— While Australia, Canada, the EU, Japan, South Korea and the UK all differ in their **exposure to China**, the latter's growing dominance of strategic value chains, along with its willingness to use economic and geopolitical coercion, poses a profound challenge. Australia, Japan and South Korea have experienced direct pressure and coercion from China. Canada, the EU and the UK are less directly exposed, but also face growing challenges as a result of China's industrial overcapacity and dominance in low-carbon technologies such as electric vehicles (EVs).

Liberal middle powers also differ from one another in important ways, and these differences shape their individual approaches to economic security. For example, they have varying economic models, with some geared more towards advanced manufacturing or technological innovation, others substantially reliant on natural resource extraction, and others (such as the UK) prominent in professional and financial services. Some have greater autonomy over their trade policy than others: for example, the EU sets trade policy for its member states, whereas the UK post-Brexit operates its trade policy independently. Likewise, significant differences in political systems – which range from federal to coalitional to the UK's Westminster system – shape how economic security policy is made, what executive powers the government has, and how powers are used and scrutinized. Different strategic cultures and historical contexts – from varying experiences of industrial policy or economic coercion to the presence of national security communities with widely differing levels of influence – also shape individual approaches to economic security.

What does economic security mean for liberal middle powers?

'Economic security' is a contested term, and its definition varies from one state or bloc to another. The US and China arguably view economic security as an expansive, transformative project aimed at cultivating and entrenching dominance across global value chains. They are also less interested in preserving the norms and practices that underpin the multilateral trade system, with the US's aggressive trade agenda and China's overcapacity and willingness to use economic coercion the most obvious departures from these norms.

But liberal middle powers view economic security differently. While there are individual differences in the risks they face and the tactics they use – for example, Australia emphasizes resources, Japan technology – in general they share a similar strategic outlook on what the concept means. They tend to see economic security as the ability to withstand geo-economic shocks and coercion, protect sensitive national assets from interference, ensure strategic competitiveness and long-term GDP growth, and uphold international rules and norms.

For simplicity, this paper breaks economic security down into four conceptual pillars, drawing on and extending the 'protect, promote, partner' frameworks used by the EU, Japan, the UK and others.[6] (We add a fourth pillar, 'defend', intended to represent a qualitatively different category of policy to the relatively domestically focused 'protect' pillar, despite the two terms having a similar meaning in everyday English.)

- The **'protect' pillar** aims to strengthen national security by preventing hostile actors, particularly those linked to adversarial states, from owning, controlling, influencing or acquiring sensitive national assets such as critical infrastructure, industries, technology and data. 'Protect' tools include investment screening, 'research security' protocols (e.g. to protect dual-use research with military applications from theft or unauthorized use by foreign states or their agents), information security measures, and some export controls.
- The **'promote' pillar** entails strengthening a country or bloc's strategic autonomy and long-term competitiveness – and reducing dependencies on foreign actors – through investments in domestic and allied capabilities. This includes fostering innovation and supporting strategic sectors (such as dual-use technologies or minerals processing) through industrial strategy, public investment, preferential procurement policies and public–private partnerships.
- The **'defend' pillar** involves building resilience against, deterring and responding to geo-economic pressure and coercion, often in relation to trade. Measures in this category can include supply-chain diversification, trade diplomacy, and the establishment of deterrence frameworks and countermeasures such as tariffs and export controls. Critically, we treat the 'defence' pillar as distinct from the 'protect' pillar because 'protect' tools are primarily restrictions and apply in the domestic context, whereas defend tools tend to involve both productive measures (e.g. resilience-building or trade arrangements) and restrictive ones (e.g. tariffs, quotas). We also argue that 'defend' tools are of internationally strategic significance (because of the actors involved), bring a heightened risk of retaliation, and offer more scope for coordinated action with allies (e.g. through shared approaches to combating coercion). This distinction allows us to think about economic coercion and risks to sensitive national assets separately.
- The **'partner' pillar** is about recognizing the need to work with others on economic security, and about upholding collective mechanisms and institutions for managing geo-economic affairs. Relevant mechanisms include multilateral and minilateral cooperation on economic security, and the cultivation of bilateral partnerships to stabilize flows of critical goods and capital. Examples of the 'partner' pillar in practice include the G7 economic security workstreams, and bilateral agreements such as the Australia–Japan Joint Declaration on Economic Security Cooperation.[7]

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6 European Commission (2024), 'Advancing European economic security: an introduction to five new initiatives', Communication from the Commission to the European Parliament and the Council, 24 January 2024, https://commission.europa.eu/system/files/2024-01/Communication%20on%20European%20economic%20security.pdf.

7 Australian Government (2026), 'Australia-Japan Joint Declaration on Economic Security Cooperation', Department of the Prime Minister and Cabinet, 4 May 2026, https://www.pmc.gov.au/resources/australia-japan-joint-declaration-economic-security-cooperation.

As mentioned, liberal middle powers cannot invest in all of these pillars equally. In some cases, they have been slow or reluctant (though often for good reason) to develop new economic security tools. Consequently, economic security regimes have evolved unevenly, with progress on certain pillars offset by challenges and setbacks in response to geopolitical shifts and changes in domestic policy.

These trends in economic security policy can be traced through three phases in the post-2010 evolution of today's geo-economic order. The first phase, from around 2010 to 2020, saw the gradual emergence of reactive, ad hoc economic security regimes among several liberal middle powers. The second phase, from around 2020 to 2024, was characterized by rapid institutionalization of economic security as a policy priority. It involved efforts to coordinate action on economic security risks, with the Joe Biden administration in the US playing a central convening and anchoring role. The third phase, under way since 2025, has seen a fragmentation in cooperation, prompted in part by the US's shift to a more unilateralist posture under the second Donald Trump administration. This has resulted in the dismantling or disruption of many of the more substantive collective frameworks that liberal middle powers, alongside the US, had begun to build.

The following section explores these three phases in turn:

An unrecognizable world: the three phases of the post-2010 geo-economic transition

The new geo-economic order has its roots in the discontent with globalization that crystallized through the late 1990s and 2000s. The 1997–98 Asian financial crisis and 2008–09 global financial crisis exposed the potential for unregulated capital flows to disrupt geopolitics and create global instability.[8] Meanwhile, China's growing dominance in global manufacturing, the overcapacity in its economy, and the ever clearer impacts of the country's December 2001 accession to the World Trade Organization (WTO) led to what the US and others perceived as a 'China shock'. It was widely argued that China's rise threatened advanced economies' industrial bases, would disrupt labour markets and produce long-term dependencies. In the US, these factors prompted intense political lobbying for the adoption of protectionist measures. Elsewhere, however, these anxieties were not yet translating into clear economic security policies even as they laid the foundations for the three phases of the new geo-economic order that followed.

As mentioned, the first phase of this new order lasted from around 2010 to 2020. In that period liberal middle powers gradually adopted economic security tools, sometimes reluctantly and often in response to US or Chinese pressure. Japan moved early, adopting a resource-supply diversification strategy in response to China's 2010 restrictions on rare-earth exports.[9] Similarly, Seoul's experience of Chinese economic pressure in retaliation for the deployment of a US ballistic-missile interceptor system

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8 Rodrik, D. (2011), *The globalization paradox: Why global markets, states, and democracy can't coexist*, Oxford University Press.
9 Bowie, B. (2024), 'Japan's Responses to China's Supply Chain Dominance', RUSI Commentary, 16 September 2024, https://www.rusi.org/explore-our-research/publications/commentary/japans-responses-chinas-supply-chain-dominance.

in 2016, and of Japanese export restrictions on materials critical to semiconductor production in 2019 (triggered by a dispute over colonial-era reparations), accelerated efforts in South Korea to diversify supply chains and reduce dependence on foreign suppliers. For both Japan and South Korea, a combination of coercion risk, limited natural resources and high dependence on energy imports encouraged the pursuit of a more strategic approach to supply chains, industrial policy and critical goods.

Meanwhile, Australia, Canada, the EU and the UK moved more slowly, gradually tightening their investment screening regimes. Under pressure from the US, they blocked access to their telecommunication networks for Chinese firms Huawei and ZTE – with Australia excluding Huawei and ZTE from its 5G networks in 2018, and the UK, EU member states[10] and Canada taking the decision after 2020.

Consequently, for liberal middle powers, economic security policies during this period were primarily reactive and ad hoc in nature, rather than strategic or institutionalized, maintaining only a limited focus on the 'protect' pillar. Only Japan and South Korea, which were on the receiving end of coercion, were more active in developing their regimes beyond investment screening.

This gradualism, however, was ill adapted to the speed at which China and the US were revising their postures towards the global economy during this period. China's trade, industrial and foreign policy strategies increasingly converged around a new 'comprehensive' concept of national security[11] centred on achieving independence from foreign suppliers and entrenching Chinese dominance across global manufacturing and technology value chains.

Meanwhile, in the US, a backlash against globalization and the 'China shock' initiated a corollary 'US shock'. This manifested itself in the US's geostrategic reorientation towards the Indo-Pacific and China, in new tariffs and protectionism, in many of the policies of Trump's first presidency, and in the US's gradual vetoing of appointments to the WTO's dispute management mechanism – the Appellate Body – owing to the WTO's perceived failure to address China's sustained use of non-market practices.[12] The US's repeated blocking of judicial appointments to the Appellate Body culminated in the latter's effective paralysis in late 2019.[13]

The second phase of the geo-economic transition lasted from around 2020 to 2024, and heralded significant change in liberal middle powers' postures and policies. Policymakers rapidly elevated and institutionalized economic security as a priority in response to the COVID-19 pandemic, Russia's full-scale invasion of Ukraine, disruptions to Red Sea shipping, US pressure and an increasingly dominant China. Japan appointed a dedicated minister for economic security and trade, established a central economic security unit to coordinate cross-government policy, and passed

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10 These decisions were taken by individual member states – the EU advised members to restrict Huawei's access to their networks and to introduce and/or tighten investment screening regimes.
11 Drinhausen, K. and Legarda, H. (2022), *"Comprehensive National Security" Unleashed: How Xi's approach shapes China's policies at home and abroad*, MERICS CHINA MONITOR, Mercator Institute for China Studies, 15 September 2022, https://merics.org/sites/default/files/2022-09/Merics%20China%20Monitor%2075%20National%20Security_final.pdf.
12 Council on Foreign Relations (2026), 'The U.S.–China Trade Relationship: What's Behind the Competition?', Backgrounder, 15 May 2026, https://www.cfr.org/backgrounder/contentious-us-china-trade-relationship.
13 Holt, I. (2026), 'WTO Appellate Body Crisis: Who Really Loses?', EPIS, 29 May 2026, https://epis-thinktank.com/publications/wto-appellate-body-crisis-who-really-loses.

the Economic Security Promotion Act (2022). Meanwhile the EU, faced with China's coercion of Lithuania in 2021, the impact on European energy security of Russia's full-scale invasion of Ukraine in 2022, and an ever-growing sense of the need to compete better with the US and China economically, went on to launch several initiatives over the course of 2023–24. These included the EU Economic Security Strategy,[14] the Anti-Coercion Instrument (ACI)[15] and the European Chips Act.[16] However, the unevenness of economic security policy across the bloc was demonstrated by the fact that several EU member states continued to manage either weak or non-existent investment screening regimes – Germany only reached an agreement to phase out the use of critical Huawei and ZTE components from German telecommunications networks in 2024, four years after the original EU recommendations.[17]

Elsewhere, the UK introduced an investment screening regime in 2022 via the National Security and Investment Act (NSIA), blocked China's acquisition of Newport Wafer Fab (a semiconductor manufacturing plant), and updated export controls to better protect advanced technologies and intellectual property (IP). Having formally left the EU, the UK took responsibility for its own trade policy for the first time in 47 years, establishing the Trade Remedies Authority (TRA) and joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP, a trade agreement), as it sought new trade relationships to underpin the government's strategic aspirations for a 'Global Britain'. But unlike Japan, these efforts were not consolidated into a coherent economic security approach. Instead, they reflected competing priorities and objectives that emerged from leaving the EU.

Significantly, over this same period the US, under the Biden administration, had served as a great power anchor coordinating economic security among US allies. A combination of incentives and deterrents built momentum behind collective frameworks for managing geo-economic risks. Key initiatives included: the Minerals Security Partnership (a collaboration of 14 countries, including the US, the UK, Japan, South Korea, Australia and Canada, along with the EU, centred around mobilizing investment in critical minerals supply chains);[18] the trilateral Supply Chain Early Warning System (between the US, Japan and South Korea);[19] and US support for G7 economic security workstreams on supply-chain resilience, anti-coercion measures and industrial policy (including those initiated under Japan's leadership in 2023).

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14 European Commission and High Representative of the Union for Foreign Affairs and Security Policy (2023), 'EUROPEAN ECONOMIC SECURITY STRATEGY', 20 June 2023, Joint Communication to the European Parliament, the European Council and the Council, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52023JC0020.
15 European Commission (undated), 'Protecting against coercion', https://policy.trade.ec.europa.eu/enforcement-and-protection/protecting-against-coercion_en.
16 European Commission (2026), 'European Chips Act', last updated 11 September 2026, https://digital-strategy.ec.europa.eu/en/policies/european-chips-act (accessed 12 Oct. 2026).
17 Reuters (2024), 'Germany to phase out Huawei, ZTE components from its 5G core network', Reuters, 11 July 2024, https://www.reuters.com/business/media-telecom/germany-agrees-phaseout-huawei-zte-components-5g-core-network-2024-07-11.
18 U.S. Department of State (undated), 'Minerals Security Partnership', https://2021-2025.state.gov/minerals-security-partnership.
19 U.S. Embassy & Consulates in Japan (2023), 'FACT SHEET: The Trilateral Leaders' Summit at Camp David', 18 August 2023, https://jp.usembassy.gov/fact-sheet-trilateral-summit-at-camp-david.

For sure, these projects faced real challenges, not least because they were simultaneously undermined by unilateral US actions and self-interest. But they signalled genuine, if nascent, efforts towards cooperation on economic security. For example, while industrial subsidies introduced under the US Inflation Reduction Act (IRA) of 2022 and the CHIPS and Science Act of 2022 provoked frustration among allies, there were opportunities for some allies (especially those with free-trade agreements with the US) to benefit from the impetus these packages gave to coordination on allied industrial policies.[20] Indeed, the UK's BAE Systems won the first CHIPS and Science Act grant to produce computer chips for American F-15 and F-35 fighter jets.

As such, this phase can be characterized as one of 'nascent allied coordination', which saw the emerging institutionalization of economic security tools across liberal middle powers, with an emphasis on the 'protect' and 'partner' strategic pillars. It offered, or seemed to offer, a pathway towards multilateral management of economic security.

The US's radical shift in posture and retreat from international leadership under Trump's second presidency, since early 2025, mark a geo-economic phase in which economic security policy among liberal middle powers has become fragmented.

But the US's radical shift in posture and retreat from international leadership under Trump's second presidency, since early 2025, mark a third geo-economic phase in which economic security policy among liberal middle powers has become fragmented. Rather than acting together, each country has been obliged to pursue national security objectives and economic advantage without a central coordinating framework. Many of the minilateral mechanisms built under the Biden administration, such as the Minerals Security Partnership and G7 workstreams on countering economic coercion, have been disrupted or deprioritized. Instead, the Trump administration has introduced frameworks such as Pax Silica and the Forum on Resource Geostrategic Engagement (FORGE), both of which are more transactional and narrowly focused on advancing US interests in critical-mineral and semiconductor supply chains.

