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## **Inquiry into the implications of the COVID-19 pandemic for Australia's foreign affairs, defence and trade**

### ***Background***

The aim of Australia's foreign policy 70 years ago was the "preservation of peace and our way of life" as explained in March 1950 by Australia's external affairs minister Percy Spender. Such is still an aim of Australia's foreign policy however the protection and strengthening of national sovereignty, creating a safer and resilient population, securing infrastructural assets and institutions and promoting a favourable international environment can be added in the current conditions.

The COVID-19 pandemic has demonstrated the transferability of the coronavirus (COVID-19 virus) across the world, the inter-connected nature of nations and the devastating effect upon lives and livelihoods world-wide.

The infection and death rates in Australia have not been as devastating as countries such as the USA, Great Britain, Italy and Spain. The statistics from the Peoples Republic of China (PRC) cannot be relied upon as accurately representing the state of the pandemic in China.

Countries experiencing COVID-19 are faced with the difficult choice of balancing the health of its citizens with that of promoting economic growth. At an international level, foreign affairs, defence and trade are also adversely affected by the pandemic.

Pre-COVID-19 statistics of Australia's top 10 export markets demonstrate Asian trading partners dominate Australia's two-way trade flows. The dominance of trade with China is clear and occupies a share more than double that of trade with the second top export market, Japan.

Rank	Markets <sup>(2)(3)</sup>	Goods	Serv ces	Tota	% share
1	Ch na	134.7	18.5	153.2	32.6
2	apan	59.1	2.6	61.7	13.1
3	Repub c of Korea	25.6	2.2	27.8	5.9
4	n ted States	14.7	10.0	24.7	5.3
5	nd a	16.2	6.6	22.8	4.9
6	New Zea and	10.0	6.0	16.0	3.4
7	S ngapore	10.6	5.4	16.0	3.4
8	Ta wan	12.4	1.5	13.9	2.9
9	n ted K ngdom	7.9	5.6	13.5	2.9
10	Ma ays a	8.9	2.6	11.5	2.5
	<b>Tota top 10 markets</b>	<b>300.1</b>	<b>61.1</b>	<b>361.1</b>	<b>76.8</b>
	<b>Tota exports<sup>(1)</sup></b>	<b>373.1</b>	<b>97.1</b>	<b>470.2</b>	<b>100.0</b>

Australia's Top 10 Export Markets 2018-19  
DFAT Trade and Investment at a Glance 2020

Australia's request on 29 April 2020 for an independent inquiry into the origins of the COVID-19 virus was a reasonable and sensible request aimed at establishing the origin of the virus, measures taken to deal with it and ways of preventing the spread of the virus in the future. The PRC's reaction to Australia's request risks a trade war between the two countries. When the PRC's head diplomatic representative to Australia, Ambassador Jingye Cheng, suggested Chinese consumers would not drink Australian wine or eat Australian beef, the comments could only be viewed as threats of economic coercion. Shortly after the Ambassador's comments, trade restrictions on Australian beef and barley producers were announced.

The PRC's aggressive posture is not restricted to its diplomatic relations and trade. Militarily, the Peoples' Liberation Army Navy (PLAN) has been active in the South China Sea. Disputes in the South China Sea have escalated since the 2016 rejection by the Permanent Court of Arbitration of the PRC's nine dash historical claim. The Philippines, Indonesia, Malaysia, Borneo and Vietnam also hold competing claims over distinct and sometime overlapping areas in the South China Sea. Most recently (12 May 2020) an oil exploration vessel, the West Capella, contracted by Malaysian state energy company Petronas was involved in a standoff with a PRC government survey vessel in the South China Sea. In mid-April, the Haiyang Dizhi 8 started operating in the same area, escorted by PRC coast guard and other vessels. American warships were deployed to conduct a 'presence operation' in the area.

Further to the north, the dispute over the Senkaku / Diaoyu Islands between the PRC and Japan shows no sign of abating. Taiwan faces considerable pressure from the PRC.

