Institute for International Trade

Change and continuity: Australia, its partners, and the global trading system in 2024

Collection of Opinion Pieces

About this collection of opinions

With 2024 now in full swing this collection takes stock of key developments in the global trading system likely to shape Australia's trade policies this year, as well as those of key trading partners.

There is much going on in the trade policy world, and a collection such as these cannot do justice to the full complexity. Instead, we asked renowned experts to reflect on topics they think will have an impact this year. My piece attempts to draw this together in relation to Australia's trade settings and as such is an attempt to frame key insights from the rich set offered by our contributors.

My sincere thanks go to all our contributors who took time out of their busy schedules — and holidays — to pen these thoughts. I'd also like to thank colleague Sarah Warner who works tirelessly to keep the IIT show on the road and stewarded this volume through the design process.

Thanks also go to Professor Tim LeGrand for funding the production from our faculty's research funds. Lastly, it goes without saying, but must be said, that all opinions expressed herein are those of the authors and cannot be attributed to the Institute or University.

I hope you will find these articles as interesting and useful as I did.

Professor Peter Draper, Executive Director, Institute for International Trade.

^The views expressed here are the author's alone and not those of the Institute for International Trade.

Contents

Change and continuity: Australia, its partners, and the global trading system in 2024 (an overview) - Professor Peter Draper

This volume's collection of articles traverses a wide terrain. Doses of pessimism and optimism — perhaps not in equal measure — abound. Broadly, contributions can be divided into those covering cross-cutting drivers of change; "architectural" arrangements, or trade agreements; and Australia's positioning in a changing global and regional order.

Cross-cutting drivers of change

Carlos Primo Braga notes that the global economy faces significant headwinds this year and these may redound in reduced trade flows. From an Australian standpoint probably the most significant issues concern China's economic trajectory, and demand for our commodities. As he notes neither looks good, and this will constrain Australia's trade growth. At least our trade relations with China are likely to continue their slow burn improvement from the 2020-2023 coercion nadir.

Much depends on the overhaul health of United States (US)-China relations. **Naoise McDonagh** reminds us that bipartisan suspicion of China in the US political system means a downward spiral is the underlying trend. Furthermore, as he notes the US-China relationship could deteriorate rapidly particularly if, as **Stephen Olson** elaborates, Donald Trump is re-elected as US President come year-end. Moreover, Olson points out that President Biden's trade policy stance consists of doubling down on the Trump Administration's framework so, if Biden is re-elected, we can expect more of the same — not much beyond the cooperative arrangements embodied in the Indo-Pacific Economic Framework.

More immediately, geopolitics is directly aggravating trade flows pressure via the Red Sea conflict anchored on the Yemen-based Houthis' missile strikes on shipping through the Suez canal. Additionally, "de-risking" (pick your term) between the West and China builds up, adding to cost pressures as multinational companies continue to build "China resilience".

Moreover, climate transition economics will add to cost of living pressures everywhere, now and into the future. **Susan Stone** points out that in 2024 governments will continue to scale up industrial policies in various forms, including incentivising local production of cutting-edge green technologies and sensitive energy production systems through subsidies and import barriers, inter alia. The European Union's (EU) Net Zero Industries Act will likely grab the headlines this year. While these policies may contribute to sorely needed technological breakthroughs, in the short-term trade protections will contribute to cost of living pressures.

Against these negatives interest rate reductions are expected to start in the major economies this year — and likely Australia too. Furthermore, McDonagh reminds us that global trade volumes are likely to remain resilient since countries still need to trade. To which I note that the Southern African shipping route remains an alternative to the Red Sea.

Additionally, a services trade reform agenda could contribute to reducing cost of living pressures. In Australia the heavy-lifting of productivity-enhancing, cost reducing, trade reforms took place under the Hawke-Keating governments in the 1980s and 1990s, but there is still a large domestic services agenda to embrace.

