

# **SUBMISSION TO JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS AND TRADE INQUIRY INTO THE IMPLICATIONS OF THE COVID-19 PANDEMIC FOR AUSTRALIA'S FOREIGN AFFAIRS, DEFENCE AND TRADE**

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The views expressed in this submission are entirely those of the individual authors and not of the Lowy Institute.

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## ***PART 1: THE WORLD AFTER COVID***

### **THE UNITED STATES**

#### **The United States, which was already self-isolating, is now seriously unwell**

DR MICHAEL FULLILOVE, AM

Even before coronavirus, the United States was self-isolating.

President Donald Trump came into the White House in 2017 oblivious to the advantages of global leadership. He preferred protection rackets to alliances. He junked the Iran deal. He pulled out of the Paris Accord and boosted the Brexiteers. He withdrew from the Trans-Pacific Partnership and levied high tariffs on Chinese imports. His weird affinity for strongmen disappointed democrats and emboldened dictators.

However, two factors — the resistance of career civil servants and the president’s own attention deficit disorder — combined to limit the damage he caused. In his first three years as president, Donald Trump hurt America’s interests, diminished America’s attractiveness and damaged the international system. But he did not do irreversible harm.

Before 2020, the president also had not faced a serious external crisis. All of his crises — and there were a few — were self-generated.

Now the world faces a global health crisis, a global economic crisis and, perhaps at some stage, a global financial crisis. Our last line of defence is The Donald.

Forget global leadership: Washington’s response to the virus has been world’s worst practice. The president has flailed around: blind, clueless and self-absorbed. Previously he had dismantled much of the US government infrastructure for dealing with pandemics. Now, as the coronavirus spread beyond China, Trump was slow to act, comparing the coronavirus to the common flu and even calling it a “hoax”. He spread misinformation about the virus on television. He undermined rather than reinforced the messages of his public

health experts. The provision of coronavirus testing — widely regarded as an essential part of any response — has been woeful. Naturally the president refuses to bear any responsibility for this.

At the time of writing, nearly 11,000 Americans have died of COVID-19. The White House now estimates that between 100,000 and 240,000 Americans may die; some expert estimates are much higher than this. Vice President Mike Pence himself has compared the US trajectory to that of Italy.

We are accustomed to the United States being the epicentre of global power, not the epicentre of global disease.

Of course, President Trump is not solely to blame. The broader US response to the coronavirus has been unimpressive. The decentralised nature of the US federation has made policies inconsistent. Perhaps the rugged individualism of American culture has also prevented a stronger collective response. Certainly, the hyper-partisanship of the US political system and the rise of ‘fake news’ and conspiracy theories, has not helped.

The United States now appears seriously unwell: feverish, weakened and disoriented. The combination of the Trump presidency and coronavirus pandemic is having a significant effect on the way the world thinks about the United States. If it reinforces the tendency towards retrenchment that has been visible for a decade, it may also have a significant effect on the way the United States thinks about the world.

Of course, Americans have a choice in all this. If Donald Trump is replaced by a more orthodox president in November — most likely Joe Biden — then the United States can revert to a more orthodox path. But what if Americans look at the past four years, and the past four months, and say: more, please?

This November, the United States will either course-correct or crash.

## CHINA

### **After initially failing to handle COVID-19, Xi Jinping senses an opportunity**

RICHARD MCGREGOR

In early April, Chinese leaders and most citizens stopped for a moment's silence, to commemorate what the official media called the "martyrs" who had died in the coronavirus outbreak in the preceding months. The event, which stopped traffic and public transport, had the feeling both of finality and victory, in stark contrast to many countries, especially the United States, which are now bunkered down and watching death tallies rise.

The possibility that China looks to have beaten COVID-19 will be an immense relief to President Xi Jinping and the ruling Communist Party (CCP), which only a month ago seemed to be on its knees fighting the spread of the virus.

Chinese leaders have navigated their way through many peaks and troughs in recent decades that have crippled other nations, most recently the global financial crisis. If they get through COVID-19, the CCP will feel bullet proof, and emboldened to press forward with Xi's assertive foreign policy, at the expense of the West.

The CCP has become so confident about the outcome that, barely moments after its own infections stabilised, Beijing rapidly turned its attention abroad. The Chinese government, along with some of the country's richest businesspeople, have dispatched masks to first world nations like the United States and European states, and organised teleconferences with poorer Pacific nations to teach them how to take on the challenge of dealing with the virus.

Beijing's global propaganda efforts seem to be bearing fruit. This is remarkable, given the way the crisis started earlier this year, with a cover-up in Wuhan (a city of 11 million people in central China) allowing the virus to spread to the rest of China and then the world.

Xi has earned himself many enemies in his ruthless accumulation of power in the past seven years, but his firm control over the party has allowed him to shunt aside his critics.

COVID-19 threatened Xi's position, as the economy went into a downwards spiral and the CCP's reputation for competency at the outset of the crisis took a hit.

The brutal quarantine imposed by the party-state, however, has for the moment stabilised the situation inside China. The propaganda campaign, contrasting China's situation with that of other countries, is being leveraged to boost Xi and the CCP's standing with its citizens.

But Xi and China aren't out of the woods yet.

China has not experienced a genuine recession since 1989–90, in the aftermath of the military suppression of protesters in Beijing and elsewhere.

By the accounting of one long time China economist, Andy Rothman, of Matthews Asia, Beijing "published the worst macro data since the Tang Dynasty" in mid-March. (The Tang Dynasty lasted from 618 to 907 CE.)

Despite signs of a reboot, China is not on track to a V-shaped economic recovery, especially while its major overseas export markets are in free fall.

Economic growth, competent government and nationalism are the three pillars of enduring CCP rule. The first two have been damaged. The third is being bolstered by China's progress in the cornering of the virus.

Xi is safe for the moment, but the longer-term verdict is yet to come.



## US-CHINA COMPETITION

### **The zero-sum competition between the world's two most powerful countries will escalate to new levels**

BONNIE GLASER

The coronavirus has intensified US–China strategic competition and sent bilateral relations into a tailspin. The rivalry, which even before the virus extended to all aspects of the relationship — economic, military, diplomatic and ideological — will accelerate the decoupling of the two economies and deepen mistrust between the countries and their peoples.

Rather than seek cooperation to mitigate the COVID-19 crisis as they did in response to the global financial crisis and the Ebola outbreak, Beijing and Washington are engaged in a rancorous struggle over where and how the virus began. The mutual scapegoating may continue for months or even years after the virus is brought under control. The blame game will create enduring resentment on both sides that could influence policies toward each other across a range of issues, especially if Donald Trump is re-elected for a second term in November.

Bilateral rivalry is spreading from the diplomatic, economic and military realms to the ideological sphere with Beijing and Washington touting the superiority of their respective governance models. China has launched an aggressive domestic and global propaganda campaign to divert attention away from the Chinese Communist Party's missteps in the early phase of the epidemic and hype its achievements in getting the virus quickly under control within its borders. The United States has initiated its own drive to push back against China's disinformation strategy and portray Beijing as unfit for global leadership. The acrimony has extended to government spokespeople in both capitals, who are hurling insults back and forth, and engaging in tit-for-tat diatribes. Even the race to develop a vaccine is being politicised, as both sides contend to show the world that its scientists are superior.

The COVID-19 pandemic will accelerate the trend of reducing the interdependence of the US and Chinese economies. China's policies for achieving greater self-reliance in advanced technology set this in motion and gained additional momentum with the US decision to

exclude Chinese companies from its 5G networks. Trade between the two nations has already slowed as a result of tariffs and other measures. United States' efforts to reduce reliance on China for pharmaceuticals and medical supplies will expand the 'decoupling' that is already taking place in some technology sectors. The downturn in the Chinese economy and rising unemployment will tempt Chinese leaders to rely heavily on nationalism, which will be directed against foreigners and especially Americans. Rising xenophobia in China and anti-Chinese prejudice in the United States may further curtail economic interaction, including by adding to existing pressures to pull supply chains out of China.

Despite China's good faith efforts to meet the Phase I trade deal deadlines, Beijing will probably not be able to purchase the agreed target of US\$200 billion in American goods and services over the next two years. Economic downturn in both the United States and China will slow progress toward a Phase II agreement. As a result, friction will continue over thorny issues such as China's subsidisation of companies and its policies aimed at dominating key strategic technologies. Bilateral disagreement will persist over tariffs, with the Trump administration keen to keep them in place and China eager to see tariffs lifted.

United States-China relations are at their worst point in modern memory and are poised to get even worse as a result of the COVID-19 epidemic. The rest of the world should plan accordingly and attempt to limit damage to their interests as the zero-sum competition between the two most powerful countries escalates to new levels.

# THE INTERNATIONAL ECONOMY

## **COVID-19 will inflict a permanent shock on the world economy**

ROLAND RAJAH

Since the COVID-19 threat first emerged, economists have debated whether the shock to the global economy will be ‘temporary’ or ‘permanent’. In the more optimistic ‘temporary shock’ view, the virus will eventually pass, and economic life can then largely go back to normal. Massive fiscal and monetary expansion programs in Western countries will keep the economy afloat in the interim – with government balance sheets socialising the costs of economic hibernation. Government debt will be much higher in the aftermath. But incredibly low borrowing costs will keep this sustainable. Some longer-lasting damage is unavoidable (e.g. bankruptcies and job dislocation). But these would be relatively small or quickly recoverable.

Three factors, however, make it more likely that the world economy will suffer a permanent shock.