While the G7 summit in France, held in June 2026, suggested the US might become more cooperative on supply chains, the Trump administration's chronic unpredictability makes durable cooperative frameworks difficult to build. With the US no longer acting as a great power anchor, the pressures of fragmentation – competition between liberal middle powers for investment and market share; domestic pressures to safeguard politically sensitive industries; and information asymmetries between allies – have undermined cooperation. While the 'protect' pillar remains emphasized, and the tools in this category have grown in maturity

20 Kurilla, M. (2024), 'What Is the CHIPS Act?', Council on Foreign Relations, 29 April 2024, https://www.cfr.org/articles/what-chips-act.

and sophistication, countries are increasingly willing to pursue unilateral benefits and concessions, develop bilateral agreements with partners, and depart from liberal norms.

For example, Japan and South Korea, hitherto among the most active at developing collective frameworks, have increasingly moved towards bilateral arrangements and more assertive industrial policy designed to secure national advantage. Similarly, in response to growing concerns about China's manufacturing dominance, and in the absence of a functioning multilateral framework, the EU has pursued bilateral critical materials partnerships and instituted 'Made in Europe' and 'buy European' initiatives under the proposed Industrial Accelerator Act. Canada has called for middle-power coalitions but has had limited success in convening them, while facing US pressure on its economy and sovereignty. And the UK, which has traditionally prioritized support for free markets, has shifted towards a more deliberate industrial agenda and is considering trade defence tools to respond to the new era of coercion.

Across liberal middle powers, new agreements have tended to be bilateral – between Japan and Australia, the UK and Germany, Canada and South Korea – rather than collective frameworks. Such agreements are often driven by agendas of relatively narrow commercial scope, such as bolstering exports, rather than by the pursuit of more substantive cooperation (which would involve significant political trade-offs, such as on anti-coercion instruments or allied industrial capacity).

The result is a geo-economic landscape in which liberal middle powers act more strategically (in some senses) at an individual level than during the Biden era, but also less collectively. In certain respects, this can seem a rational response to the uncertainties and disruptions of the current geo-economic order. Policymakers continue to devote considerable energies to the 'protect', 'promote' and 'defend' pillars of economic security. But insufficient attention to the collective dimension – that is, the 'partner' pillar – risks a more fragmented aggregate response that undermines each country's long-term security. In other words, if the second phase of the post-2010 geo-economic transition was characterized by 'nascent allied coordination', the current phase risks being remembered as one of 'fragmented unilateralism/bilateralism'. The irony is that retreating into national or EU-specific strategies, while individually rational, risks collectively undermining the institutions and norms on which liberal middle powers depend for their long-term security.

The remainder of this paper explores each of the four pillars of economic security policy in more detail, to see what lessons emerge for the UK.

03
The ‘protect’ pillar of economic security

Policies formulated under this pillar aim to prevent hostile actors from accessing sensitive technology or assets, or from gaining leverage or strategic advantage that might threaten national security. A key dilemma, however, is how to manage trade-offs between security and preserving economic openness.

What is often termed the ‘protect’ pillar of economic security addresses concerns that economic openness – in investment, technology, information and talent flows – can be a source of vulnerability if hostile actors can acquire or control critical national assets (such as infrastructure or industries) or gain access to sensitive research, IP and technology. But while liberal middle powers increasingly use investment screening, ‘research security’ safeguards (for example, around dual-use university research with potential military applications) and export controls to protect national assets, they face the core challenge of balancing the need for security with the imperative to preserve the open exchange of ideas, capital and talent needed for innovation, economic growth and long-term strategic competitiveness.

Investment screening – balancing security and growth

Investment screening involves scrutinizing and, where necessary, blocking or imposing conditions on certain mergers and acquisitions to prevent hostile entities from owning, controlling or influencing critical infrastructure or industries. Investment screening is one of the foundational institutional features of liberal middle powers' economic security regimes. It responds to concerns about the penetration of economies by state-connected foreign commercial actors. At the heart of contemporary concerns is widespread recognition among policymakers of the risks that may result from Chinese companies' close links with China's military and intelligence agencies – these risks have taken on particular salience in light of China's 2017 National Intelligence Law and the rise of Chinese outward foreign direct investment (FDI) in the 2010s.[21]

The core investment screening challenge is to capture the full range of risks associated with potential foreign interference in the host economy while remaining open to investment to the fullest extent possible.

For liberal middle powers, the core investment screening challenge is to capture the full range of risks associated with potential foreign interference in the host economy while remaining open to investment to the fullest extent possible. A particular complication is that governments seldom have perfect information: businesses can obscure their ownership structures, and unanticipated risks can emerge as a result of blind spots in government protocols or gaps in legislation. The risks are especially acute when it comes to screening and monitoring greenfield investments, which involve creating new entities rather than acquiring existing ones. This is because assets are built and developed over time, so risks may emerge gradually rather than being visible at the moment of initial investment. Moreover, relatively few screening regimes cover greenfield investments in full, though some, such as Canada's, have recently tightened guidance.[22]

Conversely, overly broad or onerous controls can unintentionally discourage investment even from innocuous or trusted sources. This matters because liberal middle powers must often compete for relatively scarce investment capital. The result is a continuous balancing act between staying alert to emerging risks and preventing investment controls from having an unintended dampening effect on investor interest.

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21 Tyagi, G., Behera, L. K., Yadav, A. and Verma, N. K. (2024), 'Guarding Against China's Predatory Acquisition of Foreign Technologies: A Quad Perspective', *Science, Technology and Society*, Vol. 29, No. 3, pp. 435–53, https://doi.org/10.1177/09717218241238605.
22 Government of Canada (2021), 'Guidelines on the National Security Review of Investments', published 24 March 2021, revised on 5 March 2025, https://ised-isde.canada.ca/site/investment-canada-act/en/investment-canada-act/guidelines/guidelines-national-security-review-investments.

Australia's approach illustrates the trade-offs involved. The country has shifted from a relatively open investment environment to a regime that more actively limits foreign access in critical sectors. In particular, the authorities have blocked or unwound Chinese investments. The Australian government ordered Chinese-linked investors to divest their holdings of Northern Minerals (rare earths) in 2024, and has blocked proposed Chinese acquisitions of Ausgrid (electricity), APA Group (gas) and Alita Resources (lithium), among others.[23] Chinese FDI in Australia fell from US$11.5 billion in 2016 to US$1.4 billion in 2022;[24] although driven by several factors, the decline is likely to have been amplified by the Australian government's investment controls.

In response to concerns that its regime was overly restrictive and dampening investment, in 2024 and 2026 the Australian government loosened screening somewhat, including by establishing a 30-day assessment target, to streamline investment from trusted partners.[25] The aim was to rebalance the economic growth vs national security trade-off and attract capital from allied countries.

The UK has sought a similar balance under the 2021 NSIA.[26] Compared with other investment screening regimes, the NSIA's relatively high 25 per cent equity threshold for mandatory notification (against, for example, 1 per cent in Japan[27]) is intended to be as non-intrusive as possible. At the same time, its broad definition of 'national security' preserves flexibility to call in any transaction for increased scrutiny if that transaction is considered high-risk, even if the equity stake involved is below 25 per cent. Moreover, the UK's regime is relatively transparent, with the authorities publishing annual reports on notifications and decisions.[28] Despite a nominally country-agnostic outlook, in practice the UK's regime focuses heavily on China-related risks: of the 41 deals called in for detailed review in 2023–24, 41 per cent were China-related.[29] The fact that the NSIA extends to academia and to research and development (R&D), neither of which is covered by most comparable regimes in other jurisdictions, similarly reflects UK concerns about China's intelligence reach in research settings.

More broadly among liberal middle powers, the challenge of balancing openness with security is compounded by a coordination problem across 'protect' regimes. Because these regimes are designed and applied nationally, and because the countries in question often compete with each other for investment, governments

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23 Ferguson, V., Lim, D. and Herscovitch, B. (2023), 'Between market and state: the evolution of Australia's economic statecraft', *The Pacific Review* 36:5, pp. 1148–80, 2 May 2023, https://link.springer.com/chapter/10.1007/17280_2024_33.
24 KPMG Australia and University of Sydney Business School (2026), *Demystifying Chinese Investment in Australia*, 29 April 2026, https://kpmg.com/au/en/insights/economics-geopolitics/demystifying-chinese-investment-in-australia.html.
25 Chalmers, J. (2026), 'Further streamlining and strengthening the foreign investment framework', Australian Government, Ministers treasury portfolio, 19 May 2026, https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/further-streamlining-and-strengthening-foreign.
26 Cabinet Office (2020), 'National Security and Investment Act 2021', published 11 November 2020, last updated 12 October 2026, https://www.gov.uk/government/collections/national-security-and-investment-act.
27 Yamada, K. and Nakajima, H. (2026), 'Japan enters a new era of foreign investment screening: What the 2026 FEFTA reforms mean for foreign investors', Freshfields, 6 October 2026, https://www.freshfields.com/en/our-thinking/blogs/transactions/japan-enters-a-new-era-of-foreign-investment-screening-what-the-2026-fefta-refor-102o4mi.
28 Cabinet Office (2025), 'National Security and Investment Act 2021: Annual Report 2024-25 (HTML)', 22 July 2025, https://www.gov.uk/government/publications/national-security-and-investment-act-2021-annual-report-2024-25/national-security-and-investment-act-2021-annual-report-2024-25-html.
29 Cabinet Office (2024), *National Security and Investment Act 2021: Annual Report 2023-2024*, 10 September 2024, https://www.gov.uk/government/publications/national-security-and-investment-act-2021-annual-report-2023-24.

are incentivized not to be more restrictive than their peers. This competitive dynamic can encourage lighter controls than governments might otherwise adopt and, alongside legal and confidentiality constraints, weakens incentives to share information about investment risks and vulnerabilities with allies. The effects are clearest within the EU, where gaps between member states' regimes allow potentially higher-risk transactions to go through jurisdictions with weaker controls.

Because the countries in question often compete with each other for investment, governments are incentivized not to be more restrictive than their peers. This competitive dynamic can encourage lighter controls than governments might otherwise adopt.

This reduces the ability of authorities to fully capture the risks associated with global capital mobility, and to collectively manage those challenges, even where the underlying security risks are shared. Indeed, the UK and the EU currently share very little information on investment risks, while several EU member states maintain weak controls with the aim of being more attractive to investment than their EU peers, leaving gaps that affect the bloc as a whole. For example, several countries with investment screening regimes did not notify any transactions in 2023, and Bulgaria, Greece and Ireland have only recently enacted legislation to institute such regimes.[30] Indeed, the EU itself only recently introduced a mandatory requirement for all member states to maintain screening regimes. Partly to address regulatory arbitrage – and the possibility that potentially risky deals could simply move from one member state to another with weaker controls – the EU in mid-2026 updated its foreign investment screening rules and introduced common minimum requirements for screening protocols in all member states.[31]

Research security

Liberal middle powers face a similar but more acute challenge in their approach to research security, in particular in relation to sensitive technological or defence-relevant expertise and IP in academia. The growing strategic importance of dual-use technologies with potential military applications, as well as the vulnerability of R&D settings to foreign exploitation and technological leakage, has led to new controls on flows of information, technology and IP.

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30 Barth, C. and Hoolihan, N. (2024), 'Filling the "blank spots" on the European FI map – where are we?', Linklaters, 21 March 2024, https://www.linklaters.com/insights/blogs/foreigninvestmentlinks/2024/march/eu-member-states-without-an-fdi-regime.
31 European Commission (2026), 'EU strengthens its foreign investment screening framework', Directorate-General for Trade and Economic Security, 26 June 2026, https://policy.trade.ec.europa.eu/news/eu-strengthens-its-foreign-investment-screening-framework-2026-06-26_en.

But in the academic world – which depends on scientific discovery and the exchange of ideas – the tension between openness and security is even more significant than is the case with investment screening. While a blocked investment or acquisition can leave an asset or capability functioning, restrictions on international research collaboration and talent mobility risk undermining the fundamental innovation ecosystem and reducing countries' technological competitiveness.

In response to this dilemma, liberal middle powers have converged on guidelines and targeted mechanisms to secure high-risk areas – such as sensitive patents, dual-use research, and partnerships with specific countries – while preserving the broader openness of their R&D ecosystems. As noted above, the UK's NSIA is distinctive in providing the authorities with powers to intervene in research and academic settings.[32] This feature of the UK regime is complemented by a long-standing patent system in which publication of sensitive patents can be prevented on national security grounds. Japan has similarly introduced a non-disclosure patent system covering 25 dual-use technology fields. The system operates alongside a new security clearance regime for private sector firms handling sensitive economic information, and is complemented by enhanced research security measures in academia and R&D.[33] South Korea is following a similar path, having passed the National Research Data Act in May 2026 to tighten research security, create a category of sensitive projects subject to heightened restrictions, and prevent leaks of advanced technologies in sectors such as semiconductors and artificial intelligence (AI).[34]

But even targeted measures involve trade-offs. As with investment screening, governments seldom have perfect information about which collaborations and partners pose genuine risks, or might do so in the future, or about the vulnerabilities of individual universities or R&D actors. Moreover, restrictions can risk deterring international talent and collaboration on which research ecosystems depend, especially if other states offer more open R&D environments. These factors create a competitive dynamic that risks disincentivizing countries from taking effective national security precautions. The asymmetry is exacerbated by the absence of a central coordinating framework through which liberal middle powers could otherwise align or harmonize their 'protect' tools. While policy tools have grown in sophistication, their aggregate effectiveness is undermined by the structural vulnerabilities identified above.

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32 Walker-Munro, B. (2024), 'National security, foreign investment & research security: the current state of art', *Griffith Law Review*, 33(2), pp.167–88, https://www.tandfonline.com/doi/full/10.1080/10383441.2025.2459007.
33 Kyodo News (2025), 'Japan launches economic security clearance system amid privacy woes', 16 May 2025, https://english.kyodonews.net/articles/-/53885.
34 Lee, B. (2026), 'South Korea Passes National Research Data Act to Protect R&D Data', DongA Science, 5 July 2026, https://www.dongascience.com/en/news/77784; Ministry of Intellectual Property (2026), '"Preventing Leaks of Advanced Technologies such as Semiconductors and AI" Specialized Investigation System Restructured to Prevent Advanced Technology Leaks and Safeguard National Technology Security', press release, 16 July 2026, https://www.kipo.go.kr/en/engBultnDetail.do?c=1003&board_id=kiponews&catmenu=ek06_01_01&seq=1859.

Export controls

The tension between openness and security is perhaps most acute in liberal middle powers' approaches to export controls. Like investment screening and research security, export controls can be used protectively: that is, to prevent sensitive technology, IP and dual-use research from being transferred to hostile actors. But they can also be used 'offensively', so to speak, to deny an adversary access to critical inputs and deliberately slow its technological development.

A critical question for liberal middle powers is where to position themselves on the protective-to-offensive policy spectrum. So far, they have largely pursued offensive postures cautiously and tactically, often in response to US pressure, while prioritizing protective postures. However, there are signs that liberal middle powers are becoming increasingly willing to use export controls as a strategic weapon in coordination with allies.