Christopher Findlay's contribution demonstrates APEC's continuing relevance as a promoter of Asia-Pacific services economy and trade reforms and makes a case for governments to embrace its forward-looking agenda. However, on the broader services and digital trade cooperation front storm clouds have been gathering for some time and, as Jane Drake-Brockman argues, may break this year. As she notes business, both large and small, will bear the brunt of increasing recourse to domestic regulatory tightening and the growing fragmentation of global digital services markets.

Resilient architectural frameworks?

Notwithstanding the various headwinds blowing in its direction, **Milton Churche** argues that the global trading architecture remains resilient, and still anchored on the World Trade Organization (WTO). However, as he notes increasingly dysfunctional populist politics in the major economies pose ever greater systemic risks, and so middle powers like Australia need to remain vigilant in defending the rules-based order.

Richard Pomfret addresses the US challenge to the system, especially the WTO, and identifies the variety of ways in which countries, especially in the Asia-Pacific region, have responded. Overall, he sees a system bifurcated into 3 parts corresponding to degrees of interest in adopting modern trade rules — and the US's future commitment to engaging with the system beyond 2024 rather uncertain.

It is not only the US that is struggling to adapt. **Andreas Freytag** spells out a core dilemma in the EU's trade agreements agenda: maintaining extensive agricultural protections while demanding adherence to increasingly demanding sustainability policies from trading partners. This tension will continue to pervade the stalled Australia-EU free trade agreement negotiations and may worsen after the EU's June Parliamentary elections. The farmers currently blockading many French cities and towns bear testimony to the challenges.

Keeping a watchful eye on key partners

Most contributors discuss China to varying degrees, and for obvious reasons. While our bilateral trade relations are likely to improve this year, Lauren Johnston reminds us that we are not the only ones pursuing diversification. China's dependence on Australia, and other western countries, for key commodities imports prompted a major push into Africa about two decades ago. She updates on China's Africa strategy and recent movements.

And let's not forget that New Zealand, our partner in Closer Economic Relations, is in the post-elections process of recalibrating its trade strategy — having set a goal of doubling exports in 10 years. **Catherine Grant-Makokera** lays out the key elements, emphasising reduction of trading partners' non-tariff barriers and the enduring importance of the Pacific — goals Australia shares.

Some Australian priorities

Grant-Makokera also notes that New Zealand is keen to diversify its trading partners, leveraging India in particular. Australia is relatively far down that road, making up for ground lost in the EU market to New Zealand. As **Pradeep Mehta** and **Advaiyot Sharma** elaborate, this year both Australia and India need to build on the platform created by their interim Economic and Trade Cooperation Agreement to cement the envisaged Comprehensive Economic and Cooperation Agreement. Again, trade in services will be critical to success.

Last, but by no means least, **Nathan Gray** reminds us that this is the year of delivery for Australia's newly minted Southeast Asia Economic Strategy. The region remains central to Australia's agricultural exports, and future market expansion, as well as the trade diversification agenda. He offers some thoughts on what can be done this year to build on the momentum, particularly identifying a coherent outward investment (into Southeast Asia) strategy.

There is much more that could be said, of course. I hope you enjoy the read.

About the author

Professor Peter Draper is Executive Director of the Institute of International Trade, School of Economics and Public Policy, the University of Adelaide.

“Annus horribilis”?
- Carlos A. Primo Braga

Abstract

The New Year starts amid clear signs of economic deceleration. The “hot” wars in Eastern Europe and the Middle East will continue to feed geopolitical tensions and the “cold” war between China and the United States (US) will continue to create incentives for “friendshoring.” The health of the Chinese economy will remain a critical variable for the external performance of commodity exporters such as Australia and Brazil. As the US’s terms-of-trade now benefit from higher oil prices, a stronger US dollar is likely: bad news for commodity-importing countries with high levels of foreign debt.