First, the ‘virus economy’ may last much longer than people think, increasing the permanent costs. The crisis is, at its core, a global health crisis. Even countries that defeat the virus at home will not be able to fully return to normal until the rest of the world does so as well. Unless borders stay closed, reinfection from abroad will remain a threat. And if other countries are still in turmoil then world demand will stay depressed. Therefore, regardless of individual success, it is a concern for all countries that the global outlook for combatting the virus and mitigating its economic costs is highly uneven.

Second, the emerging world looks set to be hit mercilessly hard. These economies are now globally significant. But the great fear is that the realities of widespread poverty could make it incredibly difficult to contain the virus and too easy for it to overwhelm already weak healthcare systems. Worse, these countries cannot respond with massive fiscal and monetary expansion to mitigate the economic damage, owing to various combinations of high debt, collapsing export demand, vulnerable currencies, and reliance on

external financing. Instead, the flood of capital already fleeing emerging markets threatens to make things much worse. The International Monetary Fund and World Bank have a critical role to play. But whether they will have the full resources, tools, and mandate needed is far from assured. A financial crisis in the emerging world is a distinct possibility. Yet, even if this is avoided, it could still take years for emerging economies to fully recover.

Finally, globalisation will likely suffer greatly, even if it is not about to completely unravel. Many aspects are too deep-rooted and the commercial logic too powerful for this to spell the end of globalisation itself. But globalisation was already heading in reverse before the crisis and this will only be reinforced by the virus experience. Businesses will rethink long and complex supply chains, governments will feel compelled to ensure domestic capacity in more areas deemed critical to the national interest, protectionists will feel empowered, and domestic politics will demand more barriers to people's ability to cross borders, whether temporarily or permanently. Some of this will be warranted, much will be lamentable. All of it will impose costs.

Of course, better outcomes are possible, especially with greater international cooperation. But on the present trajectory, the post-virus world economy will be one of subdued growth, more fragility, and greater division.

## GLOBALISATION

### **The drawbridge has been raised, but not permanently**

DR STEPHEN GRENVILLE AO

Globalisation has imploded. No overseas tourism, no foreign students. Australians abroad have retreated home and borders are closing. Regulations prioritise nationals over foreigners. Thomas Friedman's "flat world" has been upended. Is this temporary or the new normal?

To answer that, consider how important globalisation has been since the Second World War. A billion people have been lifted out of poverty, riding the wave of international trade, which grew twice as fast as GDP for half a century. Technology interacted with globalisation to facilitate production-at-scale and efficient supply chains. Comparative advantage — countries should do the things that they do best — was taken to the nth degree. This boosted productivity and living standards surged.

We will not readily abandon these stunning gains and revert to autarchy, because the sacrifices would be too great.

Nowhere is this clearer than in Australia. With a population of only 25 million, we don't have the scale to allow self-sufficiency. Our resource endowment (think of coal and iron ore) cannot be used at home: it has to be exported. Our agricultural production is many times greater than our domestic consumption. How would Australians tourists feel if they were confined to their own shores?

On the other hand, America and China, with their huge scale and diverse resources, could adopt self-sufficiency with smaller loss. Donald Trump's America has lost any sense of mutually beneficial globalisation and is turning inwards, with the virus inflaming existing tensions.

But globalisation should be able to survive self-isolation by a single country, even the largest. The rest of the world — and notably China — shows no sign of this inwardness. The main loss to us would be strategic — the economic weakening of our closest ally. There would be a reformatting of the international agencies which underpin

globalisation, lessening the largely benign hegemonic role America has played. But the rules of globalisation are based on mutual benefit, so there is no intrinsic reason why China, say, would want to re-write the rules for economic reasons. After all China did famously well out of World Trade Organisation membership.

In this new world, trade — the key constituent of globalisation — could continue, with China still taking our exports. Global advances in technology would still be available to us. Foreign capital would still flow.

Of course, the crisis will leave us poorer and we will be interacting with a poorer world. Growth will be hobbled by higher debt. Some partner countries are likely to experience serious trauma. Income inequality will worsen, especially between nations. But the overall dimension of this loss should be kept in perspective — it is a tiny fraction of the disruption experienced in two world wars during the 20th century. If the COVID-19 crisis marks the end of globalisation, it will be the fault of policy responses rather than the result of the epidemic itself.

This may be the end of hyper-globalisation, characterised by casual overseas holidays and over-reliance on sourcing foreign supplies instantly. However, a vaccine will be developed in time and the benefits of globalisation are so great that self-interest will see it restored, even if the scenery changes and players switch roles.

## MULTILATERALISM AND THE NATION STATE

### COVID-19 shatters the promise of a benign Asian Century: It's every state for itself

HERVÉ LEMAHIEU

The year 2020 will mark the birth of the 'Asian Century', just not in the way many expected it. Asian economies were on track this year to become larger than the rest of the world combined. But this economic miracle has been eclipsed by an altogether more inauspicious start to the defining role Asia will play in the 21st century. History will remember 2020 instead for a once-in-a-century pandemic which emerged out of China, Asia's newly minted superpower, and reduced the international community to its constituent parts as countries turn inwards to fight an invisible enemy.

The rapid global spread of COVID-19 will hasten a rethink, already underway, about the global promise of Asia's sunlit uplands. Hyper-globalisation, in which the region prospered, has likely peaked. A counter current will reinforce the importance of nation states and self-sufficiency. And an uncomfortably Darwinian zeitgeist seems likely to sharpen the contrasts between weak and strong in Asia.

Above all, this crisis is a test of internal sovereignty and resilience. The coronavirus exposes the competence, and lack thereof, of governments and institutions. It reminds us that a country's ability to project power and leadership abroad rests first and foremost on the capacity to govern competently at home. Dictators and democrats, nativists and liberals will no doubt all see evidence in this crisis for the urgency of their views. However, in the words of Francis Fukuyama, "the crucial determinant in performance will not be the type of regime, but the state's capacity and, above all, trust in government."

The fear that the West is in inexorable decline as a result of this crisis is likely overdone. Western Europe and the United States were clearly unprepared for what has hit them, but they remain some of the oldest, richest and most capable states in the international system. The crisis even has the potential to spur substantial new

investments in public goods. Historically, projects like the European Union have benefited from destabilising shocks as a call to action and reform. Countries with the resources to fight the pandemic on two fronts — containing the health emergency and the economic fallout — will recover fastest. Australia should be among them.

However, it is far from clear how this will play out in developing Asia. State weakness has obvious implications for the balance of power in the region — between China and the rest. An uncontrolled health crisis followed by another deep global economic recession may be a far more existential threat to the stability of emerging middle powers in Southeast Asia and even India, the only democracy with the demographic heft to match China. Moreover, without a truly global public health infrastructure, the economic rise of many smaller countries may simply prove unsustainable.

It follows that — even as successful powers move towards greater self-sufficiency — they will have little choice but to come out of their shells and reinvest in global institutions and hard-headed internationalism. True, the record of the United Nations and its specialised agencies does not always inspire complete confidence. But if the United Nations didn't exist, we would have to invent one for this multipolar world.



## SOUTHEAST ASIA

### **Authoritarianism will intensify in Southeast Asia but effective governance won't necessarily follow**

BEN BLAND

Cambodian leader Hun Sen is implementing new laws to boost his powers. Myanmar is forcing internet service providers to block independent media. And Philippines President Rodrigo Duterte is threatening to shoot those who defy him. As political scientists debate whether the COVID-19 pandemic will be a boon for authoritarianism, Southeast Asia's criticism-shy leaders and their draconian security officials are seizing the day.

Southeast Asia is not a good lab to test how democratic and authoritarian governments manage crises. For while the region incorporates many flavours of authoritarianism (from Communism to military rule and from a sultanate to a technocracy), there is not a single consolidated liberal democracy. Only Indonesia and the Philippines hold regular free, fair and genuinely contestable elections, while struggling to sustain democratic principles of governance. So the better question to ask is: how will Southeast Asia's authoritarians fare in the face of this health, political and economic crisis?

It is already clear that many Southeast Asian leaders are trying to ratchet up their powers. At a time when many people are afraid for their lives and even Western democracies are putting severe limits on personal movement, people in Southeast Asia are likely to accept this in the short term.

But this does not necessarily presage a dark and dictatorial future for Southeast Asia. In the longer term, people will judge their governments on their effectiveness in mitigating the health and economic impacts of COVID-19. Performance legitimacy, when authoritarian governments sustain power by delivering for their citizens, is just as important when it comes to managing a pandemic as it is when managing the economy.

Apart from the Communist dictatorships in Laos and Vietnam, and recently Hun Sen's Cambodia, citizens in the rest of Southeast Asia have the chance to register their discontent in some form of

election, even if many cannot change their governments. There are also think-tanks, media outlets and civil society organisations, albeit of varying degrees of quality and independence. While these feedback mechanisms are imperfect, they can at least shine a light on governments that are over-reaching but under-performing.

So far Singapore, the only rich nation in Southeast Asia, has predictably led the pack in responding to this crisis. Singapore's paternalistic and interventionist People's Action Party will hope to capitalise on its successful management of the pandemic in a general election due by April 2021. Vietnam's Communist Party has been the surprise early performer, slowing the spread of the outbreak early on with draconian quarantine procedures and strong national leadership. But their authoritarian neighbours in military-dominated Myanmar and Thailand have been flailing. In Indonesia and the Philippines, weak governance and poor public messaging have undermined the mitigation efforts. Indonesian President Joko Widodo, like his counterpart in the Philippines, looks ill-suited to crisis management.

