Complex trade-offs: Economic openness and security in Australia

ABER Working Paper 21/11/2021
November 2021

Draft prepared for Chapter 4 of the forthcoming book, ‘Economic integration, national security and strategic uncertainty in Asia.’

Peter Drysdale
The Australian National University

Adam Triggs
The Australian National University
Accenture Australia

Keywords
Australia, international trade, national security, economic openness

JEL Codes
F50, F52, F53, F55, F10, F13

The East Asian Bureau of Economic Research (EABER) is a forum for high-quality economic research focussing on issues facing the economies of East Asia. It comprises representatives from Japan, China, South Korea, Vietnam, Cambodia, Laos, Thailand, Malaysia, the Philippines, Indonesia and Australia.

The rapid development of the East Asian economies, the growth of intra-regional trade, financial and other economic interaction, and East Asia’s new role in the global economy all
underline the need for access to a vastly increased range of quality economic analysis on East Asia. Such analysis from both inside and outside government is essential to assist policymakers in responding to, and anticipating, issues confronting the East Asian economy.

The views expressed in ABER Working Papers are those of the individual authors and do not represent the views of the East Asian Bureau of Economic Research, the Crawford School, or the institutions to which authors are attached.

**The Crawford School of Public Policy** is the Australian National University’s public policy school, serving and influencing Australia, Asia and the Pacific through advanced policy research, graduate and executive education, and policy impact.
Chapter 4
Complex trade-offs: Economic openness and security in Australia

Adam Triggs and Peter Drysdale

Abstract
A challenging global environment has forced Australian policymakers to think about where Australia’s security comes from, and how it can be strengthened. A nascent but increasingly influential narrative is emerging in parts of the Australian community that economic openness makes the country less secure and that Australia’s security can only be bolstered through economic self-reliance, increased military spending and a deepening of Australia’s alliance with the United States to the exclusion of relations with other nations, notably China.

The chapter describes the main elements of this narrative and argues that it is inconsistent with Australia’s lived experience, overlooks how Australia’s flexible markets and domestic policies and institutions bolster Australia’s security, and is based on an overly simplistic trade-off between Australia’s openness and its security. Economic openness carries with it political risks, but there are national and international strategies that can mitigate these risks. The chapter explores the economic and strategic context Australia faces, how international tensions have shaped recent public discussion in Australia, and how the Australian Government is managing a difficult global environment. It concludes that there is much work to do in re-thinking the strategies needed to deal successfully with the challenges Australia now faces.

Introduction
The challenging global environment has wedged Australia into a difficult position over its economic and strategic choices. Australia’s prosperity is underpinned by its openness. More than a fifth of Australia’s GDP comes from trade (World Bank 2020), two-thirds of its population growth comes from immigration (Kehoe 2020) and its A$4 trillion stock of foreign investment has underpinned the growth of Australia’s living standards (Australian Government 2020b). Australia relies on the multilateral rules-based system for its global influence and its international economic engagement. Its largest trading partner is China, seven of its top 10 trading partners are in Asia (Australian Government 2020c), while its alliance with the United States is accepted on all sides of politics as the cornerstone of Australia’s defence strategy.

These features of its external relations have served Australia well. But the COVID-19 pandemic, tensions with (and between) China and the US, the attacks on multilateral institutions and the growing globalisation backlash are putting it under increased strain. Declines in trade, investment and immigration have weakened the foundations of Australia’s prosperity. Attacks on the global rules-based system have weakened Australia’s influence
and increased global uncertainty. There is growing distrust of China among increasingly influential figures in Australia’s political system, media and think tanks, spiked by China’s actions in Xinjiang, Hong Kong, Taiwan, the South China Sea and claims by both sides of political interference in domestic affairs, and this distrust has strained the Australia–China relationship. Australia’s relationship with the US has been made more problematic by the Trump administration’s undermining of global institutions, its threats of tariffs on Australian steel and aluminium, the diversion of trade away from Australia by the US–China trade deal, threats to break a politically important refugee resettlement deal agreed by President Obama and the Trump administration’s escalation of anti-China actions and Cold War rhetoric.

These tensions have forced Australian policymakers to ask themselves where Australia’s security comes from and how it can be strengthened. It is a question that, until recently, had largely been taken for granted. The complex global environment, and Australia’s conflicting and evolving interests within it, has produced divergent views between Australia’s business community, trade unions, think tanks, media outlets, academics, civil society and general public on how best to respond. These divergent views across Australian society are reflected in Australia’s parliament and Australia’s government, which are struggling to articulate a consistent approach in this challenging new world.

An increasingly influential narrative is emerging in Australia that economic openness makes the country less secure and that Australia’s security can only be bolstered through economic self-reliance, increased military spending and a deepening of Australia’s alliance with the US to the exclusion of relations with other nations, notably China. Those advocating this world view argue that Australia should be substantially less open than it is. International economic relationships should be minimised to enhance Australia’s security. Any international economic relationships that we do have, the argument runs, should be with trusted allies. Some have advocated a reorientating of Australia’s trading relationships away from China and Asia towards the Five Eyes intelligence-sharing countries: Canada, New Zealand, the United Kingdom and the United States.

A less open and more self-reliant Australia is not easily distinguishable in outcome from an Australia that is less reliant on China because it is not an ally. China is the world’s second largest economy; it is larger than the US economy in purchasing power parity terms and on a trajectory to be the largest in market exchange rate terms as well. As the world’s largest trader, it is Australia’s largest trading partner and that of most of the rest of the world through deep integration and complex supply chains. Economic distancing from China is economic distancing from the world.

The argument for self-reliance is not universal in Australia, but is becoming more widespread. It does not withstand close scrutiny, but it raises big policy problems that need to be dealt with. This view of Australia’s security is not consistent with Australia’s lived experience. It is a world view that is based on a fundamental misunderstanding of how Australia’s markets work, a misunderstanding of the role of Australia’s domestic policies and institutions and, most importantly, the oversimplified proposition that Australia’s economic prosperity, liberty and international integration can be traded-off for more security. The arguments that underpin this world view are often inconsistent, anecdotal and based on implausible economic counterfactuals.
This chapter explores the global economic and strategic context Australia faces, how international tensions have shaped the public discourse in Australia, the views of different groups in Australia on how these tensions should be managed and their influence on policy decisions, and how the Australian Government is managing a difficult global environment. The chapter proposes a new framework for thinking about Australia's security, recognising the ways in which Australia's openness is a source of security and how the downside risks that can arise from Australia’s openness can be managed through carefully designed domestic frameworks, policies and institutions and a new direction in international diplomacy. The key is to manage the risks from Australia’s openness, not to avoid them.