J.K. Galbraith used to say that “the only function of economic forecasting is to make astrology look respectable.” Still, current economic and geopolitical factors, as well as the role of “Mother Nature,” merit attention as they influence the global economy and international trade.

Macroeconomics

The World Bank’s recently published Global Economic Prospects forecasts that global growth will be 2.4% in 2024 in contrast with the 2.6% estimated for 2023 and the 3.0% observed in 2022.

In the US, the ongoing debate is whether the economy is going to experience a “soft landing” — a scenario characterized by inflation retreating to the 2% target without a severe economic downturn— or a recession. Those that bet on a recession emphasize the trajectory of monetary policy. From March 2022 to July 2023, the Federal Reserve (Fed) increased its funds rate from a target range of 0 to 0.25% up to 5.25% to 5.5% and abandoned quantitative easing, diminishing its portfolio of financial assets by roughly US$1 trillion.

Those that believe in a “soft landing” argue that local labour market resilience and the strength of consumption levels, reflecting savings accumulated during the pandemic, will soften monetary policy impacts. Moreover, they bet that the Fed will cut interest rates in the coming months. Nonetheless, the World Bank forecasts an economic slowdown for the US from 2.5% growth in 2023 to 1.6% in 2024.

The most recent forecast from the European Commission (EC) foresees reduced economic growth for the European Union from 0.8% to 0.6% in 2023, after growth of 3.4% in 2022. Although the EC expects growth to improve to 1.3% in 2024, this performance will remain below the growth potential for the region.

After a mediocre growth performance in 2022 (3%), China is expected to grow 5.2% in 2023 and 4.5% in 2024. The recovery in 2023 is explained not only by the abandonment of the Covid-Zero policy, but also by fiscal expansion financed by additional debt. There are, however, significant challenges ahead. The health of the Chinese real estate sector, accounting for roughly 25% of the country’s gross domestic product (GDP), remains a major source of concern. Major commodity exporters like Australia and Brazil may be significantly impacted in the case of a Chinese economic crisis since China accounts for more than 30% of the exports from both countries.

Against the background of a slowing world economy, forecasts about the performance of world trade remain subdued. The World Bank expects trade volumes to grow around 2.3% in 2024. It is true that such a potential

result is an improvement vis-à-vis 2023 (growth of only 0.2%). Uncertainty, however, remains high.

Geopolitical shocks and “mother nature”

The “hot” wars in Eastern Europe and the Middle East are likely to continue in 2024. Besides their dramatic humanitarian implications, one area requiring special attention is their potential impact on energy prices. The sanctions and price-cap on oil exports imposed on Russia by the US and its allies have not had a major impact on energy prices so far, as Russia was able to reorient its oil exports to China and India.

The externalities generated by the Israel-Hamas conflict and the Houthis’ Red Sea attacks are adding to the insurance and logistic costs of sea transport. As they divert traffic from the Suez Canal, the time required for shipping between Europe and Asia increases by roughly 25%. Given that 15% of world shipping traffic passes through the Suez Canal, the economic impact of these developments can be substantial.

Meanwhile, the trade “cold war” between China and the US shows no signs of abating. The forthcoming US presidential election and Taiwan’s recent election result, with the victory of the pro-sovereignty Democratic Progressive Party, suggest that tensions will remain high and the danger of economic fragmentation across geopolitical blocs persists. This does not mean total decoupling between China and the West. It will, however, continue to foster the reorganization of trade networks in favour of “friendshoring.”

“Mother nature” is also not helping, as Panama faces one of the worst droughts in its history. This is affecting the throughput of maritime shipping via the Panama Canal that handles roughly 5% of annual global maritime trade volumes. Delivery time and costs of international trade are being impacted.

Technology to the rescue?

