

How Covid-19 Will Change Australia

July 23, 2020

The number of people infected by Covid-19 in Australia has been relatively small, but the pandemic has touched all Australians and is ushering in and accelerating significant changes that are reshaping the country and its place in the world. This analysis looks ahead at some of these predicted changes and their impact on Australian companies and investors operating in Australia.



As Australia grapples with the implications of Covid-19 and evolving geopolitics, opportunities have emerged for Australian companies and global investors to fill emerging gaps. Supply chain security and diversification has become the order of the day, both for critical



Australian P.M. Scott Morrison
Photo: Rogelio Farah, Flickr

healthcare supplies and for electronic and communications technology. Policymakers are emphasizing self-dependence where possible, accelerating digital transformation and seeking to diversify the country's export markets as well as investment and technology partnerships.

Meanwhile, Australian businesses must learn to engage more effectively with counterparts across the Indo-Pacific — leveling up their policy and strategy game while leveraging on-the-ground assets — due to the likelihood of long-term travel impediments and the impulse to diversify markets to balance China's dominant role. Australian firms will need to deftly and comprehensively engage policymakers and business stakeholders in key markets like India, ASEAN, Japan and Korea to adapt to the rapidly changing regional landscape.

Please see below for detailed explorations of how Australia's economy, society and place in the world will be affected by Covid-19, as well as a social intelligence survey on the country's evolving relationship with China. BGA will continue to monitor and keep you apprised as developments occur in Australia. As always, questions or comments are encouraged and can be directed to BGA Australia Managing Director Fergus Hanson at fhanson@bowergroupasia.com.

Best Regards,

The BGA Australia Team

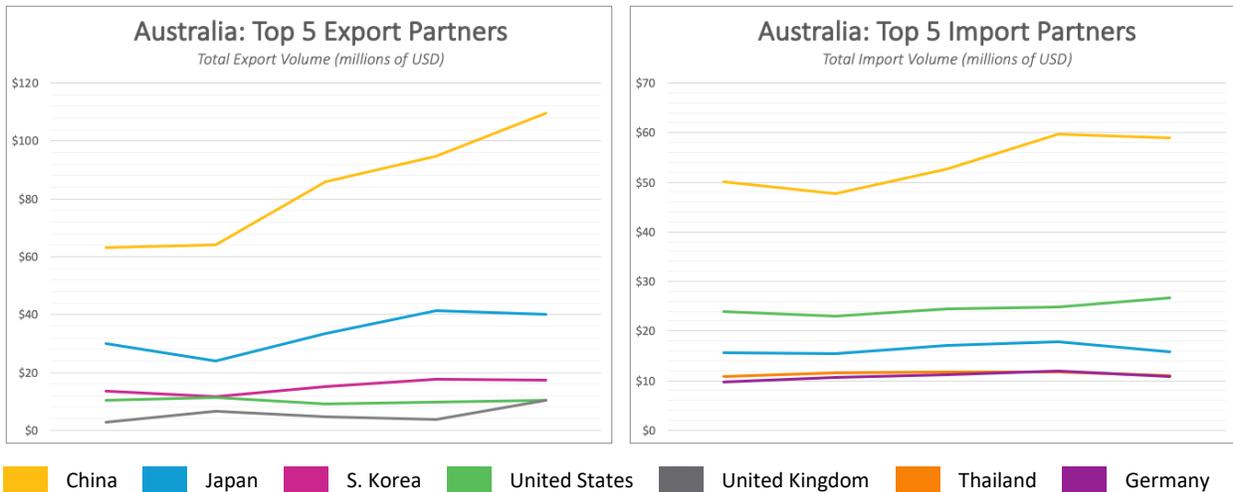


Economy

The End of Unlimited Growth and the Start of a Welfare State?

Australia registered nearly 30 years of uninterrupted economic growth before the Covid-19 lockdown drove the economy into recession. The old way of running the economy that struck a middle ground between a European welfare state and the harder line capitalism practiced in the United States is changing. Even under the conservative coalition government, the Covid-19 response seeks to limit the number of people joining unemployment queues — such as by paying employers subsidies to keep workers on their books — while larger welfare payments to the unemployed risk driving Australia toward a more European model.