**Australia in a global context**

Australia’s story since the end of World War II is one of radical transition. It went from being one of the most closed, inward-looking, protectionist economies in the world to being one of its more open. Australia adopted a new growth model. It threw out the protectionist, inward-looking, import-substituting policies of the past and replaced them with a growth strategy based on economic reform, open regionalism and integration with Asia (Garnaut 2001). In the last third of the twentieth century, Australia's tariffs were cut and replaced with openness to the trade in goods and services. Financial restrictions were removed, opening the economy to global capital flows. The Australian currency was floated, buttressing the economy from future regional and global crises. Australia's so-called White Australia policy was scrapped and replaced with one of the largest and diverse immigration programs in the world (Garnaut 2001).

Today's Australia bears little resemblance to these features of its past. It is now a substantial trading nation. Trade allowed Australia to specialise. The country now earns more than a fifth of its GDP exporting goods and services to the world, with strong comparative advantage in the export of mining and resource goods, agricultural produce, education and professional services. Australia imports vital goods and services that have dramatically reduced the cost of living for Australians and that often underpin the competitiveness of many of its exports, such as mining equipment and digital technologies. This specialisation brought about by trade underpinned Australia's productivity growth. It saw sharp falls in the cost of living for the poorest Australians (Australian Government 2018) and delivered the longest period of uninterrupted growth in modern history. Much of Australia’s trade liberalisation in the postwar period was done unilaterally, not as part of any international agreement (Corden 2017).

Although the reforms that underpinned this transition were implemented by governments, the outcomes were market-led (Garnaut 2001). Australian businesses and households responded to international prices and established a trade profile for Australia that, unsurprisingly to trade economists, concentrated on the region in which Australia was located and the region that contained the countries that needed the things Australia produced: Asia. Seven of Australia’s top 10 trading partners are in Asia. Australia’s biggest trading partner, China, accounted for 38 per cent of Australia’s exports in 2019, and 48.8 per cent in the second quarter of 2020, far more than our second largest trading partner, Japan, at 16 per cent (Australian Government 2020c).
Australia’s openness is not limited to trade. Australia has historically been a capital importing country, running persistent and substantial current account deficits that, at times, have exceeded 7 per cent of GDP – large by international standards (Debelle 2019). Australian households, businesses and governments import savings because they do not save enough to finance the amount of investment needed to sustain Australia’s high standards of living and relatively high population growth. On average, Australia comes up short by almost A$60 billion annually.¹ Australia’s openness to global financial markets has allowed its governments, firms and households to borrow the shortfall, allowing them to save less, utilise foreign know-how, consume more and enjoy lower interest rates that, in turn, have spurred investment and higher standards of living. The total stock of foreign investment in Australia is almost A$4 trillion (Australian Government 2020b). These investments have allowed projects to commence and companies to form that otherwise would not have been able to do so. More than one in four of the biggest employing businesses in Australia have more than 50 per cent foreign ownership. Foreign investment from the European Union, United States and Canada alone contributed to employing around 676,000 Australians in 2015 (Australian Government 2018).

Australia’s markets and economy changed dramatically after opening to the world and so too did its people. Almost a third of the people living in Australia in 2019 were born overseas. Those born in the UK make up the largest share at 3.9 per cent of Australia’s total population. But the majority of those born from overseas are from Asian countries, predominantly China (2.7 per cent), India (2.6 per cent) and New Zealand (2.2 per cent), but also the Philippines (1.2 per cent), Vietnam (1 per cent), Malaysia (0.7 per cent) and Sri Lanka (0.6 per cent) (Australian Bureau of Statistics 2020).

Many come to Australia for its universities. Australia’s openness to international students has seen education become Australia’s third largest export, substantially increasing the resources available to domestic students. International study in Australia provides one route to permanent residency and citizenship. Tourism and business travel have similarly underpinned growth and job creation, particularly in some of Australia’s smaller cities and towns, like Cairns in far north Queensland and Uluru near Alice Springs in central Australia.

Discussion of Australia’s defence and security arrangements commonly begins with a reference to Australia’s historical links to Britain and our defence treaty with the US after WWII. Australia remains part of the British Commonwealth with the Queen as its formal head of state. Despite these constitutional links, Australia’s economic and political relationship with the UK is small. Australia’s two-way trade with the UK is less than one-tenth that of Australia’s two-way trade with China (Australian Government 2020c). The UK remains a significant source of immigration for Australia, but it is the US that is repeatedly referred to as Australia’s most important alliance partner.

Australia’s security treaty with the US, the ANZUS Treaty (Australia, New Zealand and United States Security Treaty), was signed in 1951. The treaty commits its signatories to ‘consult together’ and ‘act to meet the common danger’. Specifically, Article 4 states:

> Each Party recognizes that an armed attack in the Pacific Area on any of the Parties would be dangerous to its own peace and safety and declares that

1 Average current account deficit since 2000: IMF World Economic Outlook Database, October 2019.
The ANZUS Treaty has been invoked only once: by Australian Prime Minister John Howard in the aftermath of the September 11 terrorist attacks in the US. The treaty is commonly referred to as the cornerstone of Australia’s defence policy. Australia’s then foreign minister, Julie Bishop, summarised the treaty by saying ‘at the heart of the treaty is a commitment to come to one another’s aid in the worst of times’ (ABC News 2014). Most international experts suggest that the commitments contained in the treaty are more ambiguous than that. Hugh White at The Australian National University, a former senior defence department official and adviser to Labor Prime Minister Bob Hawke, suggests there are many ambiguities about what ‘act’ means, noting that ‘it doesn’t necessarily mean military action’ (ABC News 2014).

Despite its important bilateral relationships, Australia’s international engagement is primarily through multilateral frameworks. Australia is a member of the G20, Asia-Pacific Economic Cooperation (APEC), Pacific Islands Forum and East Asia Summit, and interacts with the Association of South-East Asian Nations (ASEAN) through the expanded ASEAN+6 grouping. Australia has 14 free trade agreements and is a signatory to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and Regional Comprehensive Partnership (Australian Government 2020a), but Australia fundamentally relies on the multilateral framework of the World Trade Organization (WTO) to secure its trading interests, including dispute settlement. Australia has bilateral investment treaties and currency swap lines but is fundamentally reliant on the global rules, institutions and systems in the international financial architecture. Further, despite its own domestic military capabilities, Australia relies on coalitions within bilateral, regional and global security arrangements and institutions. ‘The exercise of military force in its own right is not beyond [Australia]’ noted Allan Gyngell, former head of Australia’s peak intelligence body, the Office of National Intelligence. ‘Still, in the places where Australia has used military power most effectively in recent decades … we have always had to work in coalition with others’ (Gyngell 2019).

**Australia in a challenging global environment**

This snapshot of Australia’s international engagement offers insights into how the new and challenging global environment has created difficulties for Australia in recent times. Growing tensions between the US and China have put Australia in a tough spot. On the one hand, China is Australia’s largest trading partner in both imports and exports. Trade with China amounts to 8 per cent of Australian GDP and is an important source of revenue for Australia’s federal government and many state governments. China plays a particularly important role in sectors such as mining, agriculture, education and tourism and there are strong links between its peoples: more than 1.2 million Australians have Chinese ancestry (Australian Bureau of Statistics 2020). Australia’s future prosperity is in no small part entwined with that of China – a growing challenge as China’s changing economy sees a shift in demand away from mining resources towards services and other imports that have more substitutes and for which there is more international competition.