We are still in the opening stages of a long and drawn-out crisis. But Southeast Asian leaders and officials with deep-seated authoritarian instincts will undoubtedly continue to grab more power in the months ahead. Only some leaders will use their enhanced powers effectively to protect the lives and livelihoods of their people. The rest will have to hope for the forbearance of their citizens. Otherwise, they will face a backlash at the ballot box — or on the streets.

## THE PACIFIC

### **After COVID-19, the same challenges for the Pacific — only worse**

JONATHAN PRYKE

Life for the average islander is a sharp juxtaposition of the idyllic and the oppressive. Diseases that are a distant memory in Australia — malaria, tuberculosis, dengue — are commonplace in the Pacific. Formal sector employment opportunities are limited, and people are used to going without. While public social welfare systems are thin, community welfare systems are robust. The Pacific's greatest strength is the resilience of its people. The economic and political systems of the Pacific are far more fragile. Both will be tested to their limits by COVID-19.

Most Pacific countries walled themselves off early from the outside world, showing great foresight. This will contain the spread of the virus, and help the Pacific to dodge the worst of the immediate impact of COVID-19 — that of the virus itself. Considering the acute vulnerabilities of stretched — and in some cases broken — health systems, this will be looked back on as a remarkable achievement. Some countries, particularly Papua New Guinea with its porous land border with Indonesia, may not be so lucky, and will be dealing with outbreaks until a vaccine can be found.

No amount of foresight could help the Pacific dodge the economic fallout trailing COVID-19, however. All of the main threads of economic reliance that connect the Pacific to the outside world — tourism, migration, remittances, aid — will be affected. On average, the economies of the region may experience a contraction of as much as 10 per cent. Many industries, particularly tourism, will take many years to recover to their pre-COVID-19 levels.

Fortunately, Pacific governments and their friends are acting to avert complete economic and political collapse. Pacific governments will draw on every domestic resource available to them to stimulate their economies, largely rolling out small and medium business subsidies and mass employment programs. Donors, including China, will respond through a major regional financing program of at least A\$5 billion — double what the Pacific normally receives in aid — coordinated by the International Monetary Fund

and World Bank. Most of this will come in the form of extremely concessional long-term loans. A debt crisis is looming but the crisis of today is more immediate. Australia and New Zealand will recognise this, and will lead the support efforts despite the gargantuan challenges at home.

At the end of this much of the Pacific will look as it did before, with the same challenges and opportunities. But some parts will have significantly changed. The regional lending mechanism will likely evolve into a development bank for the Pacific, which will improve coordination of efforts across all Pacific donors, including China. Health will become a flagship of donor engagement in the region and will become the new arena for big-power geopolitical competition. Pacific regional integration will take a hit, as the collapse of some national airlines will make it harder than it already is to get around the region. But the bonds between Pacific countries, and with Australia and New Zealand, will be stronger on the other side.

## **DEVELOPING NATIONS**

### **COVID-19 has the world's poor in its sights**

ANNMAREE O'KEEFFE AM

Every viral pandemic has its prime targets. For HIV/AIDS, it has been the marginalised and stigmatised, killing 35 million in the past 35 years. For COVID-19, it is initially the aged and physically vulnerable. But when the frontline shifts it will be the world's poor in developing countries who will suffer the most.

Thanks to their existing ill health, the poor in developing nations already live 18 fewer years than people in high-income countries. They have sub-standard health systems unable to provide even basic services, weak and mismanaged national economies, limited access to financial and skilled human resources, and under-educated populations.

COVID-19 will therefore disproportionately hit the world's poorer countries both as a health cataclysm and as a destabilising social and economic crisis. This will take some into the realm of fragile states and already fragile states will be driven deeper into dysfunctionality.

The UN Development Program estimates that "income losses are expected to exceed US\$220 billion across developing countries", hitting those least able to cope. That forecast takes on a razor edge when considering that up to 75 per cent of people in least developed countries lack access to the primary means of infection prevention — soap and water. Many of those least developed countries are in our neighbourhood, including Cambodia, Nepal, and four Pacific countries — Solomon Islands, Vanuatu, Tuvalu, and Kiribati.

Even in the more prosperous parts of the developing world, the World Bank has estimated that if regional growth slows to 2.1 per cent, 24 million fewer people will escape poverty compared with pre-COVID projections. In a lower growth scenario, millions more will descend into poverty.

The World Bank acknowledges the perils of making predictions in this fast-moving crisis. Just as the world's richer countries face varying degrees of success and failure according to their response

to this viral blitzkrieg, so too will developing countries. What is clear is that there must be a multi-pronged program of support, including direct assistance for health systems as well as support for failing economies. No single response fits all. Instead, this is the time to apply the fragile states principles, which were developed in the early 2000s to help failed states emerge from conflict — RAMSI (Regional Assistance Mission to Solomon Islands) was an example. These include focusing on the context, prioritising prevention, agreeing on practical co-ordination mechanisms between international actors, and staying engaged long enough to give success a chance.

The wealthier countries and international organisations have already started galvanising resources for the poorer nations. At the G20 meeting last month, commitments were made to strengthen capacity building and technical assistance and mobilise development and humanitarian assistance. Separately, the World Bank has put together a US\$160 million package of immediate and longer-term support; the International Monetary Fund will engage with the private sector to help companies continue operating and sustain jobs; and the Asian Development Bank has put together a US\$6.5 billion package for developing country members. So far, Australia's international focus is largely on the Pacific with existing aid programs being redirected to focus support on health services and mitigate the economic shock.

The forecast for the Pacific is grim. The big challenge for its development partners will be funding the scale of resources needed to deal with it. Despite the commitments to date, as the developed world goes into deeper debt to save itself, governments will be forced by their electorates to make some very tough decisions about their foreign aid budgets.

# MISINFORMATION, TRUTH, AND TRUST

## **COVID-19 is killing truth — and public trust**

NATASHA KASSAM

After a decade of democratic backsliding and populism, 2020 is the macabre finale. Propaganda and misinformation are deepening the disconnect between publics and political elites during COVID-19. Both truth and trust are falling victim.

Trust in government was already at a low point prior to COVID-19. And governments in the early stages of the virus did not inspire confidence. China covered up the outbreak. The United States underestimated it. The United Kingdom surrendered to it. And most of Europe failed to control its spread.

Most governments are attempting to rectify early missteps. But doubts about the competence of these systems — democratic or authoritarian — continue to mount. Citizens are told to turn to authoritative sources, but once-trusted institutions have not stepped up: the World Health Organization has been damaged by allegations that it is beholden to China.

Misinformation in a pandemic is not new but in COVID-19 it is unprecedented. In this contested information environment, there is no single source of truth. Even the data on COVID-19 cases, coded in the simplicity of 1s and 0s, tells a different story depending on which university publishes it.

The authority of legacy media has been undermined by perceptions of entrenched ideological bias and the loss of advertising alike. For many newspapers, COVID-19 will be an extinction event.

Social media and fringe news have filled the vacuum. In the crisis, social media has had its benefits — citizen journalists and outspoken doctors have been empowered. But malign actors thrive in environments of distrust and confusion, and dangerous misinformation, disinformation and flawed amateur analysis abound. Make way for the armchair epidemiologists. One Medium.com post that claimed the public health response to

COVID-19 was based on hysteria, rather than evidence, was viewed and shared by more than two million people before it was removed as dangerous. Truth, and one of its emissaries, science, has been politicised. If this pandemic does signal the return of science, then to gain traction, the scientists will need to be propagandists too.

Worse still, political leaders have been complicit: suppressing information and at times outright lying during the outbreak. Suspicion has been rightly levelled at China, where the instinct to suppress and censor bad news had tragic costs. But the White House under President Trump has also had a tenuous relationship with the truth. For many, neither system looks particularly appealing. Government incompetence has driven people towards mistruths and emotion rather than fact and science.

Conspiracy theories have also flourished, aided in part by governments. Some Chinese officials claimed the virus was brought to China by the US military. United States elected officials argue COVID-19 was a misfired Chinese bioweapon. The truth has been obscured in this unedifying war of words. Pew polling has found a third of Americans say COVID-19 originated in a lab.

Stepping into the void, technology companies have become gatekeepers. Twitter deletes posts by Venezuela's President Maduro or Brazil's President Bolsonaro that promote untested COVID-19 treatments, but turns a blind eye when the same message is shared by President Trump. Even for the free-speech extremists of Silicon Valley, information is political.

The information age was meant to make truth more accessible and governments more accountable. Instead, propaganda and misinformation spew from an endlessly expanding array of new sources, while governments and once-trusted institutions disassemble truth to serve their own political prerogatives.

Some governments are rebuilding public trust through competent and honest responses. But distrust and deception in public life is accelerating. And the truth, already undervalued in recent history, has become another casualty of the war against COVID-19.



## EXTREMISM

### **COVID-19 is accelerating the rise of right-wing extremism**

LYDIA KHALIL

Times of crisis tend to bring out conspiracies, crazies and extremists. During the COVID-19 pandemic, this has been even more pronounced — particularly in Western democracies where trust in government has ebbed to an all-time low, mental health services are already strained and right-wing extremism is on the rise. Back-to-back emergencies in Australia, from bushfires in January to the COVID-19 pandemic in March, have spurred an increase in extremist narratives here.