Technological developments are changing the world economy’s rules of the game. Traditionally, a geopolitical event had significant economic implications if it impacted energy prices. The shale “revolution” in the US, however, led to a significant increase in its oil production. The US is now the top oil producer in the world and since 2020 has become a net oil exporter. This has subverted the traditional negative correlation between the price of commodities and the value of the US dollar. As the US’s terms-of-trade now benefit from higher oil prices this tends to come together with a stronger dollar. That is bad news for commodity-importing countries with high levels of foreign debt.

The artificial intelligence (AI) revolution, in turn, promises a positive impact on productivity and economic growth. These effects, however, will take some time to become a reality. Ironically, AI also has the potential to foster the production of misinformation, feeding societal polarization in the short-term.

On balance, 2024 has the potential for turning out to be an “annus horribilis” for international trade.

About the author

Dr Carlos Primo Braga is Adjunct Professor, Fundação Dom Cabral and ex-Director, Economic Policy and Debt, The World Bank.

What geopolitics and the spirit of David Ricardo tell us about trade in 2024
- Dr Naoise McDonagh

Abstract

The era of geopolitical trade is evolving fast, with major developments in 2024 assured. Evidence that trade flows are beginning to align with geopolitical "closeness" between countries is growing, while a new EU-Sino trade war is on the horizon. But trade resilience is likely to be a pragmatic reality in the year ahead.

The United Nations Conference on Trade and Development (UNCTAD) global trade outlook for 2024 provides a bird's nest overview of challenges and transformations at play in the world economy – and point clearly towards the new historical trade reality unfolding in a post-liberal economic order. The update highlights that 2023 saw a decline of total value in goods trade by US$2 trillion from 2022, partially offset by growth in trade in services of US$500 billion. Yet trade volume was marginally higher in 2023 compared to 2022, showing resilient global import demand and suggesting the dollar value decline is impacted by things such as commodity price volatility, especially energy.

Trade is increasingly geopolitical

However, the real meat of the challenge ahead for global trade in 2024 is named on the first page of the update, which boldly states "Global trade patterns take a geopolitical turn". While that pronouncement is not news at the end of 2023, the UNCTAD graph mapping the strong growth in trade between "geopolitically close" countries and a significant contraction in trade between "geopolitically distant" countries is noteworthy.

UNCTAD have innovatively created a "geopolitical distance index" for trade using United Nations (UN) voting records as a proxy metric and measuring changes to trade between these voting blocs since quarter one, 2022. While such proxies have their limitations, they can be useful for grounding hypothesized abstract relationships in more tangible form – in this case graphing statistically what qualitative data has strongly pointed towards, namely that re-globalization of trade based on geopolitical affinity is now a reality. Recent policy activities in leading trade nations are set to further impact global trade in 2024 and hammer home this point.

Washington's plans for de-risking continue apace

In 2023 the United States (US) the congressional Select Committee on Strategic Competition with China released a major new report containing 150 recommendations that seek to significantly ramp up economic "de-risking". This includes stemming capital and technology flows and expanding friend-shoring relationships in lieu of trade with China. The Committee has strong bi-partisan support, indicating much of its agenda will be implemented during 2024 and beyond.

Ominously, the Committee has called for setting up a parallel — to the World Trade Organization (WTO) — international trade organization with "like-minded" partners that excludes non-market economies such as China. While no such partners are yet on-board with the idea, its inclusion continues to indicate that key political leaders on both sides of the aisle in Washington have side-lined the WTO in their thinking on trade strategy.

Relatedly, the U.S. Defence Department released its first ever National Defence Industrial Strategy (NDIS). A major focus is to build more resilient supply chains (i.e. more trade with geopolitically close partners), which reinforces the trend towards geopolitical trade blocs. While defence-related trade has traditionally been more protected and less liberal than standard consumer goods trade, given the growing amount of modern technologies classed as "dual purpose" the NDIS is a significant strategy-come-policy driver that will work against open international trade and drive further fragmentation.