On the other hand, the US is the ‘cornerstone of Australia’s defence policy’, according to Australia’s former foreign minister (ABC News 2014). Australia has fought alongside the US
in every conflict that the US has been involved in since World War I. There is a longstanding bipartisan understanding in Australian politics that the US is Australia’s most important ally (Collinson 2019). Australia houses US military and intelligence bases within its borders, shares intelligence and participates alongside the US in joint military exercises, including some in the South China Sea.

The incentives of Australia and the US have become less closely aligned since the election of President Trump in 2016. The US–China phase one trade deal has diverted agricultural trade away from Australia, hurting Australia’s farmers and agricultural sector. President Trump’s attacks on the WTO and its dispute settlement mechanism have weakened the global trading system that Australia relies upon for its prosperity. Trump’s withdrawal from the World Health Organization and Paris Climate Accord, and his at times unconstructive engagement in the G20, APEC and East Asia Summit have all weakened cooperation in the multilateral forums Australia relies upon for its international engagement and influence. Bilateral tensions have also increased. President Trump threatened tariffs on Australian steel and other Australian exports, and also threatened to break a politically important refugee resettlement deal agreed with Australia under the Obama administration. There are reliable reports suggesting that Australia faced significant pressure from the US in its decisions on Huawei and 5G (Kehoe 2018), the Asian Infrastructure Investment Bank (Australian Institute for International Affairs 2014) and the Belt and Road Initiative (Murray-Atfeild 2020).

The incentives of Australia and China have similarly become less closely aligned as China has become more assertive in global and domestic affairs. The Australian Government has objected strongly to the Chinese Government’s human rights abuses of Uighurs in Xinjiang (SBS News 2019); raised concerns over China’s actions towards Hong Kong and Taiwan (Tudge and Morrison 2020); opposed China’s militarisation of the South China Sea and formally rejected China’s legal claims to disputed islands there (Rothwell 2020); The Australian government has raised concerns around the governance of institutions (Murphy 2015); criticised the Belt and Road Initiative (Towell, Galloway and Fowler 2020); and accused China of meddling in Australian domestic affairs through interference in its domestic politics (see below), cyber warfare and interference with Australian–Chinese citizens.

Australia pre-empted other countries in calling for an international investigation into the origins of COVID-19. China has since advised its tourists and students not to travel to Australia out of fear of racial abuse and imposed trade restrictions on Australian barley and beef. Australia has cautioned its citizens travelling to China about arbitrary legal process.

A more closed Australia, whether the result of international or domestic failures, poses significant challenges for the nation. Exports contribute more than a fifth of Australia’s GDP and are linked to more than 1.5 million Australian jobs. Some suggest (Hanson 2020) that domestic demand could fill the gap through a national ‘Buy Australian’ campaign – either through a change in consumer preferences (while 61 per cent of Australians say they would pay more for Australian made products, the data suggest the number that actually do is much smaller) (MYOB Team 2019) or through government intervention in the form of trade restrictions. The data show this is not realistic. More than 70 per cent of Australia’s agricultural production is exported. More than 25 per cent of its tourism industry relies on international tourists and 35 per cent of university income derives from international students – to say nothing of the extremely high export dependence of its mining industry, three-
quarters of which goes to overseas markets, importantly China. The only way domestic demand could absorb this enormous excess supply would be through a substantial collapse in prices, sending the vast majority of Australia’s farmers, tourism operators, universities and mining companies into bankruptcy.

The ‘Buy Australian’ argument is unrealistic given the challenges facing poorer Australians who would be most severely affected by abandoning trade. For these Australians, trade has dramatically reduced the cost of living. Compared to a decade earlier, audiovisual and computing equipment is 72 per cent cheaper, cars are 12 per cent cheaper, toys and games are 18 per cent cheaper and clothes are 14 per cent cheaper (Australian Government 2018). The adverse impact on poorer Australians from a retreat from trade would be significant.

The ‘Buy Australian’ view is inconsistent with the core economic principles of trade. Trade allows Australia to specialise – a process that has underpinned the reallocation of resources in the Australian economy, boosting productivity and living standards. If Australia ceases to import goods and services from overseas, those goods and services must be produced in Australia. This means diverting labour, capital, energy and materials away from producing the things that earn Australia the most money overseas so that those resources can instead be used to make the things that we previously imported – things that, by definition, cannot be produced efficiently since they were previously imported. The consequence is a substantial reduction in living standards, productivity and GDP growth.

Trade is similarly vital to Australia’s innovation and competition. Australian businesses that actively innovate are more than twice as likely to be exporters as businesses that do not (Australian Government 2018). This is not a coincidence: a closed Australia is a less innovative Australia. Competition creates innovation. Trade in education and tourism are just as vital to Australia’s commercial links, international image and influence overseas as they are to its economy: Indonesia’s former vice-president, trade minister and finance minister all studied in Australia, for example.

Foreign investment is no different. Without direct foreign investment, the A$60 billion Australia normally borrows annually in all forms abroad would need to come from households, firms and governments through reduced consumption, increased savings and higher interest rates that would reduce investment as well as productivity. Similarly, population growth has accounted for most of Australia’s economic growth in recent years, two-thirds of which has come from immigration. A continued reduction in immigration after the COVID-19 pandemic would leave a substantial gap to be filled.

Evolving views and attitudes in Australia

These global challenges have seen divergent views emerge between different parts of Australian society in thinking about openness, particularly in the context of China and the US.

Coverage of China in the Australian media has doubled since 2018 (Streem 2020) and has been overwhelmingly negative (Hu 2020), focused on human rights, foreign interference, espionage and the treatment of Uighurs. Google news searches for ‘China’ in 2020 are triple
the stable average from 2015 to 2018 (Google Trends 2020). Influential individuals within the media and think tanks have advocated distancing from China. They have called on the government to take a more assertive approach towards China and to deepen strategic and economic ties with the US. Australia’s openness and links with China are seen as a source of risk, resulting in calls for increased self-reliance, reduced trade and reduced investment links with China. There is a view that economic openness, to the extent that it is required, should centre on countries with which Australia has a security alliance.