Even before COVID-19, right-wing extremism was expanding at an alarming rate, with a 320 per cent global increase in just the past four years. A scroll through the internet shows how right-wing extremists are using the coronavirus to stoke extremist narratives and encourage mobilisation against outsider groups and government. The COVID-19 pandemic has struck a chord with right-wing extremist groups because it fits with an increasingly popular fringe theory among the far right — that of accelerationism. This is a strategy of hastening the collapse of society to promote its restructuring on completely different ideological grounds.

A leaked memo from within the US Department of Homeland Security revealed that white supremacists and neo-Nazis are encouraging infected members to spread the virus to law enforcement and minority communities. Memes on right-wing forums such as “What to Do if You Get Corona 19” urge followers to “visit your local mosque, visit your local synagogue, spend the day on public transport, spend time in your local diverse neighbourhood”.

The risk extends beyond rhetoric to physical attacks. On March 24, FBI agents killed a known right-wing extremist during a sting operation after learning of his plans to bomb a hospital treating a number of COVID-19 patients. Dr Anthony Fauci, the leader of the US COVID-19 task force, has been forced by credible threats to take extra personal security measures.

Terrorism laws in the United States are already being invoked in an effort to deal with COVID-19-related extremist acts, expanding the interpretation of the law to bring terrorism charges against at least two people claiming to be infected for coughing in grocery stores. But these individuals have no known links to terrorist groups nor are acting on political or ideological motivations, which is how terrorism and terrorism offences have previously been defined.

This is a troubling expansion in the definition of the terrorist threat. Emergency government powers invoked to deal with the urgent public health crisis risk provoking right-wing extremism and accelerationism. Heavy-handed government responses also play into the narratives of right-wing extremist groups who welcome the prospect of martial law to promote their goals of accelerationism.

The public health threat posed by COVID-19 is severe. The already rapid rise of extremism is real, and is being stoked by COVID-19 conspiracy theorists to hasten the spread of accelerationist ideology. But over-done government responses to both threats may only proliferate right-wing extremism further.

## **DIPLOMACY**

### **Post-COVID-19 diplomacy will be refinanced**

ALEX OLIVER

Diplomacy, if it is noticed at all by the average citizen, is generally regarded as the preserve of an elite foreign policy community. Only in times of crisis do people become aware that the nation's diplomatic network performs a crucial service — that of providing consular assistance to citizens abroad. Yet that service is frequently found wanting, even as entire foreign ministries mobilise to protect their stranded nationals. Previous crises have catalysed changes in the ways diplomatic networks function; a crisis on the global scale of COVID-19 will permanently reshape them.

Many of the world's diplomatic networks have been in retreat since the global financial crisis of 2008. Embassies and consulates were closed, diplomats returned to headquarters, staff numbers reduced, sometimes dramatically. The former diplomatic superpowers — France, the United Kingdom, Spain, Russia — all cut back the size of their networks, some by almost one fifth. In Australia's case, the number of our diplomats posted to overseas missions is smaller than it was 30 years ago, yet our GDP is six times larger. Expenditure on diplomacy has stagnated while investment in defence has burgeoned.

In April 2020, the scale of the consular crisis has become crystal clear. Of Australia's one million-strong diaspora and several hundred thousand short-term trip-makers, 200,000 have returned home in the past three weeks. The United Kingdom is reportedly spending £75 million to repatriate 300,000 of its citizens currently abroad. The United States has repatriated 43,000 Americans from 78 countries since late January. The list goes on.

Emergency consular assistance on this scale is unprecedented. It dwarfs the repatriations following the Arab Spring revolts, or even the Lebanon crisis in 2006. In the aftermath, as with those other crises, ministries of foreign affairs across the globe will trawl through the 'lessons learned' and make permanent changes to their crisis management plans. Where their networks are thin (such as Australia's in parts of South America), regional rapid response hubs will be created or boosted. New consulates may be opened in

destinations becoming more popular with tourists. Consular ranks will be augmented with regional specialists. Crisis contingency funds will need boosting.

All of this means governments will need to rethink their approach to diplomacy. The paring-back and efficiency drives in foreign ministries have stripped them of capacity, and with it the ability to respond with agility to crises. Those crises expose governments to hyper-criticism by citizens striking out when they feel most vulnerable. That sort of pressure is hard for governments to ignore. If it leads to more sensible investment in diplomatic resourcing, that's no bad thing.

## ***PART 2: EMERGING FROM COVID, SECURING AUSTRALIA'S FUTURE - POLICY RESPONSES TO THE PANDEMIC***

### **INTRODUCTION**

ALEX OLIVER

The fight against COVID-19 has been the greatest challenge the world has faced since the middle of last century. As countries have fought to control the disease, they have closed borders, quarantined their citizens, and shut down economies almost entirely. The ramifications will reverberate for years, if not decades, to come.

In April 2020, the Lowy Institute published a digital feature in which twelve Institute experts examined the ways in which the COVID crisis would affect Australia, the region and the world. In this new feature, Lowy Institute experts provide policy recommendations for Australia to address issues that are critical to our nation's — and the world's — successful emergence from the pandemic.

Countries have turned inwards in an attempt to fend off the threat of an infection that is oblivious to borders. Some have seen globalisation as the cause of the crisis, and have focused on solving problems without recourse to the international institutions of global security and prosperity, including the United Nations, the World Health Organization, and the G20. Yet global problems require international solutions.

As the world emerges from the crisis, cooperation between nations will be more important than ever. Nation states cannot revive their economies purely through national solutions. They cannot address global threats, including the possibility of further pandemics, alone.

Australia's achievements in managing the COVID crisis have been exemplary. It has handled the health and economic emergency with great competence. But this is just the beginning of our crisis recovery. The challenges in our region, and the global problems that

existed before COVID, have only been exacerbated by the pandemic.

Australia has already done much to address the domestic economic and health issues from the COVID crisis. But to shape a prosperous and secure future, it will also need to work in cooperation with other nations, large and small, allies and partners, on a much broader array of international issues ranging from the economic disruption across the region, pressure from China on trade, and development challenges in the Pacific, to increasingly competitive relations between the United States and China, the weakening of the World Health Organization, and the declining utility of the G20.

## CHANGING AUSTRALIA'S CONVERSATION ABOUT CHINESE ECONOMIC COERCION

**Getting away from the narrative of dependence would be a starting point for a more sensible national discussion — one that is more robust to economic threats that may come our way**

NATASHA KASSAM, RICHARD MCGREGOR, ROLAND RAJAH

Last month, China banned meat imports from four large Australian slaughterhouses for “technical” reasons, and imposed tariffs of more than 80 per cent on Australian barley after a long-running WTO investigation at China’s instigation. This month, China warned its citizens not to travel to Australia for “safety” reasons. This flurry of punitive measures, and suggestions there could be more, has magnified concerns about Australia’s economic dependence on China and the belief that Beijing can use this to exert political pressure and constrain Australia’s ability to prosecute its interests. Calls for diversification away from China have consequently intensified.

Australia should have more confidence in its ability to withstand China’s punitive measures. The overwhelming narrative of ‘dependence’ leads the national conversation in unhelpful directions. Rather than dependence, the Australia–China relationship is mostly one of interdependence — which means that Australia’s exposure to, and ability to resist, economic threats from China is far more manageable.

It is true that China buys about a third of Australia’s exports of goods and services. But more than 70 per cent are resource commodities — vital inputs for China’s steel, construction, and other industrial sectors that are still central to its economy (and employment), especially in recovering from COVID-19. Finding alternative suppliers at scale in these areas would be difficult for China.

As long as China’s demand for these commodities remains strong, so too will global demand — benefitting the Australian economy

either directly by selling to China, or indirectly if exporting elsewhere, because international prices will remain robust. The past two years have seen Australia placed in China's so-called 'diplomatic freezer'. Yet, the total value of Australia's merchandise exports rose by 30 per cent during that time. Merchandise exports to China rose by 50 per cent. That is also in keeping with the international experience of China's attempts at economic coercion, which tend not to have a material impact on overall trade but instead punish specific sectors and firms.

That is, of course, cold comfort for those being targeted. And in Australia's case, the potential targets are expanding as the economic relationship shifts from resource commodities towards agricultural exports, higher education, and tourism.

It is important, however, not to exaggerate the costs of standing up to China where Australia needs to. The value of what Australia sells to China in these areas is still only a little more than one percent of Australia's national income. That is important and should not needlessly be jeopardised. But Australia's national interests are hardly served by artificially dividing national security and the economy.

Importantly, the flipside of interdependence is complementarity. Diversification might be desirable, but the prospect for doing so in any significant way is likely to be very limited. India and Indonesia cannot match China's combination of growth and scale. Nor are they particularly open economies or easy places to do business, at least no more so than China.

Australia's relationship with China is entering a new, more difficult phase, for which there are no easy answers. Getting away from the narrative of dependence would be a starting point for a more sensible national discussion — one that is more robust to economic threats that may come our way.



## SHAPING THE US APPROACH TO CHINA AND THE RULES- BASED INTERNATIONAL ORDER

**Canberra should urge a more sophisticated and sustainable approach, drawing on America’s political and economic strengths, rather than its military weight, and be more inclusive of allies and partners**

BEN SCOTT

The US–China relationship is more adversarial and brittle than at any time since ties were normalised in 1979. Having claimed victory over COVID-19, Chinese President Xi Jinping has turned to subduing supposedly hostile ‘foreign forces’ on fronts from Hong Kong to India. Eager to shift blame for his failure to manage the pandemic, US President Donald Trump has injected increasingly confrontational rhetoric into Washington’s sporadically competitive China policy. The UN-centred order was built up to help manage great power tensions like these, but has shown itself to be battered and ineffective.