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In their protective use of export controls, governments have repurposed older frameworks focused on military end-use applications, such as the Wassenaar Arrangement,[35] to address risks associated with emerging technologies and Chinese end-use. But governments and regulatory authorities have operated cautiously, mindful of the potential impact of stricter export controls on open, rules-based trade. In fact, the most significant recent tightening of controls occurred not as a result of domestic imperatives but in response to sustained US pressure, following the Biden administration's introduction of restrictions on semiconductor manufacturing equipment exports to China in October 2022.[36] After extended negotiations, the Netherlands and Japan, which host critical semiconductor equipment manufacturers, adjusted their own controls in 2023 to align with US restrictions – albeit while continuing to express concerns about the economic costs to ASML (a Dutch microchip lithography firm) and Tokyo Electron (a Japanese maker of semiconductor production equipment) respectively.[37]

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35 Department for Business, Innovation, Science and Trade, Department for Business and Trade, Export Control Unit (2012), 'International non-proliferation and arms control regimes', 12 December 2012, https://www.gov.uk/guidance/international-non-proliferation-and-arms-control-regimes.
36 Freifeld, K. and Sterling, T. (2024), 'US wants Netherlands, Japan to further restrict chipmaking equipment to China', Reuters, 19 June 2024, https://www.reuters.com/world/us-pushing-netherlands-japan-restrict-more-chipmaking-equipment-china-source-2024-06-18.
37 Barczentewicz, M. (2025), 'US Export Controls on AI and Semiconductors', International Center for Law & Economics (ICLE), 25 March 2025, https://laweconcenter.org/resources/us-export-controls-on-ai-and-semiconductors; Martuscelli, C., Gijs, C. and Haeck, P. (2026), 'Dutch resist 'unacceptable' US bid to tighten semiconductor export controls', Politico, 17 November 2026, https://www.politico.eu/article/dutch-resist-unacceptable-us-bid-to-tighten-semiconductor-export-controls-asml.

Other liberal middle powers, including Australia, the UK and South Korea, have updated their regimes more gradually, focusing on specific national security risks rather than the broader objective of strategic denial. In 2024, Australia expanded its Defence Export Control Framework to support cooperation around the advanced-technology-related Pillar II of AUKUS (the trilateral submarine and technology agreement between Australia, the UK and the US). In the same year, the UK introduced new controls on advanced semiconductors and quantum technologies under its Export Control Order. The cautious, targeted character of this approach is reflected in the UK's licensing data: refusals rose to 600 in 2024 – around double the long-run average, with the majority relating to China – but the majority of applications continued to be approved,[38] indicating a focus on specific high-risk transactions rather than on restricting trade with China more broadly.

This calibrated approach is rational. Liberal middle powers are exposed to China and face high costs from retaliation, which makes the offensive use of export controls and the escalation this can provoke particularly risky. They also share a concern that using export controls for strategic denial, rather than protection, risks legitimizing coercive practices globally. Consequently, the liberal middle powers studied in this paper have generally avoided taking a more offensive posture in their use of export controls, and have held back from activities at the 'strategic denial' end of the spectrum.

But as technological competition intensifies, liberal middle powers will face recurring questions about how to position themselves and, crucially, whether to make decisions individually, under US pressure, or as part of a more coordinated middle-power coalition.

Acting unilaterally could expose a state or bloc to retaliation and arbitrage, while acting under US pressure may cede strategic autonomy and create long-term economic costs. More collective action, on the other hand, could leverage individual strengths and advantages while enabling participants to share costs. The problem is that liberal middle powers are working with multilateral tools that were designed for different problems – for example, to control the export of conventional, nuclear and chemical weapons and their components.[39] The need for stronger minilateral coordination on strategic technologies, and on managing the risks of blockages or disruptions to trade chokepoints, throws up different questions. As with the other 'protect' tools, the absence of a coordinating framework for export controls is a challenge. It needs to be addressed if liberal middle powers are to strengthen their collective economic security.

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38 Department for Business and Trade, Export Control Joint Unit (2025), 'Strategic export controls commentary: 1 April to 30 June 2025', 13 November 2025, https://www.gov.uk/government/statistics/strategic-export-controls-licensing-statistics-1-april-to-30-june-2025/strategic-export-controls-commentary-1-april-to-30-june-2025.

39 de Salazar, G. (2024), 'Multilateral export controls: improving coordination among like-minded industrial suppliers and enhancing global legitimacy', Elcano Royal Institute, 1 August 2024, https://www.realinstitutoelcano.org/en/analyses/multilateral-export-controls-improving-coordination-among-like-minded-industrial-suppliers-and-enhancing-global-legitimacy.

04
The ‘promote’ pillar of economic security

Liberal middle powers see industrial policy as a way to promote economic competitiveness and future-proof supply chains. Key to this is the pursuit of ‘strategic indispensability’ in niche areas. However, the costs of such an approach are high, and it can be difficult to identify and leverage national strengths.

State efforts to implement the ‘promote’ pillar of economic security typically aim to strengthen domestic strategic sectors – through industrial policy and targeted interventions to boost resilience – while reducing dependencies on foreign actors and cultivating geo-economic leverage.

As set out above, the second and third phases of the new geo-economic order have been marked by a turn towards industrial policy among liberal middle powers. This trend has been driven by concerns that, without deliberate state action, dependence on the US and/or China – and, consequently, vulnerability to coercion – will grow. The increased pursuit of relatively interventionist industrial strategies also reflects concerns among liberal middle powers about the widening gap between their need for, and command over, strategic technologies and resources.

The challenges of building 'strategic indispensability'

Liberal middle powers typically lack the fiscal space to pursue comprehensive, resource-intensive industrial strategies across multiple domains. Instead, most prioritize targeted interventions with the aim of achieving autonomy or indispensability in niches.[40] This has led to the concept of 'strategic indispensability' gaining currency. It reflects the idea that by occupying strategic positions in global value chains – even if it does not dominate those entire value chains – a state or bloc can gain geopolitical leverage and a degree of resilience against coercion, in essence because other countries will depend on it for some critical economic activity or resource.

The concept of 'strategic indispensability' reflects the idea that by occupying strategic positions in global value chains a state or bloc can gain geopolitical leverage and a degree of resilience against coercion, in essence because other countries will depend on it for some critical economic activity or resource.

Putting the concept into practice involves investing in the production of strategic goods or services for which there are limited substitutes, and building the capabilities to control or restrict their flows. Semiconductor production and minerals processing are among the targets of strategic-indispensability strategies, on the grounds that other states often cannot easily produce or procure alternative supplies of goods in these sectors.

But while liberal middle powers share this general ambition, how they pursue strategic indispensability varies according to their economic strengths, resource endowments and institutional capacities. At one end of the spectrum, Japan and South Korea have revived long-standing traditions in industrial strategy to pursue activist industrial agendas aimed at embedding their economies in global value chains for critical technologies and advanced manufacturing, particularly semiconductors, AI and shipbuilding.[41] For example, having seen Japan's share of global semiconductor markets decline in recent decades, the Japanese government has set targets to treble, and ultimately quintuple, its semiconductor sales by 2030 and 2040 respectively in an effort to recapture global market share.[42] Likewise, South Korea, already a leader in memory chips, has set a target of capturing 30 per cent

40 Ministry of Economy, Trade and Industry (METI) (2025), 'Partners in resilience: How Japan and the world are redefining economic security', Reuters Plus, 5 December 2025, https://www.reuters.com/plus/partners-in-resilience-how-japan-and-the-world-are-redefining-economic-security.
41 Terzi, A. (2023), 'Industrial Policy Fit for the 21st Century', Research Institute of Economy, Trade and Industry (RIETI), 9 August 2023, https://www.rieti.go.jp/en/special/p_a_w/198.html.
42 Yamazaki, M. (2026), 'Japan targets fivefold rise in domestically made chip sales by 2040', Reuters, 10 March 2026, https://www.reuters.com/world/asia-pacific/japan-targets-fivefold-rise-domestically-made-chip-sales-by-2040-2026-03-10.

of the global semiconductor market by 2030. The country is investing in moving into production of more advanced semiconductors, such as high-end graphics processing units (GPUs), to broaden its role across the chipmaking ecosystem.[43] By targeting critical nodes in technology/advanced manufacturing value chains, these strategies aim to make Japan and South Korea indispensable suppliers of inputs for global industries such as AI and EVs, thereby building resilience against potential coercion.

Australia and Canada, by contrast, are starting to pursue industrial strategies that leverage their comparative advantages in natural resources, energy and the extraction of critical minerals.[44] In doing so, they aim to position themselves as indispensable suppliers of critical inputs in the global economy. For instance, Australia maintains a list of strategic and critical materials it produces, and monitors global shortages with the explicit intention of serving as a reliable exporter to allies during periods of disruption.[45] Canada's 2022 Critical Minerals Strategy similarly aims to embed the country more deeply in global mineral value chains,[46] strengthen its role in international markets and entrench Canada as a critical economic partner to allies. In this way, both countries are pursuing economic security by leveraging their resource endowments, and their reliability to partners, to gain geo-economic leverage.

The EU and the UK, meanwhile, have yet to define explicitly what strategic indispensability means for their economies, but their industrial strategies reveal a focus on niche capabilities and sectors such as finance, frontier R&D and innovation, and low-carbon technologies.

The EU's industrial strategy[47] seeks leadership in green technologies, advanced semiconductors (e.g., via ASML), pharmaceuticals and AI, while leveraging the bloc's regulatory power to shape global standards in various sectors.[48]

Meanwhile the UK, having previously pursued a diffuse range of priorities, has recently shifted towards a more targeted approach under the government's 2025 Modern Industrial Strategy.[49] The new approach prioritizes financial and professional services, semiconductor design, materials sciences, life sciences,

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43 Kim, H. J. (2026), 'From Assembly Lines to Global Dominance', Korean Culture Webzine, February 2026, https://www.korean-culture.org/eng/webzine/202602/sub07.html; Seo, J.-H., Lee, J. Y. and Lee, H. I. (2023), 'Enactment of the K-Chips Act – Government's Support and Regulatory Policies for the Semiconductor Industry', Kim & Chang, 22 May 2023, https://www.kimchang.com/en/insights/detail.kc?sch_section=4&idx=27331.
44 Australian Government (undated), 'Future Made in Australia', Department of Industry, Science and Resources, https://www.industry.gov.au/future-made-in-australia; Government of Canada (2023), 'A Made-in-Canada Plan: Affordable Energy, Good Jobs, and a Growing Clean Economy', Backgrounder, Department of Finance Canada, 28 March 2023, https://www.canada.ca/en/department-finance/news/2023/03/a-made-in-canada-plan-affordable-energy-good-jobs-and-a-growing-clean-economy.html.
45 Australian Government (2023), 'Australia's Critical Minerals List and Strategic Materials List', Department of Industry, Science and Resources, published 20 June 2023, updated 20 February 2024, https://www.industry.gov.au/publications/australias-critical-minerals-list-and-strategic-materials-list.
46 Government of Canada (2022), *The Canadian Critical Minerals Strategy: From Exploration to Recycling: Powering the Green and Digital Economy for Canada and the World*, https://www.canada.ca/content/dam/nrcan-rncan/site/critical-minerals/Critical-minerals-strategyDec09.pdf.
47 Comprising a collection of strategies including the European Chips Act, Green Deal Industrial Plan, Clean Industrial Deal and Industrial Accelerator Act – see Guenaou, A., Guzzini, M. and Jenčuš, V. (2025), 'What will "Made in Europe" mean in practice?', Flint Global, 26 March 2026, https://flint-global.com/blog/what-will-made-in-europe-mean-in-practice.
48 Lavery, S. (2026), *The EU's new industrial strategy and global disorder*, British Academy and Carnegie Endowment for International Peace, February 2026, https://www.thebritishacademy.ac.uk/documents/6046/The_EUs_new_industrial_strategy_and_global_disorder.pdf.
49 Department for Business, Innovation, Science and Trade and Department for Business and Trade (2025), 'The UK's Modern Industrial Strategy 2025', published 23 June 2025, last updated 21 October 2026, https://www.gov.uk/government/collections/the-uks-modern-industrial-strategy-2025 (accessed 4 Nov. 2026).

AI, quantum technologies and aerospace. The UK strategy targets indispensability through legal power, financial networks and upstream innovation, rather than via control of nodes in manufacturing value chains.

But with fiscal and political constraints limiting policymakers' ambitions in both the EU and the UK, a clear articulation of the anticipated geo-economic leverage of these strategies has yet to emerge; nor have the EU and the UK yet made clear how and under what circumstances they might use such leverage.

Financing industrial policy under fiscal pressure

While the liberal middle powers studied here pursue different types of indispensability and leverage, they are similarly fiscally constrained relative to great powers and must use a mix of targeted supply-side and demand-side measures to implement their strategies. Supply-side measures use direct public investment, such as grants, subsidies, tax credits, loan guarantees and equity finance, to build domestic productive capacity.[50] These investments can be 'horizontal' in scope: that is, spread out across multiple sectors and geared towards whole-of-economy benefits such as improved infrastructure, R&D and skills. However, economic security-related supply-side investments tend to be 'vertically' oriented – in the sense of being geared towards specific industries and sectors, such as AI or minerals.

The challenge with using supply-side measures is to channel limited public resources to areas with genuine strategic value while mobilizing private capital; this comes more easily to states or blocs with substantial institutional experience in industrial strategy.

The challenge with using supply-side measures is to channel limited public resources to areas with genuine strategic value while mobilizing private capital; this comes more easily to states or blocs with substantial institutional experience in industrial strategy. Given the clarity of their strategic industrial objectives, their experience in state-directed development and the institutional design of their capital markets, Japan and South Korea are pursuing the most ambitious vertical supply-side industrial policies among liberal middle powers. Both countries are increasing investment in technology, in particular. Between 2022 and 2025, Japan's investment in its semiconductor industry via its Semiconductor Strategy amounted to US$25.7 billion or 0.71 per cent of GDP – around three times as much, as a share of GDP, as the US invested (through subsidies and tax credits) as a part of the

50 Criscuolo, C., Gonne, N., Kitazawa, K. and Lalanne, G. (2022), *An industrial policy framework for OECD countries: Old debates, new perspectives*, OECD Science, Technology and Industry Policy Papers, No. 127, Paris: OECD Publishing, https://doi.org/10.1787/0002217c-en.

CHIPS and Science Act (US$52.7 billion, or 0.21 per cent of GDP).[51] At the same time, Japan has deployed incentive packages to attract foreign producers, such as Taiwanese chipmaking giant TSMC, to establish fabrication plants in Japan.[52] Similarly, South Korea has intensified efforts to achieve what it terms 'industrial sovereignty' through the 2023 K-Chips Act and the 2025 Strategic Technologies Fund. In particular, the country's industrial policy has targeted investments in domestic R&D, talent development and materials production, including via a US$23.25 billion support package announced in 2025.[53]

But with different capital markets and less experience in state-directed industrial policy, and having previously prioritized a 'horizontal' approach to investment, the UK and Australia have introduced more modest supply-side policies that aim to leverage targeted but limited public investments to mobilize private capital. For example, Australia's public investment decisions are based on strict criteria defined by the National Interest Framework of the Future Made in Australia Act, which was capitalized with A$22.7 billion in 2024 to support strategic sectors.[54] Similarly, the UK has used a series of investment vehicles, including the National Wealth Fund (£27.8 billion), Innovate UK (£2.4 billion), Great British Energy (£8.3 billion), ARIA and the National Security Strategic Investment Fund (NSSIF), to mobilize support for strategic sectors.[55] Compared with Japan and South Korea, the public capital involved is limited. Instead, the UK seeks to crowd in private investment in sectors considered critical to national security but too high-risk or low-return for many investors; the government aims to do this by absorbing some of that risk in the public sector and signalling strategic government demand to build investor confidence.[56]

Because vertical supply-side measures are expensive, difficult to get right, and can invite accusations of political favouritism or market capture, policymakers have also increasingly turned to demand-side measures to support strategic sectors. Demand-side measures often require less new funding than supply-side measures, and instead aim to create or bolster demand for domestic producers by redirecting existing public resources, private capital and capacity to strategic sectors through procurement preferences, off-take agreements, consumer subsidies and tariffs (in effect, measures that shift demand away from foreign suppliers).[57] These policies aim to enhance domestic producers' competitiveness by strengthening the market for their products and encouraging private investment.