Chris Uhlmann, political editor for Australia’s second highest rating news program, Nine News, has been among the most outspoken critics of China. He describes China as ‘a paranoid and increasingly aggressive totalitarian regime that reflexively lies, controls all media, persecutes and jails its domestic critics and threatens the few nations that challenge it with retribution’ (Uhlmann 2020). Uhlmann is critical of Australia’s economic links with China. ‘Australia’s business captains and university chiefs have shown they can’t handle the truth’, he said:

> As long as the rivers of gold flowed, they were happy to urge silence in the face of the militarisation of the South China Sea, industrial-scale cyber theft, the arbitrary arrest of our citizens, rampant foreign interference and the imprisonment of a million Uighurs in Xinjiang. (Uhlmann 2020)

The Australian Strategic Policy Institute (ASPI) has been described in the Australian media as ‘the think tank behind Australia’s changing view of China’ (Robin 2020). ASPI is a defence and strategic policy think tank founded by the Australian Government and now funded by the Australian Department of Defence and the defence industry, including major international firms such as Lockheed Martin (Australian Strategic Policy Institute 2020). ASPI has been a strong advocate for Australia to take a hawkish approach to China. Its executive director, Peter Jennings, warns that ‘Xi Jinping has cemented his country’s path toward becoming a more aggressive, highly nationalistic, military power’, and that ‘China quite explicitly wants to supplant the US as the prime manager of security in the Indo-Pacific’. Jennings notes that ‘the biggest challenge for Australian governments is how to manage the huge risk of being overly dependent on a state whose strategic trajectory fundamentally compromises [Australia’s] deepest national security interests’. He advocates a decoupling of Australia from China, noting that ‘the Communist party demands a style of supine fealty to their political dominance that cannot be squared with Australian democracy and values’ (Jennings 2020). ASPI has been singled out by the Chinese Government ‘for spearheading anti-China forces and fabricating various anti-China issues’ in Australia, a claim that ASPI rejects (Global Times 2020).

The Australian business community has been cautious about damaging the relationship with China given its importance to the Australian economy. At the same time, they are critical of the damage being inflicted on the global trading system (and multilateralism more generally) by the Trump administration. Jennifer Westacott, the head of the Business Council of Australia, noted that, ‘in China, we have our biggest trading partner. The simple reality is we can’t afford not to trade with China’ (Westacott 2020). Fiona Simpson, president of the National Farmers’ Federation, notes that:

> We must remain being a strong global citizen and at the same time grow our international relationships with China and other countries to overcome inevitable differences that occur in the geo-political arena. (Simpson 2020).
The academic community holds a range of opinions but has typically been wary of damaging the relationship with China. Universities are beneficiaries of the Australia–China relationship given the importance of international students, the majority of whom come from China, and there are increasingly strong research links with Chinese universities. The academic community has tended to be a stronger advocate for multilateralism and globalism, and has advocated increased engagement with the Asian region, particularly ASEAN countries, and global and regional forums to better manage growing tensions with, and between, the US and China (Asian Bureau of Economic Research 2020).

Civil society, human rights groups and many in the media have expressed significant concern about government actions in both China and the US. On China, their concerns centre on its actions in Hong Kong, Tibet and Taiwan, its treatment of Uighurs in Xinjiang and its growing surveillance and crackdown on dissent. On the US, their concerns centre on the government’s response to the COVID-19 pandemic and treatment of African Americans, Muslim and Jewish Americans, refugees and migrants, the LGBT community and women. Australians remain positive about their country’s openness. Seventy per cent of Australians believe globalisation is mostly good for Australia (Lowy Institute 2020a). Seventy-five per cent believe trade is good for their living standards (Lowy Institute 2020b). A majority of Australians think immigration is about right (or if anything too low) and the current number of international students is about right (Lowy Institute 2020c).

Attitudes have shifted, however, when it comes to particular countries (Lowy Institute 2020c). The attitudes of Australians on Australia’s openness vary considerably depending on which country Australia is open to. When asked ‘how much do you trust the following countries to act responsibly in the world?’, the percentage saying ‘somewhat’ or ‘a great deal’ in relation to China has fallen from 60 per cent in 2006 to 23 per cent in 2020 (Lowy Institute 2020d). It has also fallen for the US, but by a smaller margin: from 60 per cent in 2006 to 51 per cent in 2020 (Lowy Institute 2020d). An overwhelming majority of Australians support ‘working to find other markets for Australia to reduce our economic dependence on China’ (93 per cent) and ‘imposing travel and financial sanctions on Chinese officials associated with human rights abuses’ (82 per cent). Few Australians support ‘allowing Chinese companies to supply technology for critical infrastructure in Australia’ (39 per cent) or ‘conducting joint military exercises with China’ (39 per cent). A majority believe there is too much Chinese investment in Australia (Lowy Institute 2020e). Attitudes towards the US have also hardened. When asked ‘how important is our alliance relationship with the United States for Australia’s security?’, 78 per cent of Australians believed it was ‘important’ or ‘very important’, down from an average of 83 per cent during Barack Obama’s presidency (Seymour 2019). Around 70 per cent of Australians have either ‘none’ or ‘not very much’ confidence that President Trump with do the right thing regarding world affairs. For President Xi, it was 77 per cent (Lowy Institute 2020f).

There are clearly differing and evolving views among Australia’s business community, trade unions, think tanks, media outlets, academics, civil society and in the general public about how to respond to the current challenging global environment. These views are reflected in Australia’s parliament and Australia’s government.
Several backbenchers\(^2\) within the governing Liberal Party – National Party Coalition publicly advocate a more aggressive stance towards China. The head of Commonwealth Parliament’s intelligence committee, Andrew Hastie, compared China’s rise to that of Nazi Germany, warning that ‘like the French [in World War II], Australia has failed to see how mobile our authoritarian neighbour has become’ (Hastie 2019). Senator James Paterson and Andrew Hastie were both denied visas to China after speaking in this vein about the mass internment of Muslims in western China. A group of parliamentarians, including Liberal Party members of parliament Andrew Hastie and Tim Wilson, Liberal Party Senator James Paterson and Labor Party Senator Kimberley Kitching, have stickers on their office doors depicting wolf claw marks, and brand themselves the ‘Wolverines’ after an American high school group who fought off a Soviet invasion in the 1984 film *Red Dawn*. Members of this group proclaim they are pushing back against Chinese influence in Australia (Moore 2020).

The response of the Australian Government has been mixed and cautious, certainly more cautious than some of those in Australia’s parliament. It is difficult to characterise the Australian Government’s response to the challenges in the global environment as being consistent. This is partly due to the tenuousness of Australia’s political leadership in recent years – Australia’s prime minister has changed six times since 2007 and each has taken a different approach to international issues, on the conservative side hobbled by the extreme right because of a precarious majority in parliament – but it also reflects the growing divergence of views across society, parliament and the government on how best to manage these global challenges, particularly the relationship with China.

Australia initially declined to join the Asian Infrastructure Investment Bank under Prime Minister Abbott in 2013, only to join at the last minute in 2015. Australia’s second largest state, Victoria, signed a memorandum of understanding (MOU) with China as part of its Belt and Road Initiative despite the Australian Government’s refusing to do the same. The Australia Government has stated that it will consider proposed Belt and Road projects on a case-by-case basis in third countries, but senior government ministers have simultaneously criticised the Victorian Government for its work with China. A senior minister in the federal government, Peter Dutton, described the Belt and Road Initiative as ‘a propaganda initiative from China’ that brings ‘an enormous amount of foreign interference’. Senator James Patterson accused Victoria of undermining the Australian Government’s response to China in the COVID-19 crisis (Taylor 2020).