Canberra faces a particularly daunting challenge. It is deeply enmeshed with the United States — its longstanding security ally — but has China as its dominant trading partner. The continuing US–China escalation could, as well as weakening international cooperation against COVID-19 and its economic impact, see China further restricting Australian access to its markets. And, though US–China military conflict is still unlikely, the risks are growing. Any war would be especially catastrophic for our region.

To forestall escalation, Australia should pursue three broad lines of effort.

First, Canberra should engage Beijing diplomatically, while understanding that there is not much Australia can do to moderate China’s current threat perception.

Second, Australia should collaborate more with like-minded middle powers to salvage the rules-based order and increase cooperation.

This work is well underway, but remains extremely difficult without US leadership.

Third, Australia should seek to shape Washington's approach to China and the rules-based international order.

Australia wants the United States to balance Chinese power and deter Chinese coercion. Washington's new bipartisan willingness to compete with China broadly accords with Australia's interests.

But Canberra should urge a more sophisticated and sustainable approach. That would draw on America's political and economic strengths, rather than its military weight, and be more inclusive of allies and partners. It would also balance competition on national security issues, with cooperation on matters such as health and mutually beneficial trade.

From Canberra's perspective, the ideal US policy would be like Goldilocks' perfect porridge — not too hot, not too cold. That's a big ask, but still the best objective for Australia's near-term efforts.

The US elections in November could open a window of opportunity for change. Admittedly, a Biden Administration would be domestically focused and may have little appetite for committing scarce resources to countering distant China. But those resource constraints could also compel America to compete with China in a smarter way.

A Biden Administration would be receptive to Australian views. Canberra has standing in Washington, especially on China. Australia has arguably accepted more risk to its China equities than any other country as it has hardened protections of its political life and communication networks, and has sought to investigate the origins of COVID-19.

Australia's first goal should be inducing the next US government into a modified (and better-named) version of the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership). This agreement embodies a more sophisticated, rules-based, approach to balancing China. The United States would clearly accrue economic benefits and, despite rising protectionist sentiment, Vice President Joe Biden has sounded more positive about this approach than the last Democratic nominee Hillary Clinton did. Still, Australia should work to make the deal more

attractive. In the aftermath of COVID-19, existing signatories should be receptive to adding mechanisms for securing medical or other critical supply chains. That would also give the agreement new salience in Washington.

Australian leaders and diplomats should make these arguments soon, and do so more publicly than they ordinarily would in the lead-up to a US election. The stakes are high, as are Australia's stocks in the wake of its successful COVID performance. But social distancing will preclude the discreet discussions of more normal times. So the time to speak up is now.

# MAINTAINING AUSTRALIA'S SECURITY AS AMERICAN POWER RECEDES

**We cannot build a defence force that could defeat a major power such as China, but we can create one that will make it too costly for China to defeat us**

SAM ROGGEVEEN

With US–China relations now at their lowest point since Nixon met Mao, and even Chinese Foreign Minister Wang Yi warning of a new Cold War, the world seems poised on the brink of dangerous confrontation. For Australia, the stakes could not be higher — one of these superpowers is our largest trading partner, and the other our key military ally.

But unlike the struggle between the United States and the Soviet Union that scarred the latter half of the twentieth century, one key element is missing this time, one that is likely to see the US back away from confrontation rather than challenge China. That element is motive. The United States simply does not have a good enough reason to engage in a multi-generational, whole-of-society struggle with the largest economy in the world, a struggle that would dwarf the Cold War in the resources it would consume.

Yes, COVID-19 has raised the temperature of US–China relations, but ultimately the pandemic will reinforce the sense that the biggest threats to America's future are domestic, not foreign. America has been turning inwards for some time; the drift away from exceptionalism and towards becoming a more 'normal' great power began during the Obama Administration.

COVID-19 only increases the urgency of repairing America's domestic institutions. By contrast, despite the rancour caused by China's mishandling of the pandemic, the virus does not offer a compelling reason to resist Beijing's ambitions in Asia.

Despite China's size and rapidly increasing military might, it will never be a direct threat to the United States, which will remain a great power with enormous economic resources, powerful armed forces, and nuclear weapons. Moreover, China will remain

constrained by Asia's other great powers — in particular India, but also Japan, Russia, and in the future even Indonesia, and perhaps a unified Korea.

As a consequence, Washington lacks the motive to maintain its commitments to allies in the region, such as Australia. That means we will need to be more self-reliant than ever.

Canberra has been reluctant to embrace this sobering conclusion, though there are signs this is changing. The Morrison government's March deal to re-establish an Australian fuel reserve is a small indicator that it is taking national resilience and self-sufficiency more seriously. This should be the spark for a much more difficult discussion about strategic independence: can Australia defend itself against a major power without America's help?

It can be done, but it will be expensive. Australia will need a bigger military with large stockpiles of weapons and strategic materials so that we are self-reliant in a crisis. We cannot build a defence force that could defeat a major power such as China, but we can create one that will make it too costly for China to defeat us. We should focus on 'denial' capabilities such as submarines and other anti-ship systems which will make our northern approaches too dangerous for any adversary. And our defence diplomacy efforts should have a laser-like focus on Indonesia, as we both have a clear interest in ensuring China does not become the dominant maritime power in Southeast Asia.

To pay for it all, we will need a larger population. And depending on the pace of America's withdrawal from Asia, Australia may ultimately need to confront the grim question of whether we should acquire nuclear weapons.

# STRENGTHENING THE WHO BY GIVING IT LEGAL TEETH

**The best political choice for Australia now would be to promote greater legal authority and powers for the WHO. No other organisation can fill this role**

HERVÉ LEMAHIEU

COVID-19 was no ‘black swan’ event. In September 2019, an expert panel convened jointly by the World Health Organization and the World Bank warned of the “very real threat” of a global pandemic. Presciently, they noted that “the lack of continued political will at all levels” to prepare for a global health emergency would cost the world economy up to 4.8 per cent of global GDP.

Despite the warnings, the international community has struggled to deliver a coordinated response to what the UN Secretary-General has termed the largest global crisis since 1945. Quite apart from a health emergency and economic crisis, COVID-19 has unleashed a political pandemic of disinformation and blame that has increased the sense of disarray.

The magnitude of human lives lost from COVID-19 calls into question the WHO’s fitness for purpose in a global health emergency. Australia has an opportunity to strengthen a beleaguered but vital organisation. However, leading the charge will require us to address head-on the imbalances of power and responsibilities between the WHO and its member states that exacerbated the spread of the virus.

The WHO is the only global institution responsible for identifying when domestic public health issues become global ones. But the organisation has limited resources and no real legal authority to take countries to task for obfuscating an emerging epidemic. This has led to costly mistakes and compromised the WHO’s perceived neutrality and independence, which are both vital for the organisation’s work and its global legitimacy.

WHO leaders likely chose to laud China’s coronavirus performance in order to overcome Beijing’s reluctance to share vital information about the virus and secure access for its investigation teams into

the country. This show of deference may have succeeded in clearing a political bottleneck, but it came at a significant reputational cost to the organisation and contributed to the political storm that followed.

The question of China's influence on WHO decision-making is controversial and will no doubt be formally reviewed. But we must be careful in drawing conclusions. Pursuing a change in WHO leadership would, on its own, do little to address the structural flaws that often compel the WHO Secretariat to walk on political eggshells around its member states.

Instead, if we are serious about ensuring the WHO's independence and ability to deliver on its global health security mandate, Canberra has no alternative but to commit to deeper reforms. These include setting stronger international agreements on disease preparedness and response, a stricter set of International Health Regulations (IHR) under international law, and a bolstered WHO epidemic transparency and accountability mechanism to monitor non-compliance with the IHR.

In a stocktake of its performance, the WHO's successes are as important as its failures. It took just four days from when the virus' genome became available on 12 January, for the WHO to develop and share a test that laboratories around the world could use to detect the novel coronavirus in patients.

By 23 January, less than a month after the first cases of pneumonia with unknown causes were reported to the WHO, member states had all the basic information on fatality rates, severity, and transmissibility they needed to accurately judge the risk of COVID-19. By contrast, it took nearly six months to identify the virus responsible for the 2002–03 SARS outbreak.

If this did not prompt rapid action by political leaders in Europe and the United States, it is at least in part because Western leaders responded to the WHO's alerts with extraordinary indifference.

COVID-19 has laid bare the tension between the primacy of nation states and the efficacy of global institutions. It has reminded us that in a multipolar world, technical cooperation will always be political. But the best political choice for Australia now would be to promote greater legal authority and powers for the WHO. No other organisation can fill this role.

# CURING THE G20'S IRRELEVANCE

**Australia has more reason than most members to strive for substance in the G20's next meeting, as the Group is in danger of slipping into irrelevance**

STEPHEN GRENVILLE

A pandemic provides the perfect opportunity for a global coordinator to demonstrate its worth. Health and economic issues have international ramifications aplenty. The G20 — founded to provide precisely this kind of high-level global coordination — has been barely visible.

In normal times, the G20 is little more than a photo opportunity for leaders, with useful chats on the sidelines. The hope was that when substantive issues occurred, G20 would rise to the challenge.

This, however, requires leadership. UK Prime Minister Gordon Brown provided such leadership in 2009, with coordination of fiscal stimulus. This modest initiative fostered the hope that, when needed, the G20 could again play a global coordinating role.