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51 Solis, M. and Duchâtel, M. (2024), 'The renaissance of the Japanese semiconductor industry', Brookings Institution, 3 June 2024, https://www.brookings.edu/articles/the-renaissance-of-the-japanese-semiconductor-industry.
52 Kelly, T. (2024), 'Tokyo pledges a further $4.9 bln to help TSMC expand Japan production', Reuters, 25 February 2024, https://www.reuters.com/technology/tokyo-pledges-further-49-bln-help-tsmc-expand-japan-production-2024-02-24.
53 Reuters (2025), 'South Korea unveils $23 billion support package for chips amid US tariff uncertainty', Reuters, 15 April 2025, https://www.reuters.com/technology/south-korea-unveils-23-billion-support-package-chips-amid-us-tariff-uncertainty-2025-04-14.
54 Australian Government (undated), 'Future Made in Australia', Department of Industry, Science and Resources, https://www.industry.gov.au/future-made-in-australia.
55 HM Treasury (2025), *An Introduction to the UK Public Investment Landscape*, GOV.UK, 21 October 2025, https://www.gov.uk/government/publications/an-introduction-to-the-uk-public-investment-landscape.
56 National Security Strategic Investment Fund (undated), 'Our impact', https://www.nssif.gov.uk/impact (accessed 19 Nov. 2026).
57 Criscuolo, Gonne, Kitazawa and Lalanne (2022), *An industrial policy framework for OECD countries*.

But while demand-side tools are fiscally attractive, they can raise consumer costs and provoke retaliation from states that view them as antithetical to open trade. The most significant example is the EU's proposed Industrial Accelerator Act, which aims to set a controversial target of raising manufacturing's share of EU GDP from 14 per cent in 2024 to 20 per cent by 2035.[58] The act also contains the proposed stipulation that foreign investors share IP and technological know-how within the EU, ensure that the workforce in the ventures in which they invest is at least 50 per cent local, source 30 per cent of inputs from EU suppliers, and reinvest 1 per cent of global revenue in R&D in the EU.[59] While these conditions should theoretically bolster domestic capacity without committing new public funds, the proposals have met with strong criticism and threats of retaliation from China; there have also been disagreements among EU member states over whether and how to proceed.[60]

Similarly, demand-side tariffs and preferential procurement schemes have met with variable success. This is partly because the instruments in question are more recent, but also because policymakers have approached their use cautiously, concerned that such measures could raise procurement and consumer costs or undermine green transition objectives. In October 2024, the EU imposed countervailing duties ranging from 7.8 per cent to 35.3 per cent on Chinese EV producers, following a European Commission investigation that found China's state subsidies were distorting the European market and disadvantaging EU producers.[61] But despite signalling a more assertive posture, the tariffs have not significantly reduced European demand for Chinese EVs; in fact, imports of Chinese EVs have grown significantly. This suggests that the relatively low tariff rates are limited in their ability to offset China's efficiency and technological lead over the EU or shift consumer demand to EU producers.[62]

The UK, meanwhile, has avoided imposing tariffs on Chinese goods but recently introduced preferential procurement measures to support the domestic steel, shipbuilding, energy infrastructure and AI sectors, with the aim of redirecting public spending towards UK firms.[63] While this policy is still in its early stages, it indicates a growing willingness on the part of the UK authorities to favour long-term security and growth over lower costs, and to leverage public spending to help domestic firms compete locally with larger foreign rivals and global hyperscalers.

More broadly, as with the use of 'protect' tools (see Chapter 3), the increasing prevalence of industrial policy is indicative of a vacuum in international coordination. The growing use of subsidies creates trade distortions, while the rise of preferential procurement risks shutting allies out of industrial cooperation. Indeed, the EU's

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58 Bercero, I., Collin, A., McWilliams, B. and Tagliapietram, S. (2026), *The Flaws in the European Union's Proposed Industrial Accelerator Act and How to Fix Them*, Bruegel Policy Brief, 21 May 2026, https://www.bruegel.org/policy-brief/flaws-european-unions-proposed-industrial-accelerator-act-and-how-fix-them.
59 Filippitsch, C. et al. (2026), 'EU's Industrial Accelerator Act proposes tighter control of foreign investments in emerging strategic sectors', Reed Smith, 12 March 2026, https://www.reedsmith.com/articles/eu-s-industrial-accelerator-act-proposes-tighter-control-of-foreign-investments-in-emerging-strategic-sectors.
60 Reuters (2026), 'China expresses 'grave concern' over EU's proposed Industrial Accelerator Act', Reuters, 6 March 2026, https://www.reuters.com/world/china/china-expresses-grave-concern-over-eus-proposed-industrial-accelerator-act-2026-03-06.
61 European Commission (2024), 'EU Commission imposes countervailing duties on imports of battery electric vehicles (BEVs) from China', 12 December 2024, https://trade.ec.europa.eu/access-to-markets/en/news/eu-commission-imposes-countervailing-duties-imports-battery-electric-vehicles-bevs-china.
62 Williams, G. (2026), 'Don't Stop Me Now: Chinese Cars Are Having a Good Time in Europe', Rhodium Group, 1 April 2026, https://rhg.com/research/dont-stop-me-now-chinese-cars-are-having-a-good-time-in-europe.
63 Cabinet Office and Ward, C. (2026), 'British shipbuilding, steel, AI and energy infrastructure to be prioritised for government contracts for national security', GOV.UK, 26 March 2026, https://www.gov.uk/government/news/british-shipbuilding-steel-ai-and-energy-infrastructure-to-be-prioritised-for-government-contracts-for-national-security.

growing use of procurement preferences and subsidies has raised concerns about obstacles to UK–EU cooperation at precisely the time when the bilateral relationship is increasingly seen on both sides as critical for balancing against shifts in the geopolitical order. The announcement of a UK–EU Dialogue on Economic Security at the recent UK–EU summit on 20 November 2026 has created a process through which these issues can start to be addressed, although it will take time to build the trust and agreements needed to deepen industrial cooperation on procurement and subsidies.

The EU's growing use of procurement preferences and subsidies has raised concerns about obstacles to UK–EU cooperation at precisely the time when the bilateral relationship is increasingly seen on both sides as critical for balancing against shifts in the geopolitical order.

Liberal middle powers have legitimate reasons to take a more strategic and interventionist approach to industrial policy. But without coordination, these measures risk pitting one jurisdiction against another, and creating overlapping or conflicting policy incentives; examples of these unhelpful dynamics include subsidy races, duplicated capacity and the exclusion of partners from each other's markets. The irony is that over the medium to long term, such an approach risks *undermining* – not improving – economic security in the countries or regions in question. The risks are especially acute for the UK as it simultaneously navigates pressures from China, the US and the EU.

Public–private cooperation

Effective industrial policy also depends on functioning institutions for public–private cooperation, and on how well government and industry share information, align on priorities and coordinate on geo-economic risks. Again, there is some variation in the approaches taken by the middle powers in this study. At the institutionalized end of the spectrum, Japan's government maintains a strong strategic relationship with the private sector, leveraging the historically close ties between government and industry alongside new cooperation mechanisms established under the 2022 Economic Security Promotion Act. These includes a new security-clearance mechanism for the private sector. The mechanism allows the government to engage industry in designing and developing economic security policies, including setting strategic priorities and sharing sensitive information.[64]

64 Nagino, S. and Glosserman, B. (2025), 'Japan sets the pace for private sector economic security management', *PacNet*, No. 34, Pacific Forum, 1 May 2025, https://pacforum.org/publications/pacnet-34-japan-sets-the-pace-for-private-sector-economic-security-management.

Coming from a different institutional context, the UK has historically maintained a more arm's-length relationship with the private sector, but the government is updating its approach and is beginning to engage more with industry on economic security. The UK is shifting from reliance on the now-defunct Economic Security Public-Private Sector Forum to a more strategic model via the Economic Security Advisory Service (ESAS).[65] While this signals a more proactive approach to information-sharing and risk analysis, the UK still faces challenges sharing intelligence and partnering with the private sector to address geo-economic risks. It retains a limited ability to share and obtain classified or sensitive intelligence on geo-economic risks – this is due to a lack of appropriate mechanisms for sharing classified information (or because some information is overclassified) as well as to a lack of trusted, confidential mechanisms for businesses to share potentially sensitive commercial information. But because geo-economic risks are primarily borne by the private sector, building this institutional infrastructure is essential to operationalizing industrial policy and is one of the challenges the recommendations in this paper address (see Chapter 7).

Tensions, trade-offs and challenges

Liberal middle powers are pursuing increasingly ambitious strategies to achieve 'strategic indispensability', and to secure access to critical technologies and resources. For the UK, this includes shifting away from market-oriented traditions in horizontal industrial policy to make more targeted vertical interventions in strategic sectors. The principal challenges of attempting this include the UK's limited fiscal scale relative to competitors, its lack of institutional capacity to coordinate across government and industry, and the political risk of sectoral interests capturing industrial policy.

Practical questions remain about the degree to which 'strategic indispensability' is even attainable for the UK, whether it has the ability or political will to leverage any indispensability that it might achieve, and whether the overall approach actually delivers resilience against coercion.

More fundamentally, practical questions remain about the degree to which 'strategic indispensability' is even attainable for the UK, whether it has the ability or political will to leverage any indispensability that it might achieve, and whether the overall approach actually delivers resilience against coercion. The experience from other regions is not always encouraging. For example, the Japanese government's policy focus on strategic indispensability failed to prevent Japan from facing new restrictions on rare-earth exports from China in 2026, as Beijing retaliated for Japan's

65 UK Government (2026), 'Economic Security Advisory Service (ESAS)', Business.gov.uk, updated 25 August 2026, https://www.business.gov.uk/campaign/economic-security-advisory-service.

posture on Taiwan.[66] The episode showed that while strategic indispensability may offer some defence, it is not an impermeable shield. This does not mean that industrial policy does not deliver leverage, but rather that it should be recognized as merely one dimension, among several, of a nation's potential defence options. Moreover, not only is middle-power coordination on industrial policy highly challenging, there is also a risk that increasingly assertive industrial postures may add to the fragmentary forces – such as subsidy races, protectionism, and competition for investments and resources – that make cooperation more difficult. This poses particular challenges for the UK as economic coercion becomes more prominent in global affairs.

66 Baskaran, G. and Schwartz, M. (2026), 'China's Rare Earth Campaign Against Japan', Center for Strategic and International Studies, 13 January 2026, https://www.csis.org/analysis/chinas-rare-earth-campaign-against-japan.

05
The 'defend' pillar of economic security

With economic coercion risks increasing, the need for robust and effective trade defence is clearer than ever. At the same time, the temptation to deploy more powerful retaliatory tools risks undermining the rules and norms on which open trade relies.

The countries (along with the EU) studied in this paper are employing a range of defensive strategies to build resilience, deter threats and retaliate against economic pressure. These strategies can be thought of as comprising three tiers of escalation, from least to most confrontational. The first tier involves **building resilience** to coercion through long-term measures that reduce structural vulnerabilities and dependencies on foreign powers. It includes diversifying supply chains and export markets, pursuing trade diplomacy, and investing in international rules and norms. The second tier, **deterrence**, involves creating institutional and legal frameworks that signal a capability and the willingness to respond to coercion. The third tier consists of **retaliation**: this entails imposing countermeasures against a coercive actor, usually as a last resort when negotiation and deterrence fail.

Liberal middle powers have traditionally been reluctant to escalate beyond the first tier of responses, and instead prioritize resilience and negotiation as pillars of their defence. As open economies that benefited from the post-Second World War wave of globalization, they have an interest in preserving a stable, rules-based trade system, whereas retaliatory measures risk legitimizing coercive trade tactics. Liberal middle powers also rely heavily on external markets and supply chains – for energy

and critical materials in the case of Japan, South Korea,[67] the UK and the EU; for advanced technology inputs in the case of Australia and Canada – making them wary of tit-for-tat escalation that could exacerbate domestic vulnerabilities. However, the post-2025 phase in the evolution of today's geo-economic order (see Chapter 2) has seen some of that caution subside due to increased external pressure. This has led to a new willingness to develop and deploy credible deterrence and retaliatory measures alongside resilience-building activities.

Resilience-building

The first tier of anti-coercion strategies, building resilience, involves investing in long-term measures that reduce structural vulnerabilities, including diversifying supply chains and export markets, pursuing trade diplomacy, and investing in international rules and norms.

China's dominance in rare-earth processing and its growing willingness to restrict exports have led liberal middle powers to seek alternative sources of critical goods and inputs to reduce their exposure. Measures such as import diversification targets, often sparked by experiences of coercion, seek to reduce reliance on single suppliers but require a gradual, challenging process of identifying alternative sources of supply and building domestic capacity. Prompted by Chinese restrictions on exports of rare earths, Japan set targets as early as 2010 to reduce its reliance on any single market for critical minerals,[68] while South Korea and the EU set similar targets in 2023. More recently, the UK has introduced a range of targets under its 2025 Critical Minerals Strategy,[69] which include ensuring that no more than 60 per cent of annual UK demand for any critical mineral is imported from a single country by 2035, alongside targets of producing 10 per cent of critical minerals domestically (e.g. by mining domestic deposits of lithium and tin) and meeting 20 per cent of industrial demand for critical minerals through recycling.

The problem for liberal middle powers is that benchmarks such as these are difficult to meet because of China's ongoing dominance in rare-earth processing, and because of the cost and complexity of establishing domestic processing operations. Despite setting targets to reduce dependence on China in 2010, Japan faced new rare-earth trade restrictions from China in 2026 (see also Chapter 4), even though Japan had reduced its reliance on Chinese supply from 85 per cent of total rare-earth imports in 2009 to 58 per cent in 2020.[70] In other words, while setting targets helps, reducing dependencies is a challenging and slow process.

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67 Center for Strategic and International Studies (2023), 'South Korea and Japan: Divergent Paths to Energy Security', podcast, 31 October 2023, https://www.csis.org/analysis/south-korea-and-japan-divergent-paths-energy-security.
68 Terazawa, T. (2023), 'How Japan solved its rare earth minerals dependency issue', World Economic Forum, 13 October 2023, https://www.weforum.org/stories/manufacturing-and-value-chains/japan-rare-earth-minerals.
69 Department for Business and Trade (2025), 'UK Critical Minerals Strategy', published 22 November 2025, last updated 23 January 2026, https://www.gov.uk/government/publications/uk-critical-minerals-strategy.
70 Tagami, E. and Solís, M. (2026), 'What lessons can be learned from Japan's critical minerals strategy?', Brookings Institution, 23 February 2026, https://www.brookings.edu/articles/what-lessons-can-be-learned-from-japans-critical-minerals-strategy.