COVID-19 has proven it can have a significant impact on the health of crews and passengers (see the Japanese experience of the Diamond Princess held up in Yokohama due to infections onboard and the Australian experience of the Ruby Princess and its release of infected passengers). The reach of COVID-19 impacts military capacity as well (a case in point is the USS Theodore Roosevelt alongside in Guam with over 1,100 active COVID-19 cases).

Whilst Australia and the United States of America (and to a lesser extent New Zealand) are signatories to the ANZUS Treaty, the threat of COVID-19 infection to a possible reduction in military capacity should not be dismissed.

### ***Terms of reference***

- Implications for Australia's Foreign Affairs, Defence and Trade policy, particularly with respect to strategic alliances and regional security;

Australia has an enduring alliance with the US. Even before the COVID-19 pandemic, the increased economic power and strategic influence of the PRC, the uncertain nature of the US rebalance in the Pacific, the attractiveness of manufacturing at low cost in China and the heavy reliance on the Chinese market for exports, have all been issues Australia has had to consider in its dealing with nations in the Pacific.

The global shortage of personal protective equipment (PPE) – gloves, medical masks, goggles, face shields, gowns and aprons – in the early stages of the COVID-19 pandemic demonstrated the ill preparedness of many countries. Panic buying, hoarding and misuse of PPE and panic buying of other household goods ensued. Secure supply chains are not possible when there is over dependence on any one source. Overwhelmingly countries have become attracted to the economy of scale achieved by manufacturing in China and dependent on that market to source its goods. In the early stages of the COVID-19 pandemic in China and before its spread to other countries, the PRC was actively buying up PPE from around the world (cases in issue are the purchase and airfreighting of PPE to China by Greenland Australia and Risland Australia in mid-February 2020). Greater diversification of the source and origin of logistics and supply chains will ensure shortages are prevented in the future.

The United Kingdom (UK) Department for Business, Energy & Industrial Strategy published a National Security and Investment Draft Statutory Statement of Policy Intent in July 2018 which identified the core areas of the future economy. The core areas of the future economy were identified as:

- Artificial intelligence / machine learning
- Autonomous robotic systems
- Computing hardware
- Cryptographic technology
- Materials and manufacturing science
- Nanotechnologies
- Networking and data communication
- Quantum technology
- Synthetic biology.

An international report (Breaking the China Chain: How the 'Five Eyes' can decouple from strategic dependency, Henry Jackson Society, May 2020) has found Australia relies on the PRC for critical medical technology more than any other 'Five Eyes' nation. The UK's post-Brexit trade policy will require reconsideration to ensure strategic independence. The same reconsideration should be taking place in Australia.

The report found that Australia depends on the PRC for 595 different goods ranging from ballpoint pens to pharmaceuticals to garlic. New Zealand was second-most dependent on the PRC (for 513 different goods) followed by the USA (414), Canada (367) and the UK (229). The report focused on strategic goods (ie goods critical to a sector's operation) and the nations' dependence on the PRC. Australia remained the most dependent on the PRC with 27.6% of total imports – 167 items – deemed critical.

One message is clear from the report: diversification of trading partners (and investment partners) is an important national risk mitigation strategy.

- Threats to the global rules-based order that emerged due to actions by nation states during the pandemic, and how such threats can be mitigated in the event of future crises;

The rule of law and the global rules-based order are important principles recognised and respected in Australia. In times of need, whether due to natural emergencies or the COVID-19 pandemic, countries should be able to support and defend their own citizens and permanent residents in the first instance and when capacity permits, provide assistance to other nations in need.

Australia should seek enhanced regional partnerships both in trade, cultural and military exchanges.

Australia's participation in freedom of navigation operations in the South China Sea is one way of ensuring rules-based order is maintained. Threats of military force or bullying of nations by diplomatic or economic sanctions play no role in a global rules-based order where respect of the rule of law and human rights is paramount.