The G20 is currently chaired by Saudi Arabia, which has little capacity for global leadership. President Trump is actively unsympathetic. Other members are absorbed with domestic aspects. Unsurprisingly, the ad hoc virtual meeting of leaders in March produced nothing beyond platitudes.

The meeting came too early in the crisis, when leaders were distracted. The virus blame game between America and China continued unabated. Since then, the trade spat has deepened into a strategic tussle, with other countries sucked into the vortex. 'Peak globalisation' is now behind us.

This is the current inhospitable environment for the G20. It may not matter for G7 countries, which have retained their own exclusive global club. But for mid-sized countries like Australia, heavily dependent on globalisation for their high living standards, the G20 provides a rare opportunity to play on the global stage.



What specific proposals could Australia develop for the November Leaders' Summit?

One urgent health issue stands out. A return to normality depends crucially on a vaccine. If one is found, the next issue is to speed its production and ensure an equitable distribution, prioritising those in greatest need. Leaving this to individual countries and companies is unlikely to be optimal. A few fine words in a communiqué is not enough. A plan with specific commitments is needed.

On the economy, here are two specific proposals:

- When the G20 finance ministers met in April, they agreed on a foreign-debt moratorium for 76 of the poorest countries. But it is not only the poorest nations that need debt relief: the substantial US dollar-denominated debt built up over recent years by many emerging economies is at risk of disruptive defaults as the pandemic worsens. This could trigger renewed capital outflows. Both debtors and creditors could benefit from delaying repayment until the uncertainty lessens, but someone needs to initiate a proposal. In the longer term, formal debt-rescheduling procedures are needed, especially for sovereign debt. But the urgent low-cost task is simply to postpone repayments.
- Another issuance of International Monetary Fund (IMF) Special Drawing Rights would be very timely for the emerging economies and would have minimal cost for the major Fund members.

Gordon Brown's 2009 initiative is remembered because it was relevant, substantive, and he lobbied tirelessly in support. Australia has more reason than most members to strive for substance in the G20's next meeting, as the Group is in danger of slipping into irrelevance. These three proposals would show what the G20 can do.

# FORMING A COALITION OF COMPETENT MIDDLE POWERS TO LEAD ON GLOBAL HEALTH PROBLEMS

**COVID-19 has shown that there are opportunities for creative diplomacy in a more horizontal world. Change will have to come not from a single power source, but from a networked grid of competent middle powers**

HERVÉ LEMAHIEU WITH ALYSSA LENG

The coronavirus is a powerful reminder that legitimacy and leadership on the world stage start with the capacity of leaders to govern competently at home. The reputations of both China and the United States have diminished as a result of their handling of the emergency. Both have written themselves out of global crisis leadership.

By contrast, recent Lowy Institute research reveals that a larger proportion of small and middle powers have done better at handling COVID-19 than their great power counterparts.

Countries such as Australia, New Zealand, Taiwan, South Korea, Vietnam and Denmark slowed the spread of the virus through bold policy interventions at an earlier point on their epidemic curve. This places many advanced middle powers in a unique position to carve out constructive roles for themselves in global pandemic response and recovery efforts.

The major dividing line in effective crisis response, according to Francis Fukuyama, has not been regime type, “but whether citizens trust their leaders, and whether those leaders preside over a competent and effective state.” Trust and state capacity are often comparative advantages for countries that have smaller populations, greater social cohesion, and capable institutions.

Australian government agencies, research institutes, and scientists are now at the forefront of what Lowy Institute Executive Director

Michael Fullilove has termed “coalitions of the competent”. These informal groupings have sprung up across international jurisdictions to lead the way in a multitude of policy areas: from the resumption of international travel through shared ‘travel bubbles’, to research on the development of a vaccine and therapies to treat the virus.

Middle powers have also shown that, when they work together, they can forge global consensus even in a multipolar and dislocated international system. When Australia and the European Union successfully steered a resolution through the World Health Assembly, they did so with the largest number of co-sponsors in the 72-year history of the WHO. The net result is the global health body’s handling of the pandemic will be open to scrutiny, but the organisation’s centrality to global health policy has not been undermined.

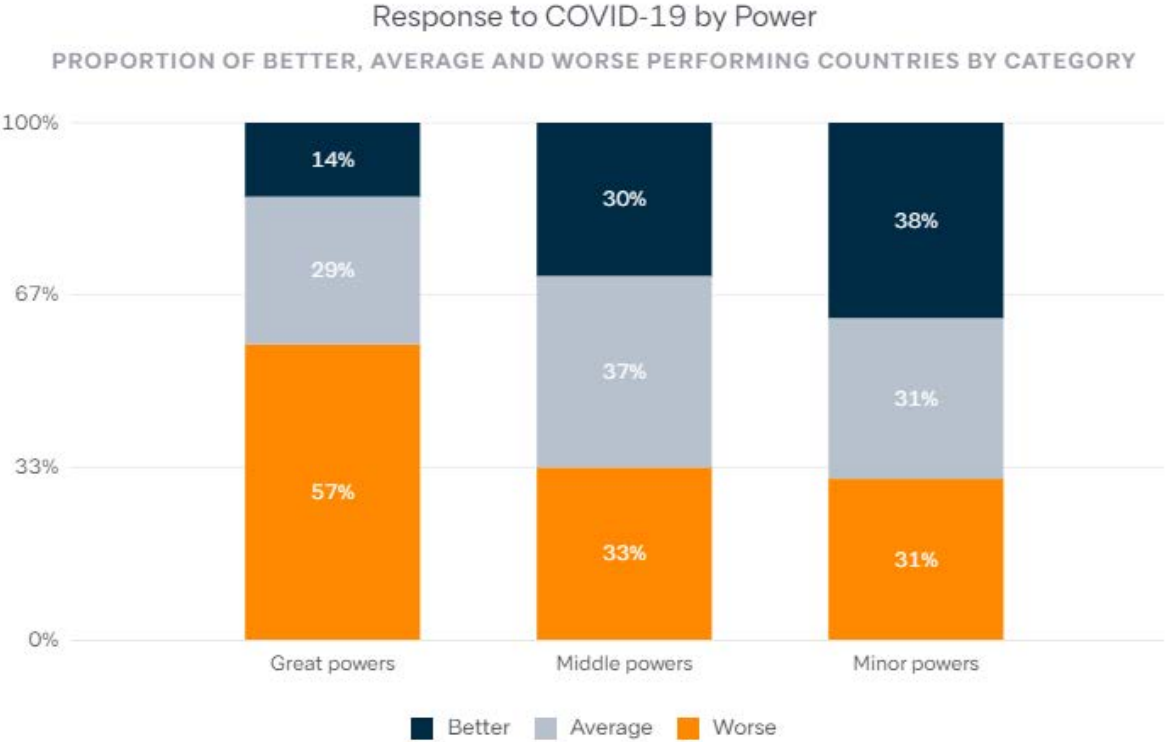
Now that the vote is won, other things become possible. Creative diplomacy will be required to strengthen global health governance. The pandemic has shown the need for reliable information to be shared equitably and rapidly between countries. To address this, middle powers should consider establishing an enhanced global monitoring facility, based in the WHO, but with independent accountability.

In the interim, a middle power grouping can also consider activating a dispute settlement mechanism under the International Health Regulations to clarify the application and interpretation of existing procedures. This may help improve the openness and transparency of the WHO Emergency Committee process, provide clarification for a stepped-up level of emergency alerts, and reassess the WHO Secretariat’s role in providing travel advice during a pandemic.

Finally, with the loss of US funding all but certain, the race is on for middle powers to fill the WHO’s most egregious financing gaps. Australia is already pivoting its aid program to work with the WHO on capacity building in its near abroad. This regional approach can be enhanced by working with a consortium of donors on a coordinated global funding strategy. Similar foresight and coordination will be required to replace the loss of a US voice at the World Health Assembly — particularly when the time comes to appoint the next Director-General of the WHO.

COVID-19 has shown that there are opportunities for creative diplomacy in a more horizontal world. Change will have to come not

from a single power source, but from a networked grid of competent middle powers.



Country performance in response to COVID-19 is determined by a composite score based on six equally weighted indicators: total confirmed cases and deaths, total confirmed cases and deaths per million people, total tests per confirmed case and thousand people.

# MANAGING AUSTRALIA'S ECONOMIC RECOVERY

**Matching its success in containing the pandemic with success in constraining long-term unemployment is Australia's next big challenge, and one no less formidable than the pandemic itself**

JOHN EDWARDS

After infecting more than 19000 Australians and killing over two hundred and fifty,<sup>1</sup> the coronavirus epidemic in Australia is fading, with fewer lives lost and less economic damage than first expected. Reckoning total COVID-19 fatalities compared to population running at less than one fiftieth of the rate in the United States and one seventieth of that in the United Kingdom, the handling of the pandemic by Australian governments, hospitals, health care workers, and public officials has been more successful than the experience of some similar societies.

Yet the damage is substantial, and will have lingering effect. The output loss compared to pre-COVID forecasts may well top 6 per cent of GDP. The number of unemployed will increase to over a million. With big spending programs to support employment and incomes, and government revenues falling, the record high 2019/20 budget deficit will be more than doubled for the current financial year. Business and household debt have also increased. In a sharp change to policy, the Reserve Bank of Australia has already more than doubled its holdings of Australian dollar government and private debt and announced a ceiling not only on the overnight or cash rate, but medium-term bond rates as well.