The EU is getting in on the game

Perhaps of even greater immediate concern, to China especially but also of broader relevance to national attitudes towards global trade, is the EU's anti-subsidy probe into Chinese electric vehicles (EVs). While the probe is likely to have merit, given China's well-documented utilization of industrial-scale subsidies across key sectors, Beijing has predictably castigated the investigation as protectionism rather than a genuine trade grievance. Assuming the EU investigation outcome is positive and legitimate protective tariffs are applied, Beijing is certain to respond with tit-for-tat sanctions, opening a new major trade war front.

The broader systemic effects of this arise from the exemplar it sets for the rest of the WTO membership. For some members the EU's actions highlight the need to take protective measures against unfair competition, a position badly required to reinforce the WTO's principle of fair competition. However, other members are already taking the view that Brussel's is going down a protectionist road with its carbon tax, therefore China's claim that the EU's anti-subsidy investigation is protectionist may well stick in many capitals, demoralizing the trade system further.

Placing the WTO under further strain

Ultimately new trade wars undermine the WTO and can produce a protectionist ratchet effect, with nations viewing unilateral actions as unavoidable in an increasingly uncooperative international environment. In addition, with the WTO Appellate Body still frozen with no end in sight, trade disputes can be appealed into the void, reducing the potential costs of taking illegal trade actions. As a result, 2024 looks to be a tough year ahead for the WTO as an institution, and for the trade norms its seeks to protect and enforce.

Clearly many risks, turmoil and challenges lie in the year ahead for international trade and the WTO, with precious little light in the tunnel.

But there are some reasons for optimism

Human pragmatism may be one such bright spot that puts a floor under the negativities. In 2023 trade volume did slightly surpass 2022 even as trade value dropped, while trade in services grew substantially. This tells us that all countries still need far more goods and services than they can produce at reasonable cost themselves, and hence will continue to trade for them.

Thus, even as governments re-regulate trade to reduce national security externalities and unfair competition and businesses adapt to a geopolitical trade environment, pragmatism will likely keep the worst of unjustified retaliatory protectionist instincts in check, and will even temper geopolitical forces driving “blocisation” of trade. Drawing on my catholic heritage, I might even say that the saint of comparative advantage, David Ricardo, will be watching over the trade world in 2024. For a trade-dependent nation such as Australia, with one foot in the U.S. geopolitical alliance competing against China, and another foot in the pragmatic trade world doing business with China, that can only be good news.

About the author

Dr Naoise McDonagh is Senior Lecturer in International Business at the School of Business and Law, Edith Cowan University, Perth Australia.

Has Biden's trade policy been undone by its contradictions? - Stephen Olson

Abstract

The Biden administration's effort to foster global trade cooperation, reassert US trade leadership, and stabilize the relationship with China have been beset by a series of internal contradictions that have left foreign partners uninspired and domestic constituencies underwhelmed. With a tough re-election campaign looming, and major breakthroughs on trade unlikely, Biden's trade legacy thus far appears lacklustre.

The Biden's administration's trade policy has attempted to thread the needle between a series of hard to reconcile —and sometimes contradictory — objectives. Perhaps unsurprisingly, it has not, for the most part, succeeded.

Consider the main pillars of Biden's trade policy and the inherent contradictions they contain:

Seek cooperation on global trade, but quietly give up on the WTO

In the aftermath of the Trump Presidency, repairing alliances and restoring orderly global cooperation has been a primary foreign policy objective for Biden. Given the economic challenges posed by China, coordination on trade is especially important. But team Biden views the primary platform for global trade cooperation — the World Trade Organization (WTO) —as largely beyond repair and frequently antithetical to US interests.

Although the administration has been steadfast in expressing rhetorical support for the multilateral trade system, it has shown a willingness to ignore WTO rulings it disagrees with and has not removed the block it holds on appointment of dispute settlement appellate body judges, thereby ensuring that the WTO dispute settlement mechanism remains inoperative. To be clear, many United States (US) positions in the WTO are not without merit — sometimes significant merit. Nonetheless, perceptions that the US is obstructionist and no longer committed to global trade governance have grown. Therefore, many key trade partners view the professed US desire for greater trade cooperation as disingenuous, if not hypocritical.