Consequently, while import diversification is a strategic necessity and embeds elements of economic security in national economic planning, it must form part of a broader anti-coercion strategy, especially in the short to medium term.

Trade diplomacy has been deployed as a complementary resilience strategy, enabling a country or bloc to cultivate alternative markets and secure existing ones during periods of disruption or pressure, and to de-escalate coercive episodes through negotiation. But while this avoids direct retaliation, de-escalation and negotiating market access can take time, and the durability of non-binding trade deals can be contingent on shifts in great power policy. Indeed, the volatility and unpredictability of the US's tariff policy, and the US government's withdrawal from non-binding trade deals, have posed particular challenges for the trade diplomacy of the liberal middle powers studied here.

Australia's response to China's 2020–23 trade coercion campaign, which targeted Australian barley, wine, beef, seafood, coal and timber exports, shows how trade diplomacy can open alternative markets when a principal market is a source of geo-economic pressure.[71] By securing bilateral deals with the Gulf states as well as India, Indonesia and the UK, and through agreements such as the Regional Comprehensive Economic Partnership (RCEP), Australia mitigated the impact of China's restrictions and redirected export flows to alternative markets.[72] Australian exports to Saudi Arabia, for instance, rose from US$522 million in 2019 to US$1.93 billion in 2022,[73] with significant growth in shipments of agricultural products such as barley (rising from negligible amounts in 2019 to US$875 million in 2022, or 45.3 per cent of Australia's total exports to Saudi Arabia); Australia's exports of barley had been hit by an 80.5 per cent Chinese tariff.[74]

Diplomacy has also been used to safeguard existing market access in response to trade pressure, and it appears most effective when negotiations are anchored in strategic capabilities.

Diplomacy has also been used to safeguard existing market access in response to trade pressure, and it appears most effective when negotiations are anchored in strategic capabilities. For example, when the second Trump administration placed tariffs on steel and aluminium imports in 2025, the UK opted not to impose countermeasures and sought to negotiate. This secured some relief – UK steel remained subject to a 25 per cent tariff when the US doubled the rate for most other exporters to 50 per cent – but not the full removal of tariffs the UK had

71 Edmonstone, G. (2024), 'China's trade restrictions on Australian exports', United States Studies Centre, 2 April 2024, https://www.ussc.edu.au/chinas-trade-restrictions-on-australian-exports.
72 Department of Foreign Affairs and Trade (undated), 'Australia's free trade agreements', Australian Government, https://www.dfat.gov.au/trade/agreements/trade-agreements.
73 Observatory of Economic Complexity (undated), 'Australia/Saudi Arabia', https://oec.world/en/profile/bilateral-country/aus/partner/sau.
74 Cao, L. and Greenville, J. (2020), 'Understanding how China's tariff on Australian barley exports will affect the agricultural sector', Australian Bureau of Agricultural and Resource Economics and Sciences, June 2020, https://daff.ent.sirsidynix.net.au/client/en_AU/search/asset/1030481/0.

sought.[75] South Korea, facing broader 'reciprocal' and automotive tariffs, leveraged its niche dominance in advanced, high-value shipbuilding, pledging US$150 billion to a 'Make American Shipbuilding Great Again' initiative as part of a wider US$350 billion investment package.[76] This secured a reduction in US tariffs on its car exports from 25 to 15 per cent, giving South Korea parity with Japan, its principal competitor in the sector.[77] As such, South Korea strengthened its bargaining hand by anchoring diplomacy in its leverage over strategic value chains, even if that came at a substantial cost and it was not able to secure full protection from the tariffs.

Negotiation has also helped de-escalate trade tensions and remove barriers. For example, after the Australian Labor Party, led by Anthony Albanese, won power in Australia in 2022, the government negotiated with China to initiate a phased removal of Chinese trade restrictions by 2023.[78] The negotiations took place alongside market diversification efforts on the Australian authorities' part. The episode underlines how diversification and negotiation can be complementary, with diversification mitigating the short-term costs of coercion and negotiation resolving the coercive episode.

In this way, diplomacy tied to strategic capability and leverage can be an agile – albeit fragile – source of resilience, lessening the impact of economic pressure while avoiding the risks of further escalation.

Deterrence

The second tier of escalation, deployed in response to potential or threatened economic coercion, is deterrence. This involves creating institutional and legal frameworks that signal the capability and willingness of the country or bloc in question to respond to coercion. As with conventional military deterrence, these frameworks aim to discourage coercive action through their existence rather than their actual use. But while these mechanisms seek to move away from the more ad hoc responses that have predominated in recent years, they face a credibility problem due to ambiguity over whether policymakers could or would actually use them, concerns about the costs of retaliation, and – more deeply – uncertainty over whether the liberal middle powers in question actually have sufficient economic firepower for deterrence to be effective.

Arguably the clearest example is the EU's Anti-Coercion Instrument (ACI), introduced in 2023 to strengthen the economic security and collective defence of its 27 member states.[79] As an institutional mechanism explicitly focused on addressing economic coercion and enabling a coordinated response, the ACI marks a significant

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75 Labiak, M. and Espiner, T. (2025), 'UK temporarily spared from Trump's 50% steel tariffs', BBC News, 3 June 2025, https://www.bbc.com/news/articles/cg713y73plro.
76 Pardo, R. P. and Klingler-Vidra, R. (2026), 'Middle Powers Don't Have to Work Together to Get Ahead', *Foreign Policy*, 3 February 2026, https://foreignpolicy.com/2026/02/03/us-china-middle-powers-diplomacy-competition-trade-industry-critical-minerals.
77 Lawder, D. (2025), 'US Commerce chief confirms South Korea's 15% tariff rate retroactive to November 1', Reuters, 1 December 2025, https://www.reuters.com/business/autos-transportation/us-commerce-chief-confirms-south-koreas-15-tariff-rate-retroactive-november-1-2025-12-01.
78 Pan, G. (2025), 'Australia's Labor Party and China after the Election: Stability Amid Growing Crises', Australian Institute of International Affairs, 12 May 2025, https://www.internationalaffairs.org.au/australianoutlook/australias-labor-party-and-china-after-the-election-stability-amid-growing-crises.
79 European Commission (undated), 'Protecting against coercion'.

shift in the EU's trade defence policy. Although initially conceived after the first Trump administration threatened to impose tariffs on European countries that collected digital services taxes, and after China imposed restrictions on Lithuania, the ACI is designed to respond to coercion from any external actor, including China, Russia or the US.[80]

The ACI establishes a legal basis for action, criteria for identifying coercion, procedures for states to follow, and a broad set of countermeasures that can be deployed when any EU member state is targeted. These countermeasures include tariffs, restrictions on investment and services, and the exclusion of the coercive state from procurement contracts. While the ACI has not yet been triggered, its establishment represents a strategic shift away from the ad hoc tactical approaches more commonly used. But it suffers from a credibility problem, including uncertainty about whether the European Commission could activate it, due to tensions among member states over the EU's trade defence posture and the risk that its use could start a trade war.

Other countries have sought to reorient existing institutions and legal frameworks to similar effect. The UK has adjusted its Trade Remedies Authority (TRA), established in 2020 in response to industry complaints about dumping, subsidies and safeguards, to address economic security issues.[81] Reforms in 2023 gave the government the power to impose or lift trade remedies on national security grounds,[82] while the 2025 Trade Strategy commits to introducing legislation to make the TRA more proactive and assertive in tackling unfair market distortions and improving businesses' access to remedies.[83] While the TRA is underused for trade defence at present, and arguably is best suited to focusing on unfair market practices rather than on coercion, these reforms offer the UK the opportunity to be more strategic in its trade defence. This is a topic revisited in the recommendations (see Chapter 7).

A second, less developed dimension of deterrence concerns early warning and economic intelligence. The capacity to rapidly identify and attribute coercive behaviour, and to share assessments with allies, can aid in addressing some of the deniability that often enables informal coercion. Several governments have tried to invest in this capability. Examples include the trilateral Supply Chain Early Warning System between the US, Japan and South Korea, launched in 2023;[84]

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80 Szép, V. (2024), *The legislative history of the EU's anti-coercion instrument*, ERA Forum 25, 127-139, 12 June 2024, https://link.springer.com/article/10.1007/s12027-024-00784-x; Young, A. (2026), 'The EU's Anti-Coercion Instrument: bazooka or popgun?', UK in a Changing Europe, 2 February 2026, https://ukandeu.ac.uk/the-eus-anti-coercion-instrument-bazooka-or-popgun.
81 UK Trade Remedies Authority (undated), 'Trade Remedies Authority', https://www.gov.uk/government/organisations/trade-remedies-authority.
82 HM Revenue & Customs (2023), *Reform of the UK's Trade Remedies Framework*, policy paper, 23 March 2023, https://www.gov.uk/government/publications/trade-remedies-reform/reform-of-the-uks-trade-remedies-framework.
83 Trade Remedies Authority (2026), 'TRA Plan 2026-2029', Corporate Report, 30 April 2026, https://www.gov.uk/government/publications/tra-plan-2026-2029.
84 U.S. Department of State (2023), 'Joint Statement from the Trilateral Meeting of the United States of America, Japan, and the Republic of Korea in New York City', Office of the Spokesman, 21 September 2026, https://www.state.gov/releases/office-of-the-spokesman/2026/09/joint-statement-from-the-trilateral-meeting-of-the-united-states-of-america-japan-and-the-republic-of-korea-in-new-york-city-2.

the UK–US–Australia Supply Chain Resilience Cooperation Group,[85] with its early-warning pilot scheme for the telecommunications sector; and the UK's recently established Supply Chain Centre.[86]

The capacity to rapidly identify and attribute coercive behaviour, and to share assessments with allies, can aid in addressing some of the deniability that often enables informal coercion.

However, the most effective systems require coordination among governments, and have therefore been difficult to establish and operationalize due to shifts in the geo-economic order. Without a central organizing power, and with limited trust among potential participants – including in relation to information protection regimes – states have prioritized strengthening national economic intelligence systems rather than operationalizing more collective mechanisms to detect, attribute and deter coercion.

Retaliation

The third tier of response strategies involves imposing countermeasures against a coercive actor, usually as a last resort when negotiation and deterrence fail. Although liberal middle powers typically prioritize resilience and deterrence, many have faced economic pressure that has required them to deploy countermeasures at some point.

Where they have done so, however, the action has typically been limited and tactical rather than strategic – designed to exert political pressure on the coercing state while seeking to avoid or mitigate further escalation. These measures are intended to be rehabilitative rather than punitive, meaning they are designed to change the behaviour of the coercive party and can be lifted if successful. This pattern is especially pronounced in cases of US trade pressure against its allies, where countermeasures have had to be targeted to effect change but also limited to avoid escalation.

The clearest examples of this dynamic in practice have come from Canada and the EU. In 2018, both imposed retaliatory tariffs on selected US commodities in response to the first Trump administration's tariffs on steel, aluminium and other goods, often targeting politically sensitive sectors and goods produced in US swing states to maximize diplomatic leverage.[87] Similarly, in 2025, despite initially pledging a robust 'dollar-for-dollar' response to renewed US tariffs, the Canadian

85 Department for Business and Trade (2024), 'UK, US and Australia Sign Supply Chain Resilience Pact', 11 September 2024, https://www.gov.uk/government/news/uk-us-and-australia-sign-supply-chain-resilience-pact.
86 Department for Business and Trade (2026), 'Supply Chain Centre mission statement and action plan', 17 June 2026, https://www.gov.uk/government/publications/supply-chain-centre-mission-statement-and-action-plan.
87 Ghosh, S. (2025), 'Canada's response to Trump's tariffs was strategic, but there is room for improvement', The Conversation, 11 March 2025, https://theconversation.com/canadas-response-to-trumps-tariffs-was-strategic-but-there-is-room-for-improvement-251605.

government ultimately built exemptions into its counter-tariffs for imports vital to domestic industries to manage costs while demonstrating its ability to respond.[88] Australia, Japan and the UK have also said they are willing to impose counter-tariffs in response to US pressure, even if so far they have ultimately prioritized negotiation to avoid escalation. These approaches have helped US allies to manage tensions in the short term, but have largely consisted of limited, improvised responses to economic pressure rather than strategic approaches to trade defence.

88 Government of Canada (undated), 'Resources and tools for Canadian exporters facing U.S. tariffs', https://www.tradecommissioner.gc.ca/en/market-industry-info/search-country-region/country/canada-united-states-export/us-tariffs/supporting-exporters-through-tariff-challenges.html.

06
The ‘partner’ pillar of economic security

Liberal middle powers are individually acting more strategically, but collective mechanisms for managing economic security are underdeveloped. With the US no longer willing to play an anchoring role, liberal middle powers must do more at the minilateral and plurilateral level to build collective resilience.

The ‘partner’ pillar of economic security policy matters because liberal middle powers have a collective interest in working together to manage geo-economic risks and crises. Faced with similar constraints and vulnerabilities, they can leverage their individual capabilities for collective benefit by pooling resources, sharing information and adopting common frameworks for responding to coercion.

Such cooperation could include investing in multilateral institutions to constrain coercive trade practices, building minilateral coalitions to keep critical supply chains open, and pursuing bilateral partnerships to stabilize flows of critical goods and capital. Given these responses, liberal middle powers can be said to approach the ‘partner’ pillar differently from great powers, as the former retain a stronger foundational interest in preserving multilateral institutions, minilateral cooperation and the broader norms that underpin their security.

At the same time, this partnership-focused dimension of economic security is the most fragile of the four pillars. Sustained collective action requires overcoming competing national interests, domestic political imperatives (which rarely involve

accommodating other countries' national interest) and limited trust. All this requires political commitment and, arguably, the presence of a power capable of anchoring and resourcing cooperation.

As mentioned earlier, the second phase of the post-2010 geo-economic order saw these conditions tentatively emerge, as the Biden administration anchored cooperation, and as Japan used its G7 presidency to elevate economic security on the multilateral agenda. While the cooperation attempted during this period was fragile, and challenged by enduring US unilateralism and self-interest, it was also ambitious in scope and sought to lay the foundations for addressing collective geo-economic challenges.

Several initiatives attempted to move beyond commercial agreements and address contentious issues. These initiatives included coordinating responses to coercion, managing shared exposure to geo-economic crises, aligning industrial policy (albeit imperfectly, as under the US Inflation Reduction Act and the US CHIPS and Science Act), and beginning to coordinate the use of 'protect' tools. The result was an emerging architecture for pursuing policy coordination and addressing political trade-offs.

But the US's subsequent shift to a more unilateralist, transactional posture during the second Trump administration has disrupted this agenda. A narrower form of engagement is taking its place, with many of the collective mechanisms built under the Biden administration having been deprioritized or dismantled. Instead, liberal middle powers have turned to bilateral cooperation as a more tractable form of engagement.

A diminished form of bilateralism has displaced efforts to build collective frameworks that could genuinely constrain coercion, or to find common solutions to long-term challenges.