As the health emergency ends, it is apparent that the pandemic will change the terms of the political and economic debate in Australia — as it may change the debate in other Western democracies. Stubbornly high unemployment will now be the central issue at the next election, likely to be in 2022. The choice for Australia — as in Europe and North America — will be between the rapidity with which increasing government debt can be reined in, and the rapidity with which jobs can be created and unemployment reduced.

Although the fiscal challenge to the Australian government is formidable, it is well within Australia's means to manage the interest expense of the additional debt. Most of the fiscal deterioration arises from slower output growth over the next few years, rather than the direct cost of programs to support jobs and spending. Even given a severe contraction, net Australian government debt compared to GDP will likely remain well under that of most advanced economies. Because sovereign debt is very cheap and the cost of long-term unemployment is very expensive, it will not be sensible to aim for a rapid reduction of deficits at a time of high unemployment and fragile sentiment. On the contrary, the Australian government needs to find useful ways to extend deficits created by temporary spending. So, too, the Reserve Bank of Australia will likely find it needs to maintain very low short- and medium-term interest rates for several years to come – not least, to suppress an appreciation of the Australian dollar to uncompetitive levels. Matching its success in containing the pandemic with success in constraining long-term unemployment is Australia's next big challenge, and one no less formidable than the pandemic itself.

The challenge is all the more formidable because the emerging post COVID global economy will likely be less congenial to Australian prosperity. The pandemic has inflamed tensions between the US and China, encouraged protectionist trade policies, and for the foreseeable future locked major advanced economies into high and rising levels of government debt, much of it held by their central banks – a pattern which cannot be indefinitely sustained.

1. *This is an updated version of the article originally published in June 2020, with new data as at 6 August, 2020.*

## ASSISTING INDONESIA THROUGH THE ECONOMIC PANDEMIC

**Well-calibrated Australian support could make a pivotal difference to lower the risks and help Indonesia finance the budget deficit needed to get through the pandemic**

ROLAND RAJAH

Emerging economies everywhere are being especially hard hit by the economic pandemic unleashed by COVID-19. In Australia's region, the most consequential of the emerging economies is Indonesia, given its size, proximity, and general centrality to our economic, diplomatic, and security interests.

Indonesia now faces one of the most difficult outlooks in Asia. Its battle with the virus remains uncertain, while its reliance on foreign financing has left it exposed to capital flight and struggling to fund the fiscal response needed to keep its economy (and society) afloat through the pandemic. Without enough fiscal support, the economic damage from the virus will be far deeper and longer lasting — setting back its economic rise, leaving more people in poverty, and weakening its foundations for ongoing stability.

Australia has a clear national interest in helping Indonesia avoid this situation and, if requested, Canberra should provide Jakarta with large-scale financial support. Importantly, this could be done at little to no cost to the Australian taxpayer — which is crucial, given Australia is itself dealing with a steep economic downturn and massive domestic calls on its own budget that will necessarily take precedence.

Indonesia could theoretically turn to the IMF for assistance. But the IMF is still politically toxic in Indonesia — a legacy of the last crisis in the late 1990s. As it stands, Indonesia would probably not turn to the IMF until it was too late.

The Indonesian government has instead taken the unorthodox step of asking Bank Indonesia, the central bank, to help fund part of the budget deficit, effectively by “printing” money. This is feasible, if it remains modest and investors see it as a temporary exigency. Yet the

budget financing shortfall could prove much larger than expected. Indonesia's fiscal response to the virus (about 4 per cent of GDP so far) is also one of the smallest in Asia and could be usefully expanded.

Indonesia, therefore, faces a painful choice between potentially unnerving the market with greater central bank financing — risking more outflows of capital — or limiting fiscal support to a severely depressed economy. This is where well-calibrated Australian support could make a pivotal difference to lower the risks and help Indonesia finance the budget deficit needed to get through the pandemic.

Specifically, the Australian government should be willing to provide a large 'standby loan' facility — perhaps as much as A\$15 billion— that would be readily available if Indonesia were unable to raise enough from the market to finance its budget deficit. Canberra has done similar things before, but on a smaller scale. To enable large-scale support, the loan terms could be anchored against Indonesia's own sovereign borrowing costs during 'normal' times, instead of being a low interest loan as in the past. The cost to the Australian budget of extending the loan would then be minimal, since it would implicitly include pricing for the risk of default.

An Indonesian default is extremely unlikely. If it did happen, it would mean an Indonesian crisis so deep that default would be the least of Australia's concerns. Far more likely is that Australia will have helped a key partner get through an unprecedented crisis at little to no cost to itself.



## STEPPING UP IN SOUTHEAST ASIA

**This proposed step-up is not just about Australia demonstrating its commitment to Southeast Asia. The relationship goes both ways. Australia can only truly thrive again when Southeast Asia is back on its feet**

BEN BLAND

Australia should step up in Southeast Asia to help this vital region emerge from the pandemic and support the economic recovery of our second-biggest trading partner. This mission has become even more critical because of shifting geopolitics, with China intensifying its engagement in Southeast Asia and the reputation of the United States badly damaged.

There are three specific areas in which Australia and the region would benefit from further cooperation: tackling the pandemic, limiting the negative economic impacts of the health crisis, and mitigating social and governance challenges.

Canberra's Partnerships for Recovery policy sets out an ambitious vision for what Australia can do to help maintain stability, security, and prosperity in Southeast Asia as well as the Pacific. However, it is based on a redirection of the existing development budget, which has been shrinking in recent years. Australia cannot keep getting 'more for less'. The government should expand its budget for Southeast Asia, because this crisis is an important test of Australia's commitment to the region.

There are limits to what Australia can do alone in a diverse region of more than 650 million people. Therefore Canberra's response should be targeted and pragmatic. Australia should capitalise on its existing web of bilateral, minilateral, and multilateral relationships, not just with governments but with development banks, the private sector, and civil society.

The focus should be on working with committed partners to tackle specific challenges, from air travel protocols and trade facilitation to vaccine development and national stockpiles of medical equipment. Bilateral engagement should be high-level but low-key. The real value Australia can add is not in handing over containers of face masks at

public ceremonies, but in providing technical assistance and building trusted partnerships behind the scenes. Australia should work bilaterally and with the Association of Southeast Asian Nations (ASEAN) to improve the region's own pandemic response capabilities, in expectation of future waves of the novel coronavirus and other diseases.

On the economic front, Australia should work bilaterally and through the World Bank, Asian Development Bank, and IMF to ensure governments have the necessary policy support, as well as possible emergency funds, to emerge from the crisis as soon as possible. A particular priority should be given to assisting vulnerable groups, including those in poverty, children whose education has been interrupted, and the millions of documented and undocumented migrant workers who are often overlooked by governments. Australia should consider adapting the successful Prospera program — which provides wide-ranging technical support to the Indonesian government — to other countries in the region.

Canberra should also intensify efforts to deepen private sector economic engagement with Southeast Asia, building on the recently ratified Indonesia–Australia Comprehensive Economic Partnership (IA-CEPA) and the proposed Enhanced Economic Engagement Strategy with Vietnam. Although the pandemic will hit economic growth in the short term, it will present new opportunities for investment in health, technology, and education across Southeast Asia.

While other development partners bring more financial heft, Australia should leverage its own strengths, including its track record of cooperation with civil society. The pandemic has prompted a further spike in authoritarian behaviour by the region's governments, while the accompanying economic crisis has badly affected the finances of NGOs that were already struggling. Australia should support civil society organisations through this difficult time because governments alone cannot build resilient societies.

This proposed step-up is not just about Australia demonstrating its commitment to Southeast Asia. The relationship goes both ways. Australia can only truly thrive again when Southeast Asia is back on its feet.

## HELPING THE PACIFIC RECOVER FROM COVID

### **Australia's Pacific Step-up is more relevant than ever, but it needs to be refocused on economic recovery**

ALEXANDRE DAYANT, SHANE MCLEOD

The Pacific's early success in fending off COVID-19 does not render the region immune to the far-reaching effects of the virus. Not only has the pandemic exposed alarming weaknesses in their health systems, but Pacific nations, which heavily rely on tourism and trade, are already feeling the devastating economic consequences of the pandemic. Some estimates put a regional economic contraction as high as 10 per cent for this year alone. Despite governments drawing on every domestic resource available to stimulate their economies and consolidating their health systems, the region is struggling.

International support has been forthcoming, in the form of in-kind medical donations, equipment and supplies as well as financial support. Australia committed a regional package of up to A\$100 million in direct budget assistance — a 'quick financial support' for Pacific countries hit by the pandemic and the ill-timed arrival of Cyclone Harold.

But these solutions do not fully address the needs of many nations.

First, Pacific Islands nations require additional support for their health systems. These countries are among the least ready for a pandemic, and most have limited capacity to test for the virus.

In the past five years, Australia's aid funding for health programs across the Pacific region has been reduced, even as Pacific nations have wrestled with health crises, including a catastrophic measles outbreak, polio, and drug-resistant tuberculosis. Instead, aid financing has been reprioritised to more geostrategically appealing infrastructure investments. This current crisis offers an opportunity to change the trajectory.

In the long run, investing in the health systems of the region not only makes those nations less prone to health emergencies, but it also improves the security of all Pacific countries, including Australia.

Second, most Pacific Islands nations need financing support to keep their economies afloat. While a few have some fiscal space to increase their expenditures, most do not.

Australia's Pacific Step-up is more relevant than ever, but it needs to be refocused on economic recovery.