Forget traditional FTAs, but reassert US trade leadership

The Biden administration views traditional free trade agreements (FTAs) as ill-suited to current realities. It believes that a new type of trade agreement is needed to advance US interests and signal US leadership, especially through the Indo-Pacific Economic Framework (IPEF) which brings together the US and 13 regional partners. This new approach is based on cooperative frameworks covering issues like supply chains, anticorruption, labor and environmental protections, while excluding traditional market access. The theory is that such agreements would be more palatable to a free-trade-skeptical US electorate and would create economic and technological eco-systems that would bind like-minded partners more closely to the US, while excluding China.

Thus far, the new approach is struggling to coalesce. Many IPEF partners are reluctant to agree to the higher standard provisions demanded by the Biden administration without greater US market access commitments. Meanwhile, domestic US constituencies are pushing for even tougher standards in areas like labor and environment but remain adamant that market access is not on the table.

The Biden administration anticipated that it would announce the successful conclusion of the IPEF negotiations with great fanfare at the APEC Leaders Meeting in San Francisco in November, presided over by President Biden. However, agreement was derailed at the last minute by strong objections raised by members of Congress over the need for even tougher labor and environment provisions.

IPEF members are ostensibly attempting to get the negotiations back on track after the somewhat embarrassing stumble in San Francisco, and it would be premature to make any definitive pronouncements. Nonetheless, it is clear that US hopes to reassert trade leadership without traditional trade liberalizing agreements is proving to be a tough sell. Should the IPEF negotiations ultimately fail to produce a meaningful agreement, US trade credibility in the region, which has already suffered, would be in tatters. Even if a deal does come together, but Biden loses the election to the presumptive Republican nominee Donald Trump, expect the US to pull out of IPEF in the early days of the new administration.

Get tough with China, but stabilize the relationship and calm frayed nerves

From the campaign trail to the White House, Biden made it clear that he shares his predecessor's belief that China has not "played fair" in trade and needs to be confronted more forcefully. Unlike Trump, however, Biden also wanted to signal to his Chinese counterparts and nervous global observers that he would be a more stable hand on the steering wheel and that "guardrails" could be put in place to ensure that the relationship not veer off the road. This is proving to be a difficult balance to strike.

The Trump era tariffs have been largely retained and technology restrictions have been significantly tightened. Beijing sees these restrictions as a chokehold on China's development and has concluded that the US is determined to block China's rise.

China has responded with its own measures that could jeopardize US commercial and economic interests. Biden and Xi did meet in San Francisco, but that meeting was most noteworthy for the simple fact that it occurred rather than any concrete outcomes. Three years into his first term, Biden has succeeded in maintaining the hard line, but it's less clear whether the US-China relationship is more, or less, stable than under his predecessor.

How to assess Biden on trade?

We are now in an election year in the US, so bold moves on trade are unlikely. If Biden is limited to one term his trade policy legacy will be seen as lacklustre at best and maladroit at worst. Foreign partners are uninspired, if not disenchanted, while domestic constituencies see little worth supporting. In fairness though, given the fundamental reorientation in trade policy the Biden administration is attempting, no one should have expected it to be brought to fruition in one term. Having an opportunity to finish the job will be contingent on American voters deciding to pull the lever for Biden on election day.

About the author

Stephen Olson is a Senior Adjunct Fellow at the Pacific Forum and a Visiting Lecturer at the University of Nebraska Yeutter Institute for International Trade and Finance

Post-Pandemic Winds of Change: The Shifting Landscape of Industrial Policy and Global Trade
- Dr Susan F. Stone

Abstract

This contribution explores the emergence of new industrial policies influenced by the pandemic, the geopolitical landscape, and the challenges and opportunities they present for global trade.