These arrangements tend to have a narrow focus on securing resource flows, or on trade, investment and technology deals, rather than on broader questions of anti-coercion action, crisis management or policy alignment. As a result, liberal middle powers have continued to engage with other parties, but on a more limited set of issues. This diminished form of bilateralism has displaced efforts to build collective frameworks that could genuinely constrain coercion, or to find common solutions to long-term challenges. The result is a more fragmented and transactional geo-economic environment.

The fragility of the ambitious agenda

Several ambitious attempts to foster cooperation on trade, anti-coercion response and management of geo-economic crises have proven fragile amid geopolitical shifts and the evolving dynamics of US–China economic and strategic competition.

At the multilateral level, the institutions that constrain coercive and distortive trade policies remain functional, but their roles are contested and constrained. The WTO's Multi-Party Interim Appeal Arbitration Arrangement (MPIA), established in 2020 to circumvent the paralysis of the Appellate Body, has become the principal forum through which participating members preserve a dispute-resolution function; it is also a forum through which participating members can signal their commitment to the multilateral system.[89] The MPIA's membership has grown to over 50, notably including China, and the UK's accession in June 2025 brought it into line with most of its peer middle powers, including Australia, Canada, the EU and Japan.[90] But the MPIA's effectiveness is constrained by the fact both that its judgments are non-binding and that it is a temporary substitute for the Appellate Body. Put another way, the MPIA is designed to prevent further erosion of trade norms rather than to advance the dispute-resolution agenda or respond to contemporary challenges.[91]

At the minilateral level, coordination during the second phase (2020–24) of the post-2010 geo-economic transition was ambitious but fragile. Under Japan's 2023 G7 presidency, a leaders' statement on economic security committed members to collaboration on supply-chain resilience, critical technologies and countering coercion.[92] This included the establishment of a G7 Coordination Platform on Economic Coercion. Aimed at strengthening collective preparedness, deterrence and response through early warning, information-sharing, regular consultations and the exploration of joint responses, it represented an ambitious effort to build a collective anti-coercion capability.[93] It was complemented by a cluster of issue-specific coalitions, such as the Minerals Security Partnership on critical-mineral supply chains,[94] the trilateral Supply Chain Early Warning System between the US, Japan and South Korea,[95] and the Partnership for Global Infrastructure and Investment (PGII),[96] which was seen as a kind of G7 response to China's Belt and Road Initiative.

Yet even before the US's mercantilist shift under Trump's second presidency, these initiatives struggled to move beyond declaratory frameworks and establish operational mechanisms. Competing national interests, domestic fiscal and political constraints, and limited resources meant that efforts to operationalize the Minerals Security Partnership, PGII and early-warning systems were underdeveloped, even

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89 Pauwelyn, J. (2023), 'The WTO's Multi-Party Interim Appeal Arbitration Arrangement (MPIA): What's New?', Graduate Institute Geneva, 2023, https://www.graduateinstitute.ch/library/publications-institute/wtos-multi-party-interim-appeal-arbitration-arrangement-mpia-whats.
90 Directorate-General for Trade and Economic Security (2025), 'Multilateral trading order strengthened as UK joins interim appeals system', European Commission, 26 June 2025, https://policy.trade.ec.europa.eu/news/multilateral-trading-order-strengthened-uk-joins-interim-appeals-system-2025-06-26_en.
91 Bhan, K. et al. (2025), 'What Are the Implications of the United States' Blockage of Appointments to the WTO Appellate Body in 2019, and What Progress Has Been Made Towards Reforming the Dispute Settlement System?', OxJournal, 24 September 2025, https://www.oxjournal.org/united-states-blockage-of-appointments-to-the-wto-appellate-body.
92 Ministry of Foreign Affairs of Japan (2023), 'G7 Leaders' Statement on Economic Resilience and Economic Security', G7 Leaders' Statement, 20 May 2023, https://www.mofa.go.jp/files/100506815.pdf.
93 Prime Minister's Office, 10 Downing Street and the Rt Hon Rishi Sunak MP (2023), 'PM to rally G7 on protecting economy from state threats', GOV.UK, 19 May 2023, https://www.gov.uk/government/news/pm-to-rally-g7-on-protecting-economy-from-state-threats.
94 U.S. Government (undated), 'Minerals Security Partnership', https://2021-2025.state.gov/minerals-security-partnership.
95 U.S. Mission Korea (2024), 'Joint Statement of Japan, the Republic of Korea, and the United States', U.S. Embassy & Consulate in the Republic of Korea, 15 November 2024, https://kr.usembassy.gov/111924-joint-statement-of-japan-the-republic-of-korea-and-the-united-states.
96 U.S. Department of State (undated), 'Investing in the World', https://stories.state.gov/infrastructure.

with a relatively cooperative US under President Biden. Nonetheless, they provided space and forums for governments to try to influence US positions and consider collective approaches to economic security.

US policy since 2025 during the second Trump administration, however, has led to the deprioritization and, in some cases, dismantling of many of these mechanisms. The US is now pursuing more narrowly focused initiatives that include the US State Department's Pax Silica[97] coalition and the Forum on Resource Geostrategic Engagement (FORGE).[98] Both programmes essentially aim to secure critical resources for the US, and demand alignment with US policies towards China, rather than taking a more coordinated approach.[99] Consequently, the imperative now falls to liberal middle powers, including the UK, to sustain and rebuild coordination, as set out in the recommendations in Chapter 7.

The rise of bilateralism and a narrower agenda

As the multilateral and minilateral agendas have come under pressure during the second Trump administration, liberal middle powers have turned to bilateral cooperation as a more accessible form of engagement. Bilateral arrangements tend to be easier to negotiate and operationalize. They are often built on commercial complementarities, and avoid some of the political trade-offs that broader collective action on coercion or industrial policy demands. Consequently, they are often more resistant than minilateral frameworks to geo-economic shocks, but they also focus on narrower sets of issues.

Most bilateral arrangements on economic security concentrate on stabilizing flows of goods, capital and technology between complementary partners. The Australia–Japan Joint Declaration on Economic Security Cooperation,[100] for instance, pairs Australia as a trusted long-term supplier of critical minerals with Japan as a trusted source of capital and investment. Similarly the EU, via its Global Gateway mechanism, has signed numerous bilateral critical minerals agreements with producer countries including Chile, the Democratic Republic of the Congo (DRC) and Zambia.[101]

Alongside bilateral agreements, many liberal middle powers have initiated economic security dialogues. Examples include the UK–Germany dialogue established under the 2026 Kensington Treaty, and the regular Japan–South

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97 U.S. Department of State (undated), 'Pax Silica', press release, https://www.state.gov/pax-silica.
98 U.S. Department of State (2026), 'The United States Assumes the Chairmanship of the FORGE', media note, 10 July 2026, https://www.state.gov/releases/office-of-the-spokesperson/2026/07/the-united-states-assumes-the-chairmanship-of-the-forge.
99 Froman, M. (2026), 'U.S., Allies Aim to Break China's Critical Minerals Dominance', Council on Foreign Relations, 6 February 2026, https://www.cfr.org/articles/u-s-allies-aim-to-break-chinas-critical-minerals-dominance.
100 Department of the Prime Minister and Cabinet (2026), 'Australia-Japan Joint Declaration on Economic Security Cooperation', Australian Government, 4 May 2026, https://www.pmc.gov.au/resources/australia-japan-joint-declaration-economic-security-cooperation.
101 European Commission (2023), 'Global Gateway: EU signs strategic partnerships on critical raw materials value chains with DRC and Zambia and advances cooperation with US and other key partners to develop the 'Lobito Corridor'', press release, 26 October 2023, https://eeas.europa.eu/eeas/global-gateway-eu-signs-strategic-partnerships-critical-raw-materials-value-chains-drc-and-zambia_en.

Korea exchanges that led to a Supply Chain Partnership Arrangement in 2026.[102] These dialogues provide forums for sharing assessments and identifying areas for cooperation, though often without binding alignment. They can be effective in securing inputs, managing certain supply chains and building trust, but are necessarily more narrowly framed – and often commercially oriented – than initiatives focused on anti-coercion action, the challenges of China's overcapacity or managing geo-economic crises.

Despite these challenges, tentative signs are emerging of more ambitious bilateralism that could eventually form the basis for minilateral initiatives. The Singapore–New Zealand Agreement on Trade in Essential Supplies, signed in May 2026, commits both parties not to restrict trade in essential goods, even during a crisis.[103] Though neither country is among the case studies examined here, the pact is worth mentioning for its focus on the broader question of collective resilience. This distinguishes it from typical resource-for-capital deals, and indicates what a more ambitious, resilience-oriented bilateralism might look like.

Tentative signs are emerging of more ambitious bilateralism that could eventually form the basis for minilateral initiatives.

The narrower focus of most bilateralism reflects the structural challenges of implementing substantive cooperation on economic security, particularly in aligning 'protect', 'promote' and 'defend' policies and tools. Aligning policy in these areas requires coordination of instruments that were originally designed to promote national advantage. It also requires partners to overcome the competitive dynamics that deter cooperation. In terms of the imperative to 'protect', the information-sharing needed to coordinate investment screening or export controls is constrained by commercial sensitivities, and by governments' reluctance to reveal national capabilities or vulnerabilities. In terms of 'promote' strategies, the problem is that liberal middle powers compete for the same investment dollars and positions in value chains, which disincentivizes governments from aligning on industrial policy. As for the imperative to 'defend', the challenge is that efforts to secure national advantage and preferential agreements can undermine collective approaches, as when the UK secured a more favourable US tariff carve-out than the EU in 2025. In other words, the forces and competitive pressures that contribute to fragmentation across the other pillars of economic security also create challenges for collective action, undermining the 'partner' pillar.

But even though it may be rational in some respects for individual countries – and for the EU as a bloc – to prioritize self-interest in approaches to economic security, a 'partner' pillar centred on bilateralism cannot address major geo-economic

102 Jun'ya, N. (2026), 'Japan and South Korea Advance Strategic Coordination Amid Global Instability', Nippon, 17 June 2026, https://www.nippon.com/en/in-depth/d01238/japan-and-south-korea-advance-strategic-coordination-amid-global-instability.html.
103 New Zealand Ministry of Foreign Affairs and Trade (2026), 'Agreement on Trade in Essential Supplies with Singapore', 4 May 2026, https://www.mfat.govt.nz/en/trade/nz-trade-policy/agreement-on-trade-in-essential-supplies-with-singapore.

challenges. Bilateral resource and investment deals do not address coercion. Moreover, problems such as overcapacity in global markets or geo-economic shocks such as the closure of the Strait of Hormuz require collective action, pooled capabilities, effective information-sharing and a willingness to share costs. While cooperation during the second phase of the post-2010 geo-economic order (as described in Chapter 2) had its limitations, in particular because it depended on US leadership, there was nonetheless a genuine effort to coordinate on broader challenges. The risk in the current, post-Biden phase is that liberal middle powers feel obligated to prioritize bilateral arrangements over collective frameworks. The implication for the UK is that, while it will unavoidably need to continue to deepen bilateral partnerships that secure critical inputs and build trust, it must also work with non-US partners to revitalize an ambitious minilateral economic security agenda.

07 Recommendations for the UK

Though facing its own distinct geo-economic challenges, the UK can learn from and work more closely with other middle powers. Building resilience and strategic capabilities at home must be combined with ambitious efforts to coordinate on trade norms, anti-coercion measures and industrial strategy.

The geo-economic risks facing the UK are rising. It is exposed to coercion and supply disruption from China, to a more transactional and unpredictable US, and to growing competition for capital and industrial capacity from its closest partners, including the EU. As a services-led economy outside any major trading bloc, the UK cannot insulate itself through large-scale onshoring or self-reliance, and it depends more than most on a predictable, rules-based trading system.

Andy Burnham's government has an opportunity to respond by investing strategically and strengthening the UK's relations with its partners. Its mid-2026 restructuring of Whitehall – breaking up the Department for Science, Innovation and Technology (DSIT) and bringing industrial strategy, trade policy and investment screening together within the new Department for Business, Innovation, Science and Trade (DBIST) – may create a clearer institutional base for economic security, while the emphasis on a stronger, more strategic centre of government and on safeguarding sovereign economic capabilities signals a more active role for the state. Moreover, strengthening UK–EU relations, including via the recently announced UK–EU Dialogue on Economic Security, and the UK's G20 presidency in 2027 offer an international platform to advance coordination on geo-economic risks.

The UK needs greater coherence at home, so that its 'protect', 'promote' and 'defend' tools are coordinated as part of a single strategy and supported through joined-up investment. It also needs to turn its partnerships with other middle

powers into practical cooperation on information-sharing, anti-coercion measures, industrial strategy and supply chains.

In light of these factors, and the challenges and dynamics explored in the preceding chapters, the UK needs to take the following steps:

1. Strengthen existing government tools, public–private coordination and policy clarity

Establish clearer leadership and coordination inside government

The Burnham government's decision to break up DSIT[104] – and to embed responsibility for strategic technologies, innovation and science within the Cabinet Office and what was previously known as the Department for Business and Trade (DBT) – offers an opportunity to be more strategic in economic security.

The new DBIST should act as the institutional base for the UK's economic security policy. The recent restructuring of Whitehall has integrated the core components of economic security into one department, with DBIST now combining responsibility for industrial strategy, trade policy and, via the transfer of the Investment Security Unit, investment screening. These changes in effect bring the principal 'protect', 'promote' and 'defend' tools under a single secretary of state. While economic security should remain a whole-of-government effort, the government should use these changes to establish clearer leadership and coordination over economic security policy, including over priorities and future policy direction, and to set out formally how responsibilities will be divided across departments. Specifically:

- DBIST should take the lead in coordinating the UK's core economic security tools. It should integrate decisions on industrial strategy, trade defence and investment screening so that the productive and restrictive dimensions of economic security are considered together. It should set priorities and policy direction for these tools within a cross-government framework.
- DBIST should also be the primary point of contact for business on economic security, building on the Economic Security Advisory Service (see below), so that firms have a single, clear route for raising risks and receiving guidance.
- Other departments should retain clear leads in their own areas. The Foreign, Commonwealth and Development Office (FCDO) should continue to lead the UK's international economic security partnerships. In coordination with DBIST, the Cabinet Office should lead on the national security dimensions of critical technologies, including AI, following the transfer to the Cabinet Office of responsibility for AI strategy and the AI Security Institute in July 2026.
- To enhance cross-departmental coordination, the government should reinstate the Economic Security Sub-Committee of the National Security Council (NSC). The government has framed its July 2026 restructuring

104 Cabinet Office (2026), 'Machinery of Government changes: Fact Sheet', UK Government, published 22 July 2026, last updated 27 July 2026, https://www.gov.uk/government/news/machinery-of-government-changes-fact-sheet.

of Whitehall departments as a means to deliver 'a stronger, more strategic centre'.[105] A revived sub-committee would perform that role for economic security, providing a forum for agreeing cross-government priorities, taking a holistic approach to the four pillars of economic security, and striking a balance between restrictive and productive policies. It would also ensure that the UK engages other states and jurisdictions on the basis of a coherent, agreed position.