- The impact on human rights;

The restriction of certain human rights is justified in the context of serious public health threats and public emergencies. In a democratic society such as Australia, restrictions on human rights must be strictly necessary, must be carried on in accordance with the law and be based upon scientific evidence. They can be neither arbitrary nor discriminatory and be of limited duration. Various federal, state and territory governments have already curtailed certain human rights (freedom of movement, assembly and association) but have done so based on advice from the relevant Chief Medical Officer and have escalated then de-escalated restrictions accordingly. Quarantine periods and self-isolation are examples of restrictions on human rights. Restrictions must also be directed toward a legitimate objective of general interest and be the least intrusive and restrictive restrictions available to reach the objective.

The right to life is seriously impacted in times of war. That right is more indiscriminately impacted by the COVID-19 virus than in times of war.

The right to food, housing, education, human dignity privacy and access to information have all been impacted by the COVID-19 pandemic.

The right to health is of significant importance during the COVID-19 pandemic. This right provides that health facilities, goods and services should be available in sufficient quantity (note the shortages experienced in PPE), accessible to everyone without discrimination, affordable for all, respectful of medical ethics and culturally appropriate and scientifically and medically appropriate and of good quality.

The right to work (Article 23 of Universal Declaration of Human Rights) has been severely impacted by the COVID-19 pandemic. Certain industries are highly susceptible to the physical distancing restrictions imposed by the pandemic (airlines, clubs, gyms, cafes and restaurants, etc).

- Supply chain integrity / assurance to critical enablers of Australian security (such as health, economic and transport systems, and defence);

Trading with Australia's top ten trading partners should be more equally distributed to prevent over-reliance on any one trading partner.

Vertical integration of industries (especially those critical in times of a pandemic) should be promoted. Foreign investment in such critical industries and foreign acquisitions of infrastructure should be carefully assessed before being approved (a case in point is the 2015 lease of Darwin port for 99 years to Chinese company Landbridge).

Protecting logistics and supply chain integrity will involve introducing improved cloud-based supply chain management software and hardware to reduce the risks posed by cybersecurity threats.

Stockpiling with regular rotation of critical goods should also be undertaken.

- What policy and practical measures would be required to form an ongoing effective national framework to ensure the resilience required to underpin Australia's economic and strategic objectives;

Australian security and economic interests need to be aligned without excluding one from the other. This is particularly so when Australia's main security partner is the US and its main economic partner is the PRC.

A national mobilisation plan which brings together a whole-of-government approach is required to respond to a global crisis such as the COVID-19 pandemic. Legislation will need to be drafted and ready in order to implement a national mobilisation plan which would bring together government departments responsible for health, agriculture, transport, social services, foreign affairs, defence and economic response. The COVID-19 pandemic may be combined with other threats to national sovereignty (use of military force, cyber intrusions, climate induced catastrophes etc). A worst-case scenario should always be envisaged to enable appropriate responses without being caught unaware or ill-prepared.

A national mobilisation plan would ensure critical infrastructure (energy and power, sanitation, water, etc) remained intact. Food and PPE supply chains are particularly critical during a pandemic and subject to competition from other nations for its acquisition.

Government and business should cooperate in developing a stronger response to cyber intrusions to government departments, companies, universities and research facilities.

Australia's reliance on a predominant trading partner should be more equally distributed across several nations. With that in mind, federal, state and territory governments should offer financial and tax incentives to companies to encourage them to manufacture and produce in Australia. Such financial and tax incentives

could also extend to countries that were supportive of and respected the rule of law and market competition.

Australia should increase its liquid fuels stockpiles to at the least the 90-day requirement of the International Energy Agency. The recent short-term solution of the Federal Government's access to and leasing of US emergency fuel reserves is a step in the right direction. In the long-term, emergency fuel supply storage facilities should be constructed on Australia soil to maintain at least the 90-day requirement of crude oil. The issue of emergency fuel reserves was a clear problem well before the emergence of COVID-19 and has only now been identified as a critic short fall.

Any related matters.

The terms of reference focus on foreign affairs, defence and trade. Treasury should also be included as the cost of strengthening Australia and shaping its response into the future against similar pandemics will be considerable as too the financial cost on the Australian economy which will be felt for many years.

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