The Australian Government introduced legislation to annul Victoria’s MOU under Commonwealth foreign affairs powers, asserting its authority over agreements with foreign state entities. The Chinese Government responded by suspending high level economic dialogues with Australia.

Similar contradictions can be seen in trade. The China–Australia Free Trade Agreement entered into force in December 2015. Its impact was positive. Under the agreement there was significant liberalisation of access to the Chinese market for agricultural commodities and a large surge in bilateral trade growth (Australian Government 2019). Since then, Australia has imposed a raft of anti-dumping duties against Chinese steel and China has

\(^2\) A ‘backbencher’ is a member of parliament who is neither a minister in the government nor a shadow minister in the opposition.
imposed various trade restrictions against Australian beef, barley exports, wine and other exports (Armstrong 2020). Nonetheless, the growth of trade under the agreement has lifted the Australia–China trade share sharply, with China accounting for 38 per cent of Australian exports in 2019 and that share jumping to 48 per cent in June 2020 in the middle of the COVID-19 economic crisis (Cranston 2020b). On investment, Australia’s then Prime Minister Malcolm Turnbull stated that ‘Australia obviously welcomes Chinese investment’ while also blocking the involvement of Chinese firms in Australia’s energy sector (blocking Chinese investment in Ausgrid) (SBS News 2017). Amid growing evidence of regulatory discouragement of Chinese investment proposals, Australia has recently subjected all Chinese investment proposals to scrutiny by the Foreign Investment Review Board. Significantly, the Turnbull government also blocked the involvement of Chinese telecommunications giants (e.g. Huawei) in developing Australia’s 5G network.

There has been elevated anxiety in recent years about foreign interference in the Australian political system, which, in practice, has focused exclusively on China. Government minister Stuart Robert resigned from the ministry in February 2016 when it was revealed that he attended the signing of a mining deal in Beijing where one of the parties was a major donor to his political party and his attendance, unknown to Chinese officials, was alleged to be in his private capacity rather than his capacity as a government minister. In September 2016, Opposition Senator Sam Dastyari resigned after reports emerged that he had asked a donor with links to the Chinese Communist Party to pay a travel bill. In 2019, media reports linked government backbencher, Gladys Liu, to the World Trade United Foundation, which is alleged to have ties to the United Front Work Department of the Communist Party of China, representing the interests of the Chinese Government.

Switching between Mandarin and English, Prime Minister Malcolm Turnbull said in December 2017 that:  
Modern China was founded in 1949 with the words: ‘The Chinese people have stood up’. It was an assertion of sovereignty, it was an assertion of pride.  
And we stand up and so we say, the Australian people stand up. (Tillet 2018)

The Chinese Government took deep offence at Turnbull’s comparison (Tillet 2018). This was the context in which the Foreign Influence Transparency Scheme was created in which people are required to register if they are acting on behalf of a foreign principal. Despite the concern being primarily about China, the number of people listed on the register from Western countries (mainly the US) is almost triple those from China.

**Debating the sources of Australia’s security**

This environment has forced Australian policymakers to ask themselves where Australia’s security comes from. It is an issue that, until recently, had largely been taken for granted. Among the divergent views described above, the view in some areas of the popular press, think tanks, the academic community and among some officials and politicians is that Australia’s security is directly weakened by its openness, particularly towards China, and is strengthened by its military spending and its alliance with the US. In this perspective, Australia’s openness is seen as a liability, if not an outright threat. Australia is said to be too reliant on trade, foreign investment and immigration, and too reliant on China.
This worldview sees trade as something that can be easily weaponised. The concern is that foreign governments will impose tariffs, quotas and restrictions against Australia’s exporters to punish Australia for failing to comply with the foreign government’s geopolitical objectives. Evidence of Chinese coercive use of trade sanctions is cited to support this argument.

Foreign investment is similarly characterised as a threat. It is seen as ‘an invasion by stealth’ where foreign governments (or companies under the control of foreign governments) hoard assets to achieve strategic political or military objectives. It is argued that, at a minimum, foreign investment diverts wealth and vital goods and services away from Australians, or makes those goods and services unaffordable or unattainable. The same is true for Australia’s openness to people. Australia’s openness to immigrants, tourists, students and diplomats is seen as an opportunity for espionage, a threat to social cohesion and a risk to political stability. In this worldview, Australians who are of foreign heritage have their allegiance to Australia questioned and their motives viewed with suspicion.

Those advocating this worldview argue that Australia should be substantially less open than it is. International economic relationships should be minimised to enhance Australia’s security. These relationships, it is argued, should be with trusted allies. Indeed, some have advocated a reorienting of Australia’s trading relationships away from China and Asia towards the Five Eyes intelligence-sharing countries: Canada, New Zealand, the United Kingdom and the United States. This view of the world is not widely shared in Australia, but it has rapidly become more influential.

This view of the world needs careful scrutiny. It is inconsistent with Australia’s lived experience. It is a worldview that is based on a misunderstanding of how Australia’s markets work, a misunderstanding of the role of Australia’s domestic policies and institutions and, most importantly, a simple paradigm in which Australia’s economic prosperity, liberty and international integration is to be directly traded-off for more security. The arguments that underpin this worldview are inconsistent, usually anecdotal and based on implausible economic counterfactuals.

The role of markets in Australia’s security

Consider first the functioning of Australia’s markets. The argument that China is without constraint in punishing Australia through the imposition of restrictions on Australia’s exports overlooks how markets adapt to economic shocks. Consider an example. If China purchases less of a good from Australia, the price of that good in Australia relative to that good from other countries will fall, attracting increased demand from other countries. Australia’s exchange rate will fall, making Australia’s exports relatively cheaper than those from other countries, further offsetting the cost impact of the trade restriction. Australia’s automatic stabilisers and discretionary monetary and fiscal policy responses also ease the impact of the shock, and Australia’s relatively flexible factor and product markets assist in the adjustment that takes place within the economy: shifting resources from declining sectors to booming ones. Internationally, China may purchase more of that good from another country given they are buying less from Australia, pushing up the price of that good in that other country, shifting global demand for that good from other countries towards Australia. The net effect is that the hole left by China’s demand is partially filled by that from other countries – facilitated by changes in relative prices and exchange rates – and by changes in Australian domestic production.
There are two important qualifications to that argument about the adjustment process, however. First, these adjustments are commonly painful. They result in short-term losses in output, employment and investment. While the Asian financial crisis, the global financial crisis and the COVID-19 pandemic have all seen this process play out to some extent, and while relative prices, the exchange rate, automatic fiscal stabilisers, discretionary fiscal and monetary policies, trade flows and factor markets adjust in each instance to manage global economic shocks, there are permanent losses to income and output. Second, there may be some withdrawal from international markets occasioning direct income loss that is not recoverable through trade substitution at all. Some analysis by economists at the Commonwealth Bank of Australia, for example, suggests that a significant portion of Chinese spending could be replaced by increased demand from other countries, should it not recover after COVID-19 (Cranston, 2020a). But this is an implausibly optimistic scenario in the event that an economy of China’s scale and importance to international markets be lost as an export market.