Strengthen public–private coordination on economic security

The government's relatively new Economic Security Advisory Service (ESAS) – announced in the 2025 Trade Strategy[106] – offers a valuable opportunity to institutionalize public–private coordination on economic security. The following steps are needed:

- The ESAS should publish periodic public statements on economic security priorities. It should synthesize relevant strategies into a coherent, forward-looking agenda that is easy to understand for businesses, including small and medium-sized enterprises (SMEs), which lack geo-economic expertise.
- The ESAS should establish a more structured mechanism to enable businesses to share information with government. This would enable firms to flag emerging supply-chain risks, unintended policy consequences or concerns about foreign interference, and would allow the government to better adapt policy to address unintended effects.
- Over time, the ESAS could establish sector- or theme-focused sub-bodies (e.g. on technology supply chains or outbound investment) feeding directly into government decision-making, and prioritizing sectors deemed critical under the government's 2025 Modern Industrial Strategy.[107] This reform could be complemented by a 'trusted partner' or security-cleared engagement model for highly strategic firms and sectors, enabling critical producers to receive intelligence on geo-economic risks and adopt more anticipatory and preventative approaches to managing them.
- The government should consider appointing economic security representatives, in lieu of a dedicated economic security minister, to engage with strategic sectors and firms. These representatives might have a strong industry background and security clearance. Their brief would be to build trust with the private sector and to translate the UK's economic security policies and priorities into business-relevant advice.

105 Baroness Smith of Basildon (2026), 'Machinery of Government Changes', Written Statement to UK Parliament, 21 July 2026, https://questions-statements.parliament.uk/written-statements/detail/2026-07-21/hlws298.
106 Department for Business and Trade (2025), *The UK's Trade Strategy*, policy paper, updated 25 July 2025, https://www.gov.uk/government/publications/uk-trade-strategy/the-uks-trade-strategy.
107 Department for Business and Trade (2025), *The UK's Modern Industrial Strategy*, November 2025, https://assets.publishing.service.gov.uk/media/69256e16367485ea116a56de/industrial_strategy_policy_paper.pdf.

Coordinate advice and regulation with investment and support for strategic sectors

Businesses are facing new pressures to respond to and anticipate geo-economic risks. These include formal regulations and policies that require them to integrate risk management into their business practices, but governments are also informally raising awareness of geo-economic risks and advising businesses to adapt their activities accordingly. While this is a rational response to rising geo-economic pressures, the UK government should combine new demands on the private sector with offers of funding, support and long-term joint planning. This would reduce the risk of economic security being seen primarily as an additional compliance burden; instead, it could help economic security to be treated as part of a coherent overall approach to industrial strategy.

UK policymakers will need to systematically gather evidence of any unintended effects of economic security policies or rules, and refine guidance and regulations accordingly.

Data will be crucial to this undertaking. UK policymakers will need to systematically gather evidence of any unintended effects of economic security policies or rules, and refine guidance and regulations accordingly. For the strategic sectors prioritized in the Modern Industrial Strategy,[108] this could involve systematically monitoring investment deals to identify long-term trends. It would also mean considering ways in which UK investment vehicles (such as ARIA or the NSSIF) might support sectors where investment is often blocked due to economic security concerns, or where capital is likely to come from risky or adversarial states in the long term. Consideration should also be given to facilitating talent mobility into strategic sectors with skills shortages, including by offering streamlined visa pathways for talent from allied states. The ESAS is the obvious vehicle to perform these functions.

2. Refine the UK's 'protect' regime

The government should strengthen its ability to identify national security risks arising from greenfield investment. The NSIA, like most screening regimes in the jurisdictions examined in this paper, primarily focuses on acquisitions of existing entities, where assets and risks are identifiable when the transaction takes place. Greenfield investments, however, involve creating new entities whose strategic significance and ownership risks may emerge over time. And while the NSIA can capture greenfield investments, these are not subject to the same mandatory notification process as existing assets. The government depends on voluntary notifications and its own market monitoring, which is oriented

108 Ibid.

towards transactions rather than the development of new projects. Yet the risks of greenfield investments may only emerge over time, as projects expand, acquire technology or change hands.

Rather than expanding mandatory notification to all greenfield investments, which would impose wide-ranging costs and regulatory burdens, the government should introduce systematic and targeted monitoring of greenfield investment in the most sensitive sectors – for example, those within or closely linked to the NSIA's 17 mandatory areas. The Investment Security Unit, now part of DBIST alongside the department's investment promotion functions, is well placed to lead this, drawing on the Supply Chain Centre and the ESAS to flag emerging concerns. Greenfield projects in these sectors should be reviewed periodically, so that the government can identify risks as they develop and use its existing powers – including retrospective call-in, within the NSIA's time limits – where needed. Where new projects receive public support or funding, the government should consider attaching security conditions to their approval. In developing this approach, the UK can learn from other middle powers such as Canada, whose regime requires notification when foreign investors establish new businesses and allows these to be reviewed on national security grounds.[109]

3. Tailor industrial strategy priorities and funding channels to areas where the UK can develop leverage and 'strategic indispensability'

The UK's industrial strategy should prioritize broad-based economic growth. But there are also opportunities to strengthen the UK's indispensability in some priority value chains – especially those that might be vulnerable to disruption or coercion by adversaries, or vulnerable in a crisis. This could serve both as a source of leverage and as a deterrent against coercion. It could also strengthen the UK's position with allies with whom the UK seeks closer coordination on economic security.

Lessons can be drawn from the following cases: South Korea's use of its niche capabilities in negotiations with the Trump administration; Australia's positioning of itself as a supplier of critical inputs to allies; and Japan's emphasis on strategic technologies to underpin geopolitical influence and growth.

The Burnham government has emphasized bolstering the state's role in safeguarding some sovereign economic capabilities.[110] Rather than seek unrealistic levels of self-sufficiency or onshoring, the UK can learn from peer states by emphasizing its strategic indispensability and leverage. The recent Modern Industrial

109 Hill, A., West, K. and Ratti, P. (2026), 'Investment Canada Act Notification Requirements For Foreign Investors', Legal500, 15 October 2026, https://www.legal500.com/intelligence/canada/government-public-sector/investment-canada-act-notification-requirements-for-foreign-investors.
110 Partington, R. and Elgot, J. (2026), 'What is Andy Burnham's economic and political blueprint for Britain?', *Guardian*, 29 June 2026, https://www.theguardian.com/politics/2026/jun/29/what-is-andy-burnhams-economic-and-political-blueprint-for-britain.

Strategy (2025) represents a meaningful shift towards prioritizing and channelling support to strategic sectors, but the UK can still sharpen its industrial strategy in three ways without a major shift in fiscal policy:

- First, the UK should ensure that policy, strategic priorities and funding decisions are coordinated. Identifying opportunities for geo-economic leverage should be based on a synthesis of assessments of the UK's supply-chain vulnerabilities, dependencies on foreign powers and existing areas of comparative advantage. For example, the Supply Chain Centre's analysis of the UK's vulnerabilities and strengths could be more closely linked to public investment decisions by the National Wealth Fund or the NSSIF. A central priority should be to assess areas where the UK has strategic industrial leverage. For example, the UK's science and technology ecosystem boasts expertise and capacity in semiconductor design; this could give the UK leverage in negotiations or, if needed, allow it to impose restrictions in response to coercion. The Council for Science and Technology's work on building UK advantage in semiconductor design offers a model for the kind of analysis that could be applied systematically to other areas of potential strength, such as quantum technologies.[111]
- Second, UK financing of economic security should make fuller use of the capital that already exists within the domestic system. The National Wealth Fund, the NSSIF, ARIA and Innovate UK have all either recently been established or adopted a more strategic approach to investing in priority sectors. But while the Modern Industrial Strategy articulates overarching priorities for these funds, a coordinating forum would help identify complementarities and opportunities for mutual reinforcement across their different mandates. This could allow those funds equipped for such a task – principally ARIA and the NSSIF – to make a few high-value, high-risk investments in strategic areas, while the others continue to support innovation and growth through their existing missions.
- Third, reform of government procurement could allow the UK to be more strategic in its industrial policy without mobilizing substantial new resources. Currently, the UK government spends approximately £400 billion a year on public procurement contracts,[112] with efficiency and cost-effectiveness among the principal criteria for awards. However, the Procurement Act 2023[113] attempts to reform procurement to support broader strategic objectives. While reform efforts currently focus on the UK's steel and shipbuilding sectors, the scope could be expanded to a broader range of strategic areas, with procurement decisions informed by the Modern Industrial Strategy or the Critical Minerals Strategy. A clearer set of strategic procurement preferences, published transparently and applied consistently, would give domestic suppliers the demand signals needed to justify long-term investment in capacity, and would reduce the risk of procurement decisions being driven by special interests or sector lobbying rather than by strategic prioritization.

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111 Council for Science and Technology (2025), 'Council for Science and Technology: advice on building a sovereign AI chip design industry in the UK', GOV.UK, updated 21 August 2025, https://www.gov.uk/government/publications/building-a-sovereign-ai-chip-design-industry-in-the-uk/council-for-science-and-technology-advice-on-building-a-sovereign-ai-chip-design-industry-in-the-uk.
112 HM Treasury (2026), 'Government procurement to prioritise national security', 19 June 2026, https://www.gov.uk/government/news/government-procurement-to-prioritise-national-security.
113 Ibid.

4. Strengthen the UK's trade defence and approach to countering coercion

DBIST is considering creating capabilities to respond to adverse economic pressures.[114] The UK must enhance its ability to defend itself against coercive and distortive economic practices that exploit supply-chain interdependencies. In support of this goal, the government should:

Establish a decision-making framework for identifying and responding to coercion

While the UK has legal powers to impose countermeasures under existing legislation, these tools need to become embedded in a more strategic, anticipatory trade defence framework aligned with national security, industrial and trade strategies. This would consolidate the UK's trade defence powers and clarify its ability and willingness to use them. This framework should:

- Define economic coercion and establish criteria for identifying it. Coercion should be understood as deliberate external pressure – applied through restrictions on flows of capital, goods, information or people – that aims to impose economic costs on the UK to force a change in policy. Identification of coercion should rest on evidence of activity by a coercive actor and of coercive intent. It would also rest on identification of the channels through which pressure is applied and of the costs the coercion imposes. Policy should distinguish coercion from ordinary non-market or unfair trading practices, which are better addressed through the TRA and the WTO.
- Establish a graduated pathway for policy escalation, with diplomacy as the primary response and countermeasures reserved as a last resort. Responses should be calibrated according to the source of pressure (e.g., adversaries, neutral parties, allies) and its severity. High-severity cases involving strategic sectors should be treated as national security risks and escalated to the NSC, ensuring trade defence is integrated with the central coordination structures proposed in Recommendation 1. Where coercion involves an ally, only exceptionally severe cases might justify countermeasures, given the wider security and intelligence relationships at stake.
- Expand the UK's repertoire of countermeasures to include the ability to limit coercive actors' access to public procurement and research funding. In the most severe cases, the government could consider – where it has the leverage to do so – restricting a coercive actor's access to UK-based service sectors, including financial services, legal services and higher education. The government could also restrict access to R&D collaboration. Because many of the most important economic sectors for the UK depend on openness and predictability,

114 Department for Business and Trade (2026), 'Call for input on potential powers to protect the UK from adverse economic pressure', UK Government consultation, 9 April 2026, https://www.gov.uk/government/consultations/call-for-input-on-potential-powers-to-protect-the-uk-from-adverse-economic-pressure/call-for-input-on-potential-powers-to-protect-the-uk-from-adverse-economic-pressure-web-version.

countermeasures should be applied cautiously and should be reserved for severe instances of coercion. The government should use carve-outs to exempt goods and services critical to the UK economy.

- Design countermeasures to be rehabilitative rather than punitive. Measures should be targeted, time-limited and reversible. They should be framed as responses to specific acts of coercion, with clear criteria for restrictions to be lifted once the coercive activity stops. Clearly defined off-ramps would give the coercing state a route to de-escalation and signal that the UK's aim is to negotiate an end to coercion, rather than to escalate. To the greatest extent possible, measures should be proportionate and compliant with international norms.
- Map the scenarios and actors most likely to be involved in coercion to identify in advance where the UK holds leverage and where it is exposed. The government should increase resources for threat analysis to strengthen the UK's anticipatory capacity and preparedness for economic pressure.

Finally, the UK should remember that its countermeasures will be more effective when it is not acting in isolation. Countermeasures deployed unilaterally by a mid-sized economy can be more easily absorbed or circumvented by a larger coercing state than can those deployed in concert with partners. A credible national trade defence framework is therefore also a foundation the UK can use to strengthen coordination with other middle powers to deter and respond to coercion, as outlined below.

Embed a strategic function in the Trade Remedies Authority

The government has indicated plans to give the Trade Remedies Authority (TRA) a more prominent role in defending UK interests and economic security.[115] This is welcome, as was the 2025 expansion of the TRA's powers to include monitoring trade and investigating claims. But the TRA must move beyond a narrow casework model to function as a more strategic, proactive institution focused on addressing unfair market practices and distortions that fall below the threshold of coercion, complementing the anti-coercion decision-making framework outlined above.

First, the TRA should be integrated with national security and industrial strategy functions. It should coordinate with the Joint Intelligence Organisation, the Cabinet Office and departments responsible for strategic sectors to identify trade-related vulnerabilities. It should draw on economic security intelligence – including that gathered by the ESAS – to inform case selection and prioritization.

Second, the TRA's Economic Interest Test should be reformed to weigh security, national capability and strategic importance alongside the potential impacts on consumer prices and employment of any steps taken to counter coercion, allowing the UK to act more decisively where long-term security is at stake. These steps should be supported by a more proactive posture, which should include the following: providing dedicated capacity to monitor subsidies, pricing and dumping risks in priority sectors without waiting for industry complaints; establishing a channel for

115 Trade Remedies Authority (2026), 'TRA Plan 2026-2029', Corporate Report, 30 April 2026, https://www.gov.uk/government/publications/tra-plan-2026-2029.

departments to refer cases showing strategic harm in key sectors; and coordinating trade remedies with other levers (so that, for instance, duties on dumped steel can be paired with upstream support for domestic production). These reforms should be linked to UK efforts to uphold trade rules through mechanisms such as the WTO's MPIA, as discussed below.

5. Pursue and develop strategic economic security partnerships with allies

Domestic tools alone cannot safeguard the UK's economic security. To strengthen the 'partner' pillar of its economic security framework (see also Chapter 6), the UK should pursue a two-track approach to coordination with its allies and partners. The first track should aim to deepen bilateral partnerships focused on strategic trade, technology development and addressing shared vulnerabilities. In parallel, a second track should leverage these partnerships to build the trust and institutional infrastructure on which more ambitious minilateral alignment can be built over the medium term, with bilateral cooperation treated as a building block for collective action rather than as a substitute for it.

Both tracks will have their challenges. Cooperation requires participating middle powers to accept national costs, from sharing sensitive information to reconciling the demands of industrial and technological competition, and to proceed without the US playing its traditional anchoring role. Sequencing engagement in this way offers a roadmap for moving from limited but relatively tractable bilateral cooperation to more ambitious minilateral cooperation.

To put these principles into practice, the government should take the following steps:

Pursue and develop an economic security partnership with the EU as part of a wider reset of UK–EU relations

The EU is the UK's largest trading partner, and the two face overlapping geo-economic risks. These range from coercion and Chinese overcapacity to an unpredictable US, as well as shared strategic dependencies in areas such as critical minerals and semiconductors. As such, the recent announcement of a Dialogue on Economic Security at the UK–EU summit on 20 November 2026 is welcome and offers the opportunity to pursue a joined-up approach to these strategic challenges. For this partnership to be effective, the UK and the EU should jointly undertake the four following steps:

— First, the UK and the EU should establish a strategic architecture around the announced Dialogue on Economic Security, with regular ministerial and official-level consultations on geo-economic risks and challenges. This should include: consultations on information-sharing on investment risks and supply-chain vulnerabilities; joint work on early-warning systems for supply-chain disruptions, linking the UK's Supply Chain Centre with the EU's own monitoring mechanisms; engagement on trade norms, including approaches to subsidies and

overcapacity; and discussions on anti-coercion measures and responses to adverse economic pressure, including how the UK's emerging framework could operate alongside the EU's Anti-Coercion Instrument (ACI).