Overnight, public rhetoric on unemployment has shifted from “tough love” and meager welfare payments to empathy and providing liveable wages. The government wants all measures to be temporary, and the Covid-19 wage subsidy and welfare payments initially had a sunset clause of September. However, with a vaccine at least some months down the road and a second wave of infections already shutting down the second-largest state and threatening the largest, the government is being forced to extend welfare payments. While nothing is certain, Australia’s former Treasurer Peter Costello has warned, “We are going to be a higher-taxing country with higher deficits and higher debt. All of that adds to the fact we will be a lower productivity country and that’s the key point. We will be moving from what I regard as the Australian model to much more of a European model.”



Source: IMF Direction of Trade data, Exports FOB to Partner Countries; Top 5 partners by 2019 volume

*China includes Mainland, Hong Kong SAR and Macao SAR

The economic stagnation and social frustrations that shutdowns create also impede more sustainable pathways to growth, including major economic reforms. A welfare state might yet be avoided, but Australia is treading into uncharted territory that could fundamentally reshape the government budget and its long-term sustainability.



International Travel on Hold

Australia's flag carrier Qantas has removed all international flight bookings from its website, except to New Zealand, until March 2021. The government has cut the number of Australians who can enter the country on the scant flights remaining to 4,000 a week and is forcing them to pay for their own two-week quarantine, making international travel prohibitively expensive. The prospect of travel resuming next March is almost certainly overly optimistic. **Given realistic prospects for the global roll-out of effective vaccines, international travel is more likely to restart in earnest in 2022 or 2023, with perhaps a few exceptions for countries coping well with Covid-19 suppression, allowing the creation of "safe travel bubbles" with partners like Japan and New Zealand.**

The hold on international travel leaves Australian universities facing a loss of up to AUD 16 billion (\$12 billion) of revenue by 2023 because of the sharp drop in the numbers of international students. Australia is moving to resume granting international student visas to revive Australia's formerly third-largest export. These visas will allow travel to Australia as soon as the borders reopen and digital innovation in education is being vastly accelerated.



Photo: Masakatsu Ukon

Supply Chains and Sovereign Capability

The sudden onset of the pandemic in Australia exposed acute gaps in its supply chain for critical health sector products and materials, which prompted urgent consideration of sovereign capability that had already been percolating in areas like the defense industry. **Although complete self-sufficiency is not the goal, the government will target support for key sectors.** National priorities include pharmaceuticals and medical devices, defense/security and energy technology. The government will focus on the continued development of an advanced manufacturing capability as an enabler for all these sectors. This does not necessarily entail more research and development expenditure, because the government is hoping to have a coordinated approach to procurement to support these industries. **Related to sovereign capability, the focus on secure supply chains will increase, with special emphasis placed on scrutiny of technology and security-related supply chains.**

Digital Transformation

Covid-19 is driving digital transformation in all industries as companies search for solutions to facilitate the modern workplace. Businesses have been able to weather the outbreak by adopting cloud, communication and workplace collaboration software. Total cloud infrastructure-as-a-service spending is expected to reach AUD 1.1 billion (\$790 million) in 2020 before growing to AUD 2 billion (\$1.6 billion) by 2024. Prior to the coronavirus, the adoption of telehealth had been slow: the 2019 Future of Health



Index found that only 36 percent of Australians were open to telehealth. Demand surged by 10,000 percent in a single week on the back of the pandemic. Adoption of cloud and collaboration software has been encouraged by federal and state stimulus packages, including AUD 1.1 billion (\$790 million) for telehealth services and the New South Wales AUD 1.6 billion (\$1.1 billion) Digital Restart Fund.

The sudden transition to working from home brings new cybersecurity vulnerabilities for businesses. This and the recent cyberattack on Australian organizations by a state-based actor prompted the federal government's cybersecurity boost of AUD 1.35 billion (\$940 million) to enhance cybersecurity capabilities, including AUD 600 million (\$429 million) for the next National Cyber Security Strategy. The government has also announced an AUD 15 billion (\$10.7 billion) investment in strengthened information and cyber domain capabilities over the next decade.

Society

Social Cohesion and Threats

Pre-Covid-19, the prevailing consensus in Australia was that politics and society were increasingly partisan and riven with cleavages. Surprisingly, the coronavirus has largely debunked this. The political response to the pandemic has in fact prompted a level of political collegiality unthinkable before the crisis and unseen in decades. A new national cabinet has brought together state, territory and federal leaders from both political parties and a mélange of viewpoints in a forum that by all accounts has worked exceptionally well. Most notably, there have been no leaks about internal discussions.

Perhaps the most striking example of national cohesion has been the willingness of union leaders to work constructively with a conservative federal government to keep as many Australians employed as possible and cooperate with employers on longer-term structural reforms. This is a promising bright spot. It augurs well for maintaining broad social cohesion, faith in Australia's democracy and potential consensus on much-needed economic reforms.