Trade is also a two-way street. The narrative around the risks of Australia’s openness ignores the fact that Australia has some global market power in key markets. Australia supplies 61 per cent of China’s iron ore, 53 per cent of its coal and 23 per cent of its thermal coal. These shares have continued to increase (Armstrong and Drysdale 2019). Australia’s currency is the fifth most used currency in the world. It is held widely by central banks around the world. Countries often purchase Australian products because there are no close substitutes, at least not at the same quality, scale or geographic convenience that Australia provides.

In reality, any attempt to minimise economic pain by limiting exposure to overseas market will end up inflicting the pain it is supposed to avoid. If engaging in international markets carries a risk of economic upheaval due to geopolitical tensions, then closing off the economy to foreign flows of goods and factors to mitigate that risk carries the certainty of economic upheaval. If disruptions to trade and commerce originate from policy choices that divert trade, the adjustment process will likely be much more costly, as the uncertainty around market intervention will increase the cost of doing business with that country. Adjustments to exogenous shocks from normal market fluctuations will not necessarily increase the reputational cost of doing business with a country compared to the increase in political risk from intervention in the market for geopolitical purposes.

People also buy Australia’s exports because they prefer them. Trade restrictions hurt the importer more than the exporter. They represent a tax on your own citizens and deprive them of the goods and services for which they have demonstrated a revealed preference. They increase the cost of living, which hurts the poorest people in society the most. IMF analysis shows that almost 100 per cent of the cost of Trump’s tariffs on China are being paid for by American consumers (Cerutti, Gopinath and Mohommad 2019). In a world of global value chains where 70 per cent of world trade is in intermediate goods, trade restrictions hurt businesses, too. President Trump’s tariffs on steel were a boon for steel producers in the US but costly for industries that use steel (such as US car manufacturers) who faced higher costs and could export less as a result. More than 40 times as many Americans are employed in industries that use steel than are employed in industries that make steel (Triggs 2020).
Shortening supply chains or bringing supply onshore to reduce vulnerability – an increasing focus by many governments during the COVID-19 pandemic – is underpinned by fallacious reasoning. Eliminating reliance on foreign inputs increases reliance on domestic inputs, which are subject to supply problems in a pandemic and under other shocks. Supply chains that are concentrated onshore are more vulnerable because a natural disaster or homegrown crisis could wipe out whole industries. The best insurance against drought or crop failure in one part of the world is openness to supply from producers all around the world. The key is to manage supply chain risk, not avoid it.

There are similar flaws in the arguments against foreign investment. When foreigners have purchased assets in Australia, that asset is subject to Australia’s laws and rules. Concerns about how that asset might be used can be managed through changes to domestic legal and regulatory frameworks. It is also up to the recipient country to decide whether a foreign investment is allowed to take place and under what terms. This provides substantial scope for host governments to screen investment proposals properly and predictably, and to regulate the behaviour of those investors. Foreign investment also aligns the incentives of the two countries; both countries have an incentive to ensure that the asset is profitable and the economy healthy.

This has been Australia’s experience. Indonesia imposed restrictions on Australia’s beef exports for several years. But since Indonesian companies invested in Australia’s beef industry, the Indonesian Government’s incentive to restrict imports is significantly reduced. Tariffs and quotas that hurt an Australian industry make little sense when a partner country has investments in that same industry. Foreign investment provides a ‘peace dividend’. In the extreme event that a country went to war with Australia, the first thing the Australian Government would do is seize its assets in the country. For some countries, this would represent almost A$1 trillion in lost assets.

The narratives used by those who oppose foreign investment are often based on a false counterfactual. The assumption made is that if a foreigner had not invested in that project, the project would have gone ahead anyway using Australian capital. Australia’s experience shows this to be false. If local savings were available to finance a project on comparable terms to those from overseas, there would be no foreign investment. The fact that foreign investment takes place implies that those projects needed foreign investment. There were no Australian substitutes jumping in when Japanese car factories closed in Victoria and South Australia. These counterfactuals are based on a misunderstanding of how markets function.

Recent concerns about foreign investment during COVID-19 are based on the same false counterfactual. The concern among some in Australia is that foreigners will swoop in while the economy is weak to buy cheap, distressed assets. But if the counterfactual is that those businesses would otherwise collapse – destroying jobs and capital in the process – presumably allowing foreign investors to save them is preferable. Indeed, a critical benefit of a floating exchange rate is that it acts as an automatic stabiliser. When the economy is weak, the exchange rate weakens, making exports cheaper and, importantly, making investment in the economy more attractive. Foreign investment can hence play a critical role in the COVID-19 recovery. Restricting it will do nothing but guarantee a slower recovery for Australia.
The role of domestic policies and institutions in Australia’s security

Much of the impact of the world on Australia is determined domestically. Australia’s history in managing global shocks has underscored the important role of its domestic policies and institutions in managing and mitigating the impact of those shocks. These policies and institutions act as a buffer, shielding the Australian economy from their impacts. They play a critical role in thwarting attempts at economic coercion; something that is often overlooked in discussions about openness and security. The same is true for Australia’s political institutions.

Australia’s economic policies and institutions have insulated the Australian economy by buffeting the country through many shocks. As discussed above, Australia’s floating exchange rate depreciates, stimulating the economy by making our exports relatively cheaper and our assets more attractive when external income falls unexpectedly. Automatic fiscal stabilisers such as unemployment payments and retraining programs support aggregate demand and help redeploy workers. Australia’s deep, flexible capital and financial markets reallocate risks and redeploy financial capital as Australia’s strong and well-capitalised banking system buffers the impact on households and firms. Fiscal and monetary policy, supported by strong institutions, expands to support aggregate demand and manage the shock. Flexible product markets see supply chains quickly adjust as supply-side substitution maintains production levels, such as the firms that quickly entered the market to produce hand sanitiser and personal protection equipment during COVID-19.

The other major institution that insulates the Australian economy is our legal system. As mentioned earlier, this is also true for the management of foreign investment. When a foreign firm invests in Australia, it is Australia’s legal system that decides whether that investment can take place and under what terms. Any asset located in Australia is subject to the laws and regulations of Australia. The same is true of protections against foreign interference in Australia’s political system. The criminal and civil laws around corruption are determined by the Australian legal system. If an Australian politician was legally allowed to receive payments from foreign agents in order to influence Australia’s policies, then this would suggest that Australia’s legal framework is inadequate. The bribing of Australian politicians by foreign agents is as much the responsibility of the Australian politician as the foreign agent. The incentives and thus actions of both can be shaped by Australia’s laws and the effective enforcement of those laws.

