

Dr. John Coyne



Submission to the Joint Standing Committee on Trade and Investment Growth inquiry into diversifying Australia's trade and investment profile

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This submission does not reflect the Australian Strategic Policy Institute perspective. It is the opinion of Dr. John Coyne, Head of the North and Australia's Security Program, ASPI.

Background

On Wednesday, 26 February 2020, the Joint Standing Committee on Trade and Investment Growth resolved to inquire into the 2018-19 annual reports of the Department of Foreign Affairs and Trade (DFAT) and the Australian Trade and Investment Commission (Austrade). The focus of the Committee's inquiry is to understand whether there is a need for Australia to diversify its trade markets and foreign investment profile including:

- Consider if Australia is too reliant on any one market for exports. If so, what factors are contributing to this dominance?
- The advantages and disadvantages, including in relation to the national interest and national economic risk, to an over-reliance on any one market.
- Consider if Australia is too reliant on foreign investment. If so, what factors are contributing to this dominance?
- The advantages and disadvantages, including in relation to the national interest and national economic risk, to an over-reliance on foreign investment, especially foreign investment by state-owned enterprises.
- The impact of global crises including trade disputes and political disputes on Australia's relationship with countries we are reliant upon for trade and investment purposes.
- The impact of bilateral trade agreements on Australia's exports and whether they contribute to concentrated export markets.
- The impact of bilateral trade agreements on Australia's domestic market and whether they contribute to an over-reliance on foreign investment.
- Analysis of industry and government preparations to diversify its trading partners and secure new markets for Australia's exports, including through further free trade agreements; and
- Analysis of industry and government preparations to ensure the Australian economy is not overly reliant on foreign investment.

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A geopolitical perspective

There are both geopolitical and economic dimensions to the question of whether there is a need for Australia to diversify its trade markets and foreign investment profile. While some may argue that the economic perspective ought to prevail in the final decision, the deliberations of the Joint Standing Committee on Trade and Investment Growth ought to factor in the unprecedented strategic uncertainty against which the question is being asked.

In 2020, Australia's strategic outlook appears its most uncertain for several decades. The strategic outlook is highly susceptible to rapid changes, with little to no warning, which makes the job of policy setting even more difficult.

The unprecedented economic rise of China has seen its government demanding a progressively greater role in shaping sovereignty and other fundamental global norms.

Over the past five years, the Chinese Government has been building greater global economic connectivity with its Belt and Road Initiative. Access to old and new markets is being enhanced by the BRI investments in maritime, air and land routes. All the while, the Chinese government has been increasing, and very often asserting, its soft and hard power influence across Asia and the Pacific. The Chinese Government's uncompromising approach to Taiwan, aggressive maritime activities in the South China Sea through the militarisation of reclaimed islands, military renewal program and cyber activities have all served to create further strategic unease.

China's emergence as a global power has created a new multipolar international environment with all-new economic and ideological competition. Beijing is challenging the international order, and in doing so is introducing new levels of strategic uncertainty.

In the 1980s, Australia's official strategic guidance indicated that our defence planners would have 'at least 10 years' warning of a substantial military threat'. This long warning time afforded Australian policymakers the luxury of loosely applying the national security lens to economic policy. Unfortunately, this may be a luxury that the Australian government can no longer afford. The current strategic uncertainty means we may be inside the ten-year warning time.

Over the last three decades Australia has transformed from being the cold war's strategic backwater, to key political, economic and military terrain. Australia is no longer a half-world away from great power competition. Australia has become key political, military and economic terrain in a new era of major-power competition between the United States and China.

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Understandably, many of the factors that have shaped the assumptions of Australia's defence and national security strategies have changed substantially. Indeed, the ink had been barely dry on Australia's 2016 Defence White Paper before the assessments seemed overly optimistic.

While this rapidly evolving context is influencing our defence and national security, it is not getting the same level of consideration in other dimensions of government policymaking. This is especially the case in terms of critical infrastructure, global supply chains and national resilience. The Covid-19 pandemic has exposed some of the fault lines in current arrangements. It has also created the opportunity for the issue to be dealt with during the inevitable period of economic reconstruction that will follow the pandemic.