— Second, the UK and the EU should pursue closer alignment on investment screening and academic research security. This would support cross-border collaboration, enabling sensitive UK technology, capital and research to be shared with the EU while reducing concerns about data leakage or hostile exploitation. This would be particularly important if the EU's 10th Framework Programme for Research and Innovation (FP10), the successor to Horizon Europe, is designed to focus more on defence, dual-use technology and security-related research, as expected. The UK should take advantage of the fact that the NSIA is broader and more flexible than the EU's framework, which – even after recent reforms requiring all member states to operate screening regimes – still relies on national regimes that vary in scope and enforcement. UK policymakers should encourage harmonization of outcomes between the two regimes where possible, and share best practice on balancing support for economic growth with the need to protect national security. The NSIA's coverage of investments in sensitive academic projects also offers a potential precedent for joint guidance on research security, and could underpin future cooperation on dual-use technologies.

The UK and the EU should explore ways to strengthen industrial cooperation, particularly in priority areas such as AI and other critical technologies, including by pooling investment and talent.

— Third, the UK and the EU should explore ways to strengthen industrial cooperation, particularly in priority areas such as AI and other critical technologies, including by pooling investment and talent. As both the UK and the EU expand their use of procurement preferences and local-content requirements – including through the EU's Industrial Accelerator Act and the UK's reforms under the Procurement Act 2023 – there is a risk that these measures could create new barriers between their respective markets. The UK should seek to ensure that UK firms are treated as trusted partners within EU preference schemes, and should consider how its own preferences can accommodate trusted EU suppliers on a reciprocal basis. This would allow procurement to be used to deepen industrial collaboration between the UK and the EU as strategic partners.

— Fourth, the UK and the EU should pursue alignment of guidance on end-use controls for dual-use technologies, as well as risk lists and export control licensing procedures where feasible, particularly where divergence could undermine joint objectives (e.g. in semiconductors, defence-related AI and biotechnology). Where UK and EU controls diverge, there is a risk of sensitive technology going through the weaker jurisdiction, undermining the effectiveness of both regimes and

creating challenges for firms operating across both markets. As Chapter 3 showed, export control alignment among allies has so far been driven principally by US pressure – most notably the Biden administration's push for allies to match its 2022 restrictions on exports of semiconductor manufacturing equipment to China. A UK–EU process would establish a European-led complement, shaped by regional priorities.

Enhance coordination on trade defence and diversification

While the UK and the EU have different agendas and face distinct risks in trade defence, particularly in relation to pressures from the US, they also share overlapping trade threats and strategic dependencies (e.g. in rare earths, semiconductors) that make their respective economies vulnerable to coercive practices. Greater alignment would strengthen the effectiveness and credibility of any response. To enhance coordination, we recommend the following steps:

- The UK and the EU should establish a trade defence dialogue to share intelligence, assess risk exposure and identify cases where complementary action is feasible, thereby avoiding duplication and mixed signalling.
- The UK and the EU should pursue partnerships on supply-chain diversification, particularly for critical materials and rare earths. Combined UK–EU engagement with resource-rich, geopolitically aligned partners such as Australia and Canada could underpin more secure supply chains for low-carbon technologies, advanced manufacturing and defence production.
- Over time, the UK should consider ways to coordinate its policies with the EU's ACI when joint action is strategically beneficial. This could include agreeing shared definitions of coercion and establishing compatible identification criteria. The decision-making framework proposed in Recommendation 4 would make the UK a credible partner in any such response.

This structured cooperation would allow the UK and the EU to maintain autonomy while aligning in ways that strengthen Europe's collective economic security.

6. Strengthen coordination with other middle powers, with a view to making pre-existing mechanisms more effective

The first track of the UK's wider engagement should focus on deepening bilateral partnerships with middle powers such as Australia, Canada, Japan and South Korea. These countries are already close security partners and active members or close partners of forums such as the G7, OECD and (with the exception of South Korea) the CPTPP and MPIA. All four states face similar challenges to those of the UK in responding to an adversarial and unpredictable trade environment without the fiscal or coercive leverage of major powers.

The UK should deepen these partnerships where strong complementarities exist – with resource-rich partners that can supply critical inputs, and with technologically advanced partners where there is scope for joint programmes in strategic sectors. The UK–Japan relationship is the most developed model. The UK–Japan Joint Declaration on Economic Security Cooperation[116] covers supply chains, technology and coordinated approaches to countering coercion, and provides a potential template for comparable agreements with Australia, Canada and South Korea.

But across liberal middle powers, many bilateral initiatives have stalled at the declaratory stage without creating programmes for concrete coordination. The UK should therefore make it a priority to operationalize its existing partnerships. This could mean, for example, deepening cooperation with Australia and Canada on critical minerals supply chains through specific off-take or joint investment arrangements, or pairing the UK's strengths in semiconductor design with partners' manufacturing capacity through co-funded research and supply agreements.

Deepening bilateralism among multiple liberal middle powers should be seen as part of the groundwork to building the trust, shared practice and institutions on which broader collective frameworks can be built.

Bilateral cooperation alone, however, cannot enhance the 'partner' pillar or secure the UK's long-term economic security. As Chapter 6 argued, bilateral arrangements tend to focus on resource and technology flows and cannot address broader collective-action challenges such as deterring coercion, managing China's overcapacity or responding to systemic geo-economic crises. Consequently, deepening bilateralism among multiple liberal middle powers should be seen as part of the groundwork to building the trust, shared practice and institutions on which broader collective frameworks can be built.

Build minilateral coordination on supply chains, 'protect' tools and anti-coercion measures

The most significant geo-economic risks cannot be addressed bilaterally; moreover, the minilateral mechanisms for addressing them have been deprioritized since 2025. The UK should bring its bilateral partners into minilateral coalitions where coordination is feasible, expanding the scope and membership of such groupings as trust develops.

On supply chains, the UK should convene a structured data-sharing initiative among the G7 and its close partners to map supply-chain vulnerabilities and strengths. The initiative could draw on Australia's model for mapping allies'

116 Prime Minister's Office, 10 Downing Street and The Rt Hon Sir Keir Starmer KCB KC MP (2026), 'UK-Japan Joint Declaration on Economic Security Cooperation', press release, GOV.UK, 14 June 2026, https://www.gov.uk/government/news/uk-japan-joint-declaration-on-economic-security-cooperation.

strategic needs, building both on the UK–US–Australia Supply Chain Resilience Cooperation Group's early-warning pilot scheme in telecommunications and on the Japan–South Korea–US trilateral mechanism. The UK government's Supply Chain Centre should provide the UK's analytical contribution; the open datasets of the UK Office for National Statistics, along with wider government analytical capabilities, could provide the foundation for shared methodologies and early-warning indicators. Most middle powers monitor risks unilaterally, even though no single country has a complete picture of evolving threats. Pooling even high-level, non-confidential assessments would raise collective awareness.

For 'protect' tools, the UK should work to address the coordination gap identified in this paper. The fact that 'protect' regimes operate nationally, and that middle powers compete for scarce investment, often incentivizes states to keep controls lighter than those of their peers, creating regulatory arbitrage that weakens collective security even where the underlying risks are shared. The UK should lead efforts to establish a minilateral regulatory floor for 'protect' policies among trusted partners. This could include a set of shared minimum screening standards and a reciprocal 'trusted investor' fast lane among close allies (e.g., the G7 plus its close partners), so that high-risk capital diverted in response to one state's controls is not absorbed elsewhere in the alliance. This would strengthen allied protections against hostile capital while reducing barriers to cross-border investment between trusted partners.

On anti-coercion measures, the UK should work with other liberal middle powers to revitalize the G7 Coordination Platform on Economic Coercion, but without relying on US leadership. Priorities should include developing shared definitions of, and identification criteria for, coercion; piloting information-sharing among trade defence agencies, including the TRA and its counterparts; and funding person-to-person exchanges and technical assistance to harmonize methods for identifying coercion, so that partners can act together. There are legal and political limits to this cooperation, but collective attribution – and the prospect of a coordinated response – can raise the cost of coercion in ways that middle powers cannot achieve alone, helping address the credibility problem identified in Chapter 5.

The UK should also leverage its CPTPP membership to advocate a greater institutional focus on supply-chain resilience, particularly with members such as Malaysia, Singapore and Vietnam, which play increasing roles in strategic sectors. Economic security is not the CPTPP's core mandate, but its existing pledges on supply chains provide a basis for the UK to shape the CPTPP as a platform for dialogue and coordination, especially where members share concerns about coercion.

Work with others to strengthen international trading rules and norms – building on the UK's recent MPIA accession

Beyond its bilateral and minilateral partnerships, the UK should work through plurilateral mechanisms and institutions. The UK's accession to the WTO's Multi-Party Interim Appeal Arbitration Arrangement (MPIA) in June 2025 was a significant and welcome step, bringing it into line with more than 50 WTO members, including Australia, Canada, the EU, Japan and most other CPTPP signatories, and reinforcing the UK's reputation as a constructive advocate for

rules-based trade. Membership of the MPIA also directly serves the UK's economic security. As the analysis in this paper has shown, liberal middle powers have used the MPIA to resist economic pressure and uphold trading norms. But the UK should leverage its membership in three ways:

- First, the UK should drive forward MPIA procedural reforms to improve the mechanism's credibility and effectiveness. These reforms should include publishing more detailed reasoning for decisions; testing streamlined dispute-resolution timelines to address procedural bottlenecks; and exploring non-binding advisory opinions or issue-specific rulings to clarify systemic legal questions before they escalate into full disputes. These reforms would increase the MPIA's utility and could shape future WTO dispute-settlement reform.
- Second, the UK should broaden the MPIA's reach, using diplomatic and trade channels to encourage other middle powers (e.g. India, Indonesia, South Korea) and Commonwealth partners to join, and offering technical and legal support to help partners navigate the accession process.
- Third, the UK must address the deeper challenge that WTO rules were not designed for the defining features of the current geo-economic order and cannot respond effectively to them. Key challenges include supply-chain disruptions, strategic dependencies, rising industrial subsidies and economic coercion. The UK should work with other middle powers to preserve and modernize the multilateral trading system. This includes supporting plurilateral initiatives among willing members, coordinating positions on industrial subsidies, and developing shared rules and norms for the intersection of trade and security.

The UK's G20 presidency in 2027 provides a platform for this agenda. The UK should use its G20 presidency to place supply-chain resilience and trade predictability on the agenda and to convene discussions among middle powers on WTO dispute-settlement reform ahead of the G20 summit. A successful presidency would demonstrate that in the absence of a great power anchor, middle powers can organize collective economic security themselves, and that the UK is well placed to help convene deliberations on this critical subject.

Annex: Economic security policy archetypes

The UK and the five case study jurisdictions – Australia, Canada, the EU, Japan and South Korea – display distinct patterns in terms of how they structure their economic security regimes. These patterns share characteristics, and lend themselves to categorization according to different policy archetypes. These are listed in Table 1.

Table 1. Archetypical actors in economic security policy

Archetype	Characteristics and examples
'Strategic investors'	**Japan** and **South Korea** share relatively high threat perceptions, shaped by their geography and direct experience of economic coercion. Both have responded by pursuing strategic autonomy and indispensability, leveraging deep institutional histories and industrial capabilities to run targeted industrial policies in advanced technologies, especially semiconductors. Both also operate relatively tight investment regimes and are rapidly developing other 'protect' tools around sensitive information and IP. Both are cautious about resorting to policy retaliation that could lead to escalation, which would damage their trade-exposed economies. While the two countries have different economic models, they pursue a similar strategy. Japan uses a more state-directed, institutionalized architecture, whereas South Korea has a corporate-led approach built around domestic technology champions. For both countries, the US has been a central pillar of economic security, but Japan and South Korea now both harbour growing concerns about US unilateralism and the American politicization of the economic relationship.
'Targeted balancers'	**Australia** and **Canada** have adopted ad hoc, reactive approaches to economic security, but have relatively strong 'protect' measures. Their approach to industrial strategy is targeted at strengthening their position in mineral value chains and their strategic value as economic security partners to allies. However, while Australia pursues a defensive, non-retaliatory approach in responding to actual or potential economic coercion, Canada has been more willing to use countermeasures. The US's turn to a more unilateral, protectionist posture has added to long-standing concerns about American commitment to cooperation. This is a more existential problem for Canada, whereas the challenge for Canberra is to balance the security alliance with the US with Australia's close trading ties with China.

Archetype	Characteristics and examples
'Patchwork federalists'	As a non-unitary actor, **the EU** employs a strategy that cannot be neatly categorized with those of the other case studies. It is pursuing a range of ambitious but diffuse industrial policies focused on advanced technology, low-carbon energy and defence. While the European Commission has established recommendations and tools to protect sensitive sectors, implementation is uneven across the bloc and certain states lack sufficient systems. The Anti-Coercion Instrument (ACI) represents a more assertive posture in terms of responding to external pressure, reflecting the size and power of the EU as an economic bloc. The EU has also sought to deepen international coordination on economic security, including through various bilateral agreements, but these remain in their early stages.
'Constrained generalists'	**The UK** resembles the above archetypes in different ways but also has its own distinct approach. Like the EU, it has set out an ambitious industrial agenda over the years, but fiscal constraints have compounded insufficient prioritization, leading to a relatively untargeted approach. Like the other case studies, the UK has recently upgraded its 'protect' regime, including via the National Security and Investment Act (NSIA). Like Australia, Japan and South Korea, the UK is often reluctant to pursue retaliatory trade action and has a preference for negotiation. But while it has sought to reposition itself following its departure from the EU, and to 'reset' relations with a variety of states and groupings, its engagement with other states on economic security has been limited. The recently announced economic security dialogue with the EU, however, indicates the prospect of a more strategic approach in future.

Source: Authors' compilation.

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Acknowledgments

We would like to express our sincere gratitude to our interviewees and to the participants in our roundtables and workshops on the economic security of the UK and other cases studied. We thank Mia Cooke-Joshi, Katie Lochrie, Thomas Maddock, Tahlia Peterson, Robin Potter and Armida van Rij for their invaluable assistance with the research. We also thank Ashley Lenihan, UK in the World Programme associate fellow, for her continued support of this research. We also extend our appreciation to the anonymous peer reviewers for their constructive feedback and insights.

We also thank the wider UK in the World team, especially Alis Martin, Meri Miettinen and Courtney Rice, for their ongoing support throughout the project. Finally, thank you to Chatham House's Publications team, particularly Jake Statham, for very helpful editing support and advice.

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ISBN 978 1 78413 695 6
DOI 10.55317/9781784136956

Cite this paper: Puri, J. and O'Sullivan, O. (2026), *Safeguarding the UK against economic coercion: Policy lessons from middle powers*, Research Paper, London: Royal Institute of International Affairs, https://doi.org/10.55317/9781784136956.

This publication is printed on FSC-certified paper.
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