Speech to Asialink Young Leaders Forum

Industry and Economic Engagement: The State of Trade in a Rapidly Changing World

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I hope this will provoke some thinking on how Australia can better and deeper integrate economically and commercially with the world immediately around us.

In short, we do well but as always we could do better. So much of our economic success depends on our economic ties with our region.

We are trade reliant. One in four Australian jobs relies directly or indirectly on trade. This includes goods and services. And, of course when there are jobs, those are provided by the private sector looking to find new markets, products and inputs to fuel expansion and growth.

Today I want to talk about three things:

— How business sees the region

— Is the global trading system fit for purpose?

— How technology change is impacting our business environment.

On the first, how business sees the region, one thing is clear. Geopolitics matters. In turbulent times, the changing shape of the world around us matters enormously to how we develop our future prosperity.

Geopolitics does not just mean the Russia/Ukraine war nor Israel/Gaza. Within our immediate region, there are rapidly shifting sands that have huge economic consequences for a country that relies on trade. Geopolitics is now more consequential to global trade than at any time in our history.

When we emerged from our Covid restrictions, one of the big themes was that we had to develop economic resilience and, in some areas, self reliance. That was driven by a realisation that global trade could be distorted by events beyond our control.

We were cut off from China and then trade flows between the United States and China dominated, driving up shipping costs, rendering containers and pallets scarce and leading to product scarcity or hoarding. This feast or famine was coupled with increases in protectionism around the globe to defend or prop up ailing or deemed vital industries. All of this has driven the inflation contagion we still suffer from.

The government response was a sensible one – the encouragement of a “China-plus one” strategy to try to shift our economy from what was an unhealthy over-reliance on one market or one source. Despite best efforts, it hasn’t really worked. Our reliance on China is virtually as strong as ever.

Why is that? There are two reasons. One is that despite the recent trade troubles, China for many is still seen as cheap, reliable and known.

The regional alternatives are not straightforward either for businesses under cost and time pressure. Making new contacts, building relationships, developing supply lines all takes time. Efforts are being made but it takes time.

But this is where geopolitics becomes important.

Consider where our economy would be if China, having developed stockpiles and alternative sources of the raw materials provided by Australia, decides at the end of the decade to turn off the trade tap. After years of trade wars with a renewed Trump administration, fighting tariffs with tariffs, Australia ends up as collateral damage in a global trade war.

That would be devastating to our prosperity.

So would a conflict for Taiwan – a kinetic conflict would be devastating, a prolonged economic conflict resulting from a blockade or similar would be debilitating. Xi Jinping has made it clear he wants a military option for Taiwan to be ready for 2027 whether it is used or not.

There too is real risk of a South China Sea conflict over territorial disputes. We see China and the Philippines and others locked in conflict on the high seas which risks, either by accident or design, quickly escalating. There have been three near miss incidents between Australian and Chinese forces in recent months.

Despite all this, for now, even though there is a real understanding of the fragility of global trade, business has by and large gone back to what they know.

Why? Look at the region around us from a geopolitical sense.

Indonesia is soon to install a new president, who is friendly to the west, and who will visit China as his first international stop.

Singapore is about to change leadership so relationships at a political level will need to be reinvigorated.

Vietnam had been for some time in the midst of a power struggle, and it recently intensified.

India now has a minority government with the instability that creates.

Bangladesh is currently the scene of intense rioting.

Burma could collapse at any moment which of course has regional implications.

I could go on.

None of this of course is impossible to navigate and is being navigated but for business that craves certainty and stability to foster investment, you can see the reasons for hesitancy or withdrawal.

Let me turn to the global trading system. Is it currently fit for purpose?

The quick answer is that it is falling short. The World Trade Organisation has in recent years been stripped of funds and moral support, particularly by the United States. Despite best efforts, confidence in it as a disputes resolver and a confidence builder is diminishing.

Protectionism is on the rise and it seems there isn't the political will to stop it. By October 2023, 11.8 percent of G20 imports were affected by import restrictions implemented by G20 economies since the Global Financial Crisis in 2009. That is, in dollar terms, USD 2.287 billion worth of trade.

Of course since the pandemic, the Ukraine war and the rise of global food insecurity, we have only seen the rise of export restrictions.

The trade governance landscape is changing before our eyes. We are seeing the development of trade clubs and plurilateral grouping based on interests, geography or commodities like critical minerals. Interests are diverging and the role of global institutions are diminishing.

The next area to watch is the trade response to specific issues like climate change. We are seeing the rise of initiatives like carbon pricing in trade witnessed by European plans for a Carbon Border Adjustment Mechanism, which will undoubtedly engender a response from other economies if and when implemented.

And finally, we are seeing the influence of technology on trade where traditional regulatory frameworks are struggling to keep pace. We're seeing the digital transformation of trade through Industry 4.0, the Internet of Things and of course the rapid rise of artificial intelligence.

Artificial intelligence can work for business in three ways – automation, adaptation and augmentation.

Australian businesses are taking a cautious approach – we are reported to be among the most wary economies in the OECD – and in Ai Group's skills survey released earlier this year, 41 per cent of businesses said they had no engagement with artificial intelligence because of barriers such as a lack of leadership knowledge, a lack of implementation skills and insufficient understanding of the opportunities.

But despite this, there is optimism with over 75 per cent of businesses reporting this year will be spent trying to lift leadership understanding and capability in artificial intelligence.

Why is this important in a trade sense? Because artificial intelligence will undoubtedly very quickly reshape how we relate and trade.

Of course, the bias of regulators will be to regulate. How fast, how far they regulate will be key.

It is often said the United States innovates and Europe regulates. Where Australia sits on that spectrum will be a key to our future trading success.

And for a country where one in four jobs is trade reliant, keeping trade flows open and moving quickly to take advantage of new opportunities will be vital to our long-term economic prosperity.

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