A Northern Australia case study

In 2019, in response to Australia's geopolitical uncertainty, and with the support of the Northern Territory government, ASPI established its '*The north and Australia's Security*' research program. The program provides a sustained research focus on the security of Australia's north and the north's critical role in contributing to the broader security of Australia.

To date the program's research, and publications, have consistently identified strategic vulnerabilities in national supply chains, export markets, and foreign investment in Australia's north.

In general, fieldwork has revealed a dearth of economic policy focus on national security through nation-building. Neither Australia's nation-building efforts, nor the Northern Australia Investment Facility is having marked impacts on developing a socially and economically prosperous northern Australia. The dogged pursuit of market-driven efficiency in investment over national security strategy is increasingly evident in Australia's northern economy.

The Australian government's current approach to nation-building is focused on the construction of major projects: 'to support growth in our cities and regions and enable our economy to thrive'.¹ The dominant decision making factor in Australia's nation-building efforts is the identification of funding sources—taxpayers and users.

Unfortunately for Northern Australia, government is increasingly moving to a user pays approach: which comes at the detriment to Australia's northern development because of its small populations and vast size. It also ensures that private sector activities in Northern Australia face significant economic barriers to market entry.

¹ <https://www.infrastructureaustralia.gov.au/listing/speech/nation-building-australias-infrastructure-priorities>

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In many cases, by necessity, northern development is being driven by foreign economic visions and investments. As highlighted by ASPI's Executive Director Peter Jennings 'our major ally, the US, major regional partner, Japan, and major market, China, all see more strategic value in northern Australia than successive federal governments and much of our defence establishment'. Japan's massive investment in energy resilience through the Inpex LNG plant near Darwin and Sun Cable's proposal to build a \$20 billion solar farm to supply power to Singapore illustrate this point. Australia's North is far too reliant on foreign investment for its development.

Is Australia too reliant on any one market for exports?

In 1990, China's GDP was estimated at US\$390 billion; in 2016, it was more than 30 times that amount (US\$11,779 billion). In 1989, less than 5% of Australia's exports were destined for China. By 2015, the proportion had grown to almost 30%, making China our number one trading partner.

Like the rest of our region, Australians tend to view the Chinese economic miracle as a source of great opportunity: and so, it should. China's rapid economic expansion has created a ready market. Its global ambitions and economic success have to date created a ready source of foreign investment. But our own short-term policy focus on foreign investment and market opportunities has left Australia increasingly vulnerable to foreign economic influence.

To date Australia has avoided the need to make a definitive choice between its economic relationship with the Chinese government and its cultural and security relationship with that of the United States. But public debate on the need to make a choice has flourished over recent years. The very fact that several Australians in positions of influence believe that a choice must be made reveals that there is a problem.

There are an increasing number of security risks associated with our current trade market and foreign investment arrangements. From a national security perspective Australia is too reliant on the Chinese export market and foreign investment. This economic reliance is leaving Australia vulnerable to Chinese economic policy manipulation. This vulnerability is increased further by foreign investment by state-owned enterprises raises.

Australia has sleepwalked into a policy position where its economy is over-reliant on the Chinese market. Without the development of a new strategy, and associated economic policy, an assertive Chinese government could well apply external influences on Australia to force it to make a binary choice or choices between economic and national security.

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Conclusion

In 2013, then Prime Minister, Tony Abbott, downgraded and then scrapped the position of National Security Advisor. Unfortunately, this occurred during a period in which Australia has faced an extraordinary level of strategic uncertainty. Since doing so, Australia's policymakers have not had the benefit of a dedicated senior bureaucrat representing the national security equities in nation-building. This absence of a national security focus in economic policy has contributed to our over reliance upon Chinese trade markets and foreign investment.

The Australian government needs to apply a broader national security lens to its economic policymaking. This is not an argument for the securitisation of Australian economic policy, but a more deliberate approach to managing our economic and security risks and vulnerabilities through nation-building efforts.

Over recent years the Australian economy has become far too comfortable with outsourcing economic risk, and this has been proven to be ill-founded. Australia's trade markets and foreign investment profile has been shaped by the pursuit of efficiency rather than strategy. Now, amid the Covid-19 crisis, is the time to start thinking about how and when this should change.

I would like to thank the Committee and the Secretary for allowing me to make this submission.