According to the Head of the United Nations (UN) World Health Organization (WHO), the COVID pandemic was declared over in May 2023. So, while officially we are in a post-pandemic world, we are still very much feeling it's impacts and the political legacy it bequeathed.

The pandemic sparked a resurgence of industrial policies

For those operating in international markets the steep rise in industrial policy flowing from the pandemic, although not always directly attributable to it, is notable. However, it may be argued that the true source of this increasing adoption of the use of subsidies is based on the approach exemplified by China, aimed at influencing production and trade in key markets. This more 'modern' approach to subsidies differs from the long-standing agricultural subsidies, prompting concerns among certain countries. These concerns are often driven by a perception that the World Trade Organization (WTO) has not been effective in addressing the unique distortions caused by such subsidies.

Industrial policy spilling over into the trade world is not new. Indeed, it has been around as long as trade itself. The current geographic distribution of production and the layout of global supply chains can be attributed to a combination of resource allocation, global trends, and shocks, as well as the uses of industrial policy. As we enter a post-pandemic world, with changing geopolitical concerns, a new distribution of shocks could mean that the existing patterns of geographic concentration are no longer efficient, or even tenable. These shocks can flow from any number of events but among them are climate change and to a great extent, shifting geopolitical factions.

How much relative changing perceptions of risks and resilience affect the distribution of global production is yet to be determined. But it seems clear it will. This year will see many countries — representing 60% of the world's economic output — facing elections. Popular concerns regarding nationalism and immigration resound, creating greater pressure on policymakers to take control of not just the borders, but of key economic activities. Recent global events – such as the disruption of shipping in the Red Sea – expose the (continued) vulnerability of global supply chains. It could be those who want a more insular, isolationist approach to economic affairs, use these events to their advantage.

Many industrial policies are predicated on building supply chain resilience

"Resilience" is often defined as the ability of markets to adapt once a shock occurs. Many policymakers are concerned that the current patterns of supply chains are not resilient to shocks as newly perceived. This trend is borne out by the emergence of industrial policy that goes beyond simple "reshoring". Unlike concerns over global fragmentation, many of the new approaches attempt to coordinate industrial policy with 'like-minded' partners, often referred to as "friend shoring". Japan, for example, recently earmarked over $2billion of "China exit" subsidies for firms to move from China to Southeast Asia. The United States' (US) CHIPS and Science Act of 2022 includes special provisions prioritising partnerships with allies to support semiconductor supply chains among "friends". With a common goal of diversifying semiconductor manufacturing away from certain parts of Asia, the US, Japan, and the European Union (EU) have sought to coordinate their subsidisation policies with their established allies. For example, to qualify for a tax credit under the US Inflation Reduction Act (IRA), South Korean companies must source their inputs for EV batteries from countries with which the US has a free trade or critical minerals agreement (which includes Australia).

Climate change is an important impetus behind much of the modern industrial policy. The Minerals Security Partnership (MSP) was created to accelerate the development of diverse and sustainable critical energy minerals supply chains where "diverse" refers to those countries with strong diplomatic ties[1]. The IRA is also subsidizing several clean energy industries. The United States is not alone; Japan, the EU, some South American and Asian economies, notably China, are pouring subsidies into clean energy initiatives. Investment or production subsidies to clean energy may move energy use toward clean energy, which provides a social benefit. However, subsidies tend to lower the price of energy overall, providing a competitive benefit to local energy-intensive industries downstream. This can then distort terms of trade and critical parts of the global trading system.

Implications for Australia

For a small open economy such as Australia, these are important developments. To embark on an industrial policy regime Australia would probably have little impact on global prices for most manufacturing concerns. Generally, Australia is a price taker in these markets. But if the policy was aimed at keeping more minerals for domestic processing or production, that could influence the global price of critical materials such as iron ore and aluminium, potentially impacting on trading partners.