Before the Covid-19 crisis hit Australia, the chief of the Australian Security Intelligence Organization issued a warning over the growing threat from right-wing extremism. "In Australia," he said, "the extreme right-wing threat is real and it is growing." **Mass unemployment and social lockdowns are creating the conditions that will likely exacerbate this challenge.** Australia, like several other societies, likely faces a growing threat from right-wing extremists.

Australia in the World

Australia between China and the United States

Perhaps the most fundamental shift in Australia ushered in by Covid-19 has been on China policy. The reaction from China in the wake of the pandemic has produced a wound that will be hard to heal. Beijing initially tried to cover up the virus and then became angry when other countries imposed early travel restrictions. This was followed by threats to restrict Chinese students and tourists, tariffs on Australian



barley, import restrictions on meat, cyber attacks on Australian institutions, a sudden death penalty verdict against an Australian and verbal threats.

During previous spats with China, the Australian business community called for calm, but similar examples of Chinese threats and intimidations around the globe created a realization that Australia was not alone in facing Beijing’s ire. **The political and business communities have not yet reached a new consensus on how to engage China, but it will almost certainly look very different from the old approach and be far more robust in pushing back against Chinese state overreach.** Policymakers and businesses have already understood the need to diversify markets from China and build on a strong commodities foundation to emphasize services and other innovative goods.

Social Intelligence Spotlight: Australia

This week’s social intelligence spotlight examines public sentiment in Australia toward China, particularly in the wake of the Covid-19 pandemic. The majority of mentions over the reporting period reflected negative sentiment and a trust deficit between Australia and China — a trend consistent with BGA findings over the past month and external polling over the last few years. Users were especially critical of Chinese assertive behavior toward Australia, citing diplomatic bullying, espionage, election interference, cyberattacks and economic coercion. Most users blamed China for spreading the coronavirus, and many claimed Australia is too dependent on China, with some calling for decoupling in favor of stronger ties with the United States.

In addition, social media users expressed disappointment with Australian policies that they perceived valued Chinese investment at the expense of Australian sovereignty and welfare of Australians. Several users leveled blame for such policies at the Liberal Party. Specifically, they accused Australia’s government of ignoring China’s abuse of Uyghur human rights — claiming many face masks sold in Australia were made by forced Uyghur labor — as well as tolerating Chinese influence in universities, drawing attention to China’s 14 Confucius Institutes in Australia and the academic suspension of university student activist Drew Pavlou, who organized protests China’s anti-democracy activities in Hong Kong. There was also backlash toward Australian news outlets considered to be pro-China.

Interestingly, mentions by a minority of users who reflected positive sentiment toward China blamed Australian news agencies for hyping the China threat and the extent to which diplomatic relations are strained. Users tended to be critical of the United States and considered joint U.S.-Australian naval exercises in the South China Sea provocative. Some users believed the United States and Australia have been unfairly punishing China, while others advocated for tighter relations with China given the countries’ geographic proximity. Most of these users rejected decoupling and called for a more balanced relationship between the United States and China. Among such mentions, there were users who highlighted the economic value of cooperation with China, particularly in research. Others expressed doubt that the United States would come to Australia’s defense in the event of a Chinese attack.

Social Media Sentiment on China
July 15 to July 22

Sentiment	Percentage
NEGATIVE	85%
POSITIVE	15%

Beyond China, Australia has become more forward-leaning on the international stage in response to Covid-19. With U.S. leadership largely absent from the global response, Australia has stepped into international debates and sought to strengthen multilateral institutions: it tag-teamed with the European Union to secure World Health Assembly agreement to conduct an inquiry into the Covid-19 outbreak, despite vociferous opposition from China, and it has worked hard with Japan to move the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the East Asia Summit



forward. Australia, along with other “middle powers,” will likely demonstrate more global leadership in the years ahead.

Australia has also announced that it is stepping up its ability to stand alone by investing AUD 270 billion (\$190 billion) in defense-capability development, which will create new opportunities for defense industry partnerships.

Australian Business in the New Order

Travel restrictions cutting Australia off from the rest of the world and the new prioritization of supply chains will reshape business practices. Australian firms looking to diversify exports and increase investment in Asia outside of China will have to rely more heavily on partnerships with those who have an existing presence on the ground. Travel restrictions will also create a generation of young professionals without the deep international ties that have for so long served Australia’s economy well, perhaps driving local entrepreneurs to focus more on the domestic market than markets overseas.