The critical challenge facing Australia in shaping laws and regulations around foreign interference is to be clear about the line between acceptable foreign influence and unacceptable foreign interference. President Obama gave a speech on climate change in Brisbane in 2014 that directly contradicted and embarrassed Prime Minister Abbott, as Obama sought to generate public support in Australia for action on climate change. Naturally, some in the government saw this as being inappropriate interference. However, most considered it to be within the bounds of acceptable influence on Australia’s public policy.

The Australian Government is more accepting of foreign influence or indeed interference when it comes from allies. Foreign influence and interference in Australian politics from the US, for example, has not generated the same level of concern as it has from China. There
are many documented examples of where the US has influenced, or has sought to influence, Australia’s domestic policies, including over which foreign investment proposals the government approves and through the direct funding by the US Government of think tanks in Australia. The recent Foreign Influence Transparency Scheme revealed that the majority of Australia’s classified ‘foreign influencers’ comes from its Western allies.

The complex trade-off between economics and security

At the core of concerns around Australia’s openness is the idea that economics and security are substitutable: that Australia could give up some of its economic prosperity (by reducing trade, foreign investment and immigration) and enjoy more security as a result. Australia’s history shows that such a simplistic trade-off is not supported empirically or theoretically. On the contrary, Australia’s history shows that there is a complex trade-off between economics and security and that its security and economic prosperity are closely integrated and self-reinforcing.

Australia’s prosperity has underpinned its security. Australia’s defence spending is made possible by its prosperous economy, which, in turn, has been built on its economic openness. Australia’s wealth has meant a healthier and more educated society that is more cohesive and stable as a result. The importance of social cohesion and stability can be easily overlooked in thinking about security, despite history showing that less cohesive societies are easier to divide, both internally and externally.

None of this is to say that openness does not have its downsides. COVID-19 has highlighted that the downsides of openness are very real. Openness may make financial crises more severe, health crises more systemic and our economy more exposed to the economies and policies of other countries. But these downsides of openness need to be considered in the context of two things.

First, the downsides of openness during periods of stress need to be weighed against the benefits of openness during periods of prosperity. If tensions with China, for example, were to see a complete halt in Australia–China trade, the cost of the readjustment that would flow from this would need to be weighed against the benefits of decades of trade between the two countries. In the last 10 years alone, two-way trade between Australia and China has surpassed US$1.2 trillion (around A$1.72 trillion).

Second, the pain that can be caused by openness needs to be understood in the context of the functioning of Australia’s markets and domestic policies and institutions discussed above: both allow stable adjustment to external shocks and shield Australian living standards from the full force of the shock. If foreign shocks have a more profound negative impact on Australia than is optimal, it is likely an indication that Australia’s domestic frameworks could be improved or strengthened, in which case we need to ask: which political laws and institutions are permeable to political interference?

Australia’s history reveals that its economic engagement in Asia and the world has made it more secure, not just because it has made Australia more prosperous, but because its economic engagement with the economies in the region has facilitated political, social and cultural engagement that, in turn, has increased confidence and reduced conflict between
countries. Australia’s economic engagement with Asia has encouraged more Australians to learn Asian languages, to better understand Asian cultures and, most importantly, to meet and familiarise themselves with Asian people and societies. This increased cross-cultural understanding, necessitated by Australia's economic engagement with Asia, has reduced the probability of conflict and increased Australia’s security.

Australia’s engagement with Asia shifts the incentives of all parties to favour diplomacy and constructive engagement over conflict and war. Economic engagement makes war expensive. If there was to be active conflict between the US and China, for example, the US and China would both instantly lose their biggest customer, along with three-quarters of a trillion dollars in two-way trade. Countless US and Chinese businesses would collapse. People would lose their livelihoods. Consumers would see their cost of living skyrocket, to say nothing of the human costs of war and the direct financial costs to government budgets. Both countries would lose trillions of dollars in cross-border investments. China alone has about US$3 trillion in financial assets abroad, mostly in the US. For the American Government, businesses and consumers, the cost of borrowing and consumption would rise sharply. If China were carved out of the US-led global financial system, the consequences for both countries would be devastating.

The ‘peace dividend’ that comes from economic engagement has been revealed many times in modern history. The countries that lack security and have seen their borders violated and territories invaded by foreign forces have, almost without exception, been poor countries with weak economies, weak financial systems and few substantial or sophisticated economic links to the global economy. It is comparatively ‘cheaper’ to invade these countries than to invade countries that have strong links to the global economy and, through their openness, are prosperous, as such countries can invest more substantially in their military capabilities and soft powers like diplomacy and foreign aid.

An approach to make Australia more secure

An approach to thinking about Australia’s security has two elements: 1) the recognition that Australia’s openness is a source of security, not just a source of risk; and 2) the recognition that the downside risks that arise from Australia’s openness can be managed through carefully designed domestic and international frameworks, policies and institutions. Strengthening Australia’s security means identifying practical ways to bolster openness while ensuring domestic and international frameworks manage any risks that may arise.

Increasing Australia's openness

The COVID-19 pandemic has produced a threat to living standards not seen since the Great Depression. History tells us that closed economies will face a slower recovery coming out of the pandemic than open economies. Yet, growing tensions between the US and China, the weakening of the global rules-based system, the growing backlash against globalisation and geopolitical tensions elsewhere in the world make global cooperation difficult. Despite these pressures, there are at least two things Australia can do to ameliorate this environment.
First, Australia can focus more on the region in which it is located. Japan, Korea, Indonesia and many other Asian countries are in a similar situation to Australia in trying to manage US–China tensions and an increasingly complex global environment. Australia would be better able to manage the US and China by working together with like-minded countries. This may be normally easier said than done. It can be hard to find practical areas of common interest on which countries can work together. But COVID-19 has made this easier. The pandemic has provided many issues of common concern: from financial stability, regional travel protocols and the distribution of COVID-19 diagnostic tests and treatments, to food security, coordinated structural reform and advancing Asia’s flagship trade agreement, the Regional Comprehensive Economic Partnership.

Second, Australia should identify practical and constructive ways to engage the US in Asia. There is a range of potential areas for cooperation, including strengthening regional action on climate change (if a Democratic president is elected after the 2020 election that may become more feasible), building consensus on principles and rules around infrastructure and investment, strengthening domestic energy systems, promoting regulatory consistency in the digital economy and setting common standards for emerging technologies.

Regardless of the outcome of the 2020 presidential election, it is unlikely the approach of the US to foreign policy will change quickly. Any future president will struggle to deal with the deep, structural challenges that have fuelled America’s backlash against globalisation. President Trump was no accident. His political success was the product of growing inequality and fast-moving economic and social changes, including automation and rapid technological change. Trump blamed immigration and trade for America’s woes whereas, in reality, these problems are domestic.