Aid should be redirected towards the backbone of Pacific domestic economies, namely small businesses and the agricultural sector, as well as tourism and hospitality — both severely hit by worldwide travel restrictions. Fast-tracking the A\$2 billion Australian Infrastructure Financing Facility for the Pacific (AIFFP) would help to foster economic recovery through the construction of important infrastructure projects. Pacific labour mobility also needs to be increased, once travel restrictions allow.

Australia will need to make special provision in its response for Papua New Guinea. Its size and scale — and its land border with Indonesia — will make the coronavirus response an ongoing challenge. The economic and health system challenges faced by the entire region will be even more severe in PNG.

Finally, Australia should continue to take a leadership role in advocating for international assistance for the region. Prime Minister Scott Morrison's call at the March G20 meeting to support the Pacific must be reinforced.

Canberra should aim to be innovative and adaptable. Australia's early success in containing the virus has delivered what has been described as a 'Covid dividend'. It should spend some of that dividend wisely to benefit its Pacific neighbours, now and into the future.

## REVIVING AUSTRALIA'S AID PROGRAM

**In a region where crises amplify fragility and instability, the bill will be much larger for Australia if it does not act now to provide the right amount, and the right kinds, of support to its neighbours**

JONATHAN PRYKE

Since 2014, through successive budget cuts, a hasty merger of AusAID into DFAT, and the consequent attrition of development professionals, the Australian aid program has become a shell of its former self. The Coalition government has cut the aid program by almost a third from its \$5.5 billion peak in 2013–14, adjusting for inflation. The aid program, when measured as a portion of Australia's Gross National Income (GNI), is now the least generous it has ever been in Australia's history.

One thing that is clear as we emerge from the COVID pandemic is that Australia will find itself in a region much poorer and less stable than it was in 2019. Australia will no longer have the luxury of spending so little to help ensure regional prosperity and stability.

Australia stands out globally for its success in handling both the health and economic crises of the pandemic. This makes Australia one of the only countries with the means to take a leadership role in helping our region get back on its feet after COVID-19. Seventeen of Australia's closest twenty neighbours are aid recipients. Doing more to help our region is not only our moral duty; it is also in Australia's national interest.

Presuming the government does not cut the aid budget this year, the economic contraction Australia will face in 2020 will, by default, increase our apparent generosity. Thereafter, Canberra should increase our level of official development assistance (the proportion of ODA to Gross National Income) by 0.01 per cent each year until Australia at least meets the OECD average of 0.38 per cent. This increase, roughly \$400 million in the first year, should be focused exclusively on rapid economic stimulus in Southeast Asia and the Pacific. Even at this modest rate of growth, the aid program would not return to its 0.34 per cent peak for another 15 years.

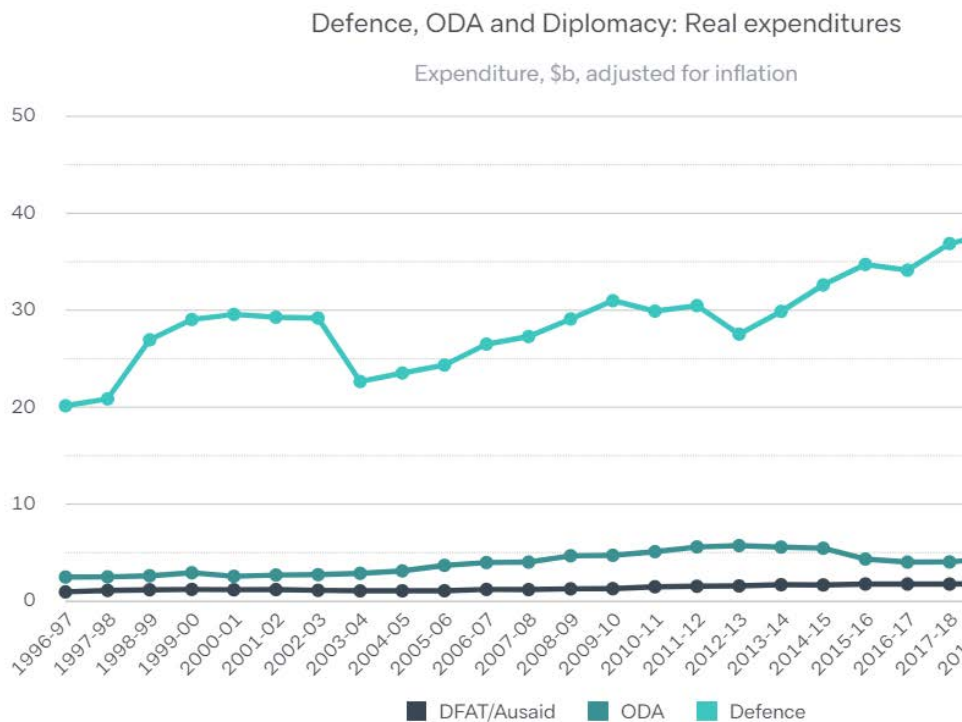
Increasing the aid budget without significant reform will not be enough, however. As aid volumes have declined, so too has capacity. The government recognised this in calling for a development review last year, which has rightly been put on hold during the COVID crisis. This review should not, however, be abandoned but instead expanded by appointing an independent review team, similar to the 2011 Hollway review, to give it real teeth. The objectives of Australian aid, the governance and management of aid within DFAT, the accountability and measurement of aid performance, and the modalities of aid delivery are all areas in need of reform.

Increasing and improving the aid program will be a tough sell in a climate where Australian voters are already facing an intergenerational tax burden. But in a region where crises amplify fragility and instability, the bill will be much larger for Australia if it does not act now to provide the right amount, and the right kinds, of support to its neighbours.

# REVALUING AUSTRALIA'S DIPLOMACY

**With an increasingly assertive China and a weaker America embroiled in internal discord and external competition, the deft management of Australia’s international relations is becoming ever more crucial**

ALEX OLIVER



Source: Defence and DFAT annual reports, portfolio budget statements and appropriations, Devpolicy Aid Tra

The story this picture tells has been told with monotonous regularity by the Lowy Institute in research projects since 2009. The “diplomatic deficit” — the title of the Institute’s 2009 investigation into the instruments of Australia’s international relations and their fitness for the twenty-first century — has become global shorthand for the underfunding and undervaluing of diplomacy worldwide.

The predicament the world finds itself in at the turn of the decade shows just how important diplomacy is. Of course, national responses have been critical in suppressing the spread of COVID-19 within

borders. But COVID has also revealed the limits of sovereign control. Globalisation has melted borders, making the job of containing the spread of the virus virtually impossible. Almost every aspect of national responses has involved diplomacy in some way — whether in closing borders, helping evacuate stranded citizens, engaging with the World Health Organization, or delivering assistance to vulnerable neighbours. From Australia’s perspective, one of the most recent demonstrations of the value of diplomacy has been our work behind the scenes with the European Union to establish an investigation into the origins and global response to the pandemic. A less conspicuous example of several years of diligent diplomacy was the ‘Quad-Plus’ meeting in late March between officials from the United States, Japan, India and Australia (the Quad countries), along with representatives from New Zealand, South Korea and Vietnam. The goal was to discuss pandemic response coordination as well as plans for reviving regional economies. If there is a revised G7+ grouping, as mooted by President Trump, that will also require a concerted effort from Australian diplomats to ensure it does useful work.

This strenuous diplomatic agenda requires a diplomatic corps operating at peak ability. Yet for decades, Australian diplomacy has been sapped by increasingly strained budgets, relentless ‘efficiency dividends’ and workforce cuts. In real terms, its budget has not just flatlined, it is declining, and in 2022 will be smaller than it was 15 years earlier, in 2007. Australia has the world’s thirteenth largest GDP and defence expenditure, but only the twenty-seventh largest diplomatic network. There are fewer Australian diplomats posted overseas today than there were 30 years ago. That number, now 860 diplomats, is dispersed across 84 countries and must manage the full spectrum of Australia’s foreign and trading relations, including providing consular assistance to Australians abroad — a very public function that has been scrutinised closely in the COVID crisis. Since March, DFAT has facilitated the evacuation and repatriation of more than 26 000 Australians; the biggest consular operation in its history.

With an increasingly assertive China and a weaker America embroiled in internal discord and external competition, the deft management of Australia’s international relations is becoming ever more crucial. Diplomacy must be valued, and it must be funded accordingly. In 2008, US Secretary of Defense Robert Gates took the highly unusual step of publicly calling for the proper funding of US diplomacy and international development assistance. Attesting to the need to properly value diplomacy and Australia’s diplomats, Sir Angus Houston, former Chief of the Australian Defence Force and Lowy Institute Board



member, cites Australia's response to the MH17 downing. As the prime minister's special envoy, Sir Angus relied heavily on the knowledge and expertise of Australia's highly-experienced diplomats on the ground. Their relationships with key players enabled access to the crash site and working with like-minded partners in securing an investigation.

In strategically uncertain times, Australia has rightly invested in its defence, expanding its capability with significant purchases of materiel and increasing its operating expenditure. But Australia's diplomacy must also be re-funded, and its diplomatic corps valued and strengthened. This requires more diplomats posted abroad, boosting numbers at small posts, adding posts where there are gaps, building teams everywhere else, and valuing their advice. This must not be done by reducing the teams at headquarters that provide leadership, strategic thinking, coordination, and regional expertise. The defence of Australia and the preservation of its prosperity requires the wielding of pen, word, and sword in better balance.