The countries that have done the best out of globalisation are those with strong social safety nets that support people out of work and help move workers from declining industries to growing industries. The US does poorly on both counts. The losers from automation, technology and trade are left to fend for themselves, creating pockets of deep disadvantage among communities who then turn to political extremes for comfort.

Future US presidents will struggle to fix these domestic challenges quickly. One reason Trump directed the ire of Americans towards globalisation is because the White House has more power over foreign policy than domestic policy, even though the latter is where America’s actual problems lie. Future presidents wishing to fix the deep problems in the US economy will need to implement bold domestic reforms. This will require a president to achieve at least three things: win the House and the Senate, win a margin large enough to defeat potential filibusters and unite their own side of politics around an agreed policy platform – all while the economy continues to struggle in the aftermath of COVID-19. For now, there is a bipartisan approach to both the anti-China rhetoric and the suspicion of trade. Australia’s focus needs to shift to how to buttress multilateral institutions. None of the big challenges facing the world can be solved bilaterally. Responses to multilateral problems conducted via megaphone diplomacy outside the forum will – at best – entrench deadlocks. At worst, they will legitimise solutions that risk permanently damaging the global system.

Australia will have to put more energy into the forums that shape Australia’s prosperity – the G20, APEC and ASEAN+6 – and take a lead in building coalitions on the issues that matter to the region: changing out-of-date trade rules that are fuelling tensions; reforming the WTO.
and its dispute-settlement mechanism; strengthening inadequate global and regional financial safety nets; cooperating on health policies; and capitalising on opportunities arising from the crisis, including the accelerated adoption of digital technologies and more flexible workplaces.

Managing risks through reformed domestic policies and institutions

There are risks in having an open economy, but these can be managed through robust domestic policies and institutions and international rules. The countries that have done the best out of globalisation are those: 1) with strong social safety nets that support people out of work and help move workers from declining to growing industries; and 2) have flexible economies that allow product, labour and capital markets to adjust quickly, effectively and equitably to external shocks.

Australia does well on both factors by international standards. However, COVID-19 has revealed areas for improvement. First, economists have warned for many years that Australia’s safety net could be improved. Government payments to the unemployed have been grossly inadequate. The human cost of this neglect has been substantial. This neglect also means that Australia has weaker ‘automatic fiscal stabilisers’ – that is, programs that routinely kick in to increase government spending when the economy is slow and then ease that spending when the economy strengthens. The decline in the generosity of these payments over many years (because they are indexed to inflation instead of wages) has made the Australian economy less resilient to external shocks and less able to bounce back. The government has hurriedly increased these payments in response to the COVID-19 pandemic but is yet to announce a permanent long-term solution.

Second, Australia’s system for retraining and reskilling workers has also been revealed to be inadequate. This system is highly fragmented across Australian Government initiatives and those in state and territory governments that differ widely in their generosity and scope. Similarly, the supports that are available to people between different industries also vary widely. There is a significant lack of transparency and public awareness of what supports are available. A consistent, transparent federal system would do much to improve the system through which workers are retrained, reskilled and redeployed to new industries. This makes Australia more resilient to external shocks and makes the public more willing to accept economic openness.

Third, COVID-19 has revealed the lack of flexibility in Australia’s industrial relations system. Working with trade unions, the government was forced to temporarily suspend a variety of industrial regulations to cope with the pandemic. Developing sustainable, long-term reforms will be critical. These need to be integrated into reforms of social safety nets if they are to be effective and politically feasible. COVID-19 has revealed the downsides of Australia’s increasingly casualised workforce. More than 2.6 million Australians are in casual employment with no paid leave. This was bad in normal times because it meant increased uncertainty for households, resulting in less spending, less labour mobility and fewer people taking the risk of starting a business or going for a new job. When COVID-19 struck, this casualised workforce became a bigger liability. More people in insecure work meant more people losing their jobs, exacerbating the downturn.
Fourth, COVID-19 has also revealed how deepening distrust in the Australian Government and other institutions over time has made it harder to manage the pandemic. The Edelman’s Global Trust survey asked Australians to rank government, business, the media and non-government organisations by how competent and ethical they were. None were found to be both. According to those surveyed, businesses are competent but unethical. NGOs are ethical but not competent. And the government and the media were neither. There is plenty of low-hanging fruit. Establishing a national anti-corruption authority and reforming political donations are starting points. Criminalising wage theft across Australia would boost confidence in labour markets. Closing generous tax loopholes exploited by the rich would boost confidence in the tax system. Harsher criminal penalties for financial wrongdoers would boost confidence in the financial system. Disqualifying company directors who engage in anti-competitive conduct or who persistently mislead consumers – with financial penalties that are more than a mere cost of doing business – would boost confidence in product markets. Reversing cuts to the national broadcaster’s budget would boost trust and information flows: the public have more trust in the ABC than our legal system, police, businesses, charities and every parliament and political party in Australia. Independent news and commentary are essential to good policy outcomes. If the old saying ‘never waste a crisis’ holds true, then there are plenty of problems Australia could use the COVID-19 pandemic to fix.

Conclusion

Australia’s economic openness has been a major source of its economic strength as well as a foundation of its political security. The post-WWII international order in Asia had, until recently, afforded the conceptual separation in government policymaking of the interconnected economic and political risks associated with economic openness. That world has been turned upside down.

The US’s withdrawal of support for the multilateral economic regime that underpins confidence and trust in economic openness, the rise and increased assertiveness of China, and the fracture in US–China economic and political relations challenge Australian policymakers to rethink strategies that have long been ordered around Australia’s alliance with the US and reliance on US leadership in the rules-based multilateral economic system. Australia has many national assets in dealing with this geopolitical circumstance, revealed in some measure in its recent management of both the health and economic impact of the COVID-19 crisis as well as its management of the Asian and global financial crises.

At home, as described above, Australia will need to attend to national weaknesses that affect the integrity of its government and the resilience of its markets, their regulation and their governance. The story of Australia’s response to the new geopolitical circumstances that confront it suggests that Australia also has a bigger challenge. That challenge is to define a new and more pluralist security strategy in cooperation with its neighbours to whom it is deeply tied economically and politically and a new international economic diplomacy that no longer relies upon the US to ensure multilateral outcomes.

The work on that huge agenda has not begun. The objective will not be achieved without vastly elevated engagement in the region. The torture of letting go of Australian security
paradigms that were, until now, uncontested, embedded as they are in the assumptions of the old US-centric order and the fabric of institutional and operational enmeshment, is palpable. Confusion reigns over how that might best be done, forming a major obstacle to success in navigating the difficult choices that Australia now faces.

References


Armstrong, Shiro 2020,’Australia’s Trade War with China Unwinnable for Both Countries’

East Asia Forum, 1 December 2020, https://www.eastasiaforum.org/2020/12/01/australias-trade-war-with-china-is-unwinnable-for-both-countries/


Average current account deficit since 2000: IMF World Economic Outlook Database, October 2019.