Ultimately, if the benefits to a country of an industrial policy outweigh the cost, then from a national perspective it makes sense to proceed. However, some of the costs of the industrial policy are being passed onto trading partners through terms-of trade movements or export restrictions. From an international perspective, the policy can come under criticism and impact on traded goods and services outside the affected sectors, not to mention create rifts with established trading partners.

Being part of a "friends" group may help, but being part of a subsidy tit-for-tat may prove expensive and self-defeating over time.

About the author

Dr Susan F. Stone is Credit Union SA Chair of Economics, University of South Australia

Services and structural reform – the APEC agenda - Professor Christopher Findlay

Abstract

At the global level attention to services trade is mixed, despite the sector's growth potential. APEC, where there is more attention, has tools, processes, and structures which are well suited to meeting complex challenges associated with services reform. Their application supports changes at economy level and builds confidence in commitments in other forums, arrangements, and agreements.

Value of services reform

Services are a large part of all economies and yet the operations of services providers are highly regulated, which can impede trade and investment. Work by the Organization for Economic Cooperation and Development (OECD) over the last decade has demonstrated the levels of restriction involved, and the benefits of reform (e.g. via estimates of the benefit of aligning regulation across economies on services trade costs). The growth in services trade relative to that of goods trade draws attention to the value of policy change. This includes new areas, such as services digitally delivered, which have grown rapidly since COVID, but where restrictions are also increasing.

Services reform can be difficult

Issues in any one sector often have many elements and many agencies involved. The outcome of reform is sometimes uncertain. The consequences of "getting it wrong" may be high. Technological change is disruptive and threatening. Private interests are also active and involved.

Therefore, progress on services policy change commitments is mixed. For instance, the 2020 G20 Leaders' Declaration had one sentence to "recognize the importance of sound, predictable and transparent domestic regulatory frameworks for trade in services and investment." There is not much since then.

The WTO is making some significant contributions

In the World Trade Organization (WTO), according to the December 2023 convenors statement the Joint Statement Initiative (JSI) on E-Commerce has made some progress on digital trade facilitation, and business and consumer trust. Work is continuing in other areas, including electronic payments. Issues such as rules on data localisation are especially difficult and made more so by the United States (US) recently withdrawing from negotiations. All these topics are fundamental to services provision and trade.

The WTO's 2021 JSI on Services Domestic Regulations is another significant contribution. This laid out principles of good regulatory practice so that the pursuit of domestic policy objectives using regulation is less likely to impede services trade. This work built on a set of non-binding principles (NBPs) designed in the Asia-Pacific Economic Cooperation (APEC) forum.

Regional free trade agreements are another vehicle. The Regional Comprehensive Economic Partnership (RCEP) is a recent example, with well-designed frameworks for services and regulation. The next step is implementation.

But APEC is leading the charge

APEC has an active services work program led by its Group of Services (GOS), chaired by the US. This includes the APEC Services Competitiveness Roadmap (ASCR), which runs from 2016 to 2025 and sets goals at the APEC level. Implementation is arranged in joint work and by individual economies. ASCR's mid-term review in 2021 recorded mixed progress and called for more cooperation across APEC.

The GOS also manages the APEC Index, that (building on OECD work) "comprises of regulatory information on trade barriers affecting services and composite indices that quantify these in a comparable manner." The website provides information on 16 economies, and work is underway to include the remaining 5 economies.

The Economic Committee in APEC, chaired by Hong Kong, China, manages the Enhanced APEC Agenda on Structural Reform (EAASR), with work organised under pillars related to open and competitive markets, inclusion, innovation, and resilience. EAASR runs from 2021 to 2025. A mid-term review of EAASR last year found mixed results, called for deeper cooperation across the streams of activity in APEC and proposed more explicit attention to services in each economy's initiatives as set out in their individual action plan (IAP) for EAASR.

The main impediments in services trade concern matters related to regulation, a key element of work in all EAASR pillars. The ASCR and the EAASR are directly connected.

This linkage was recognised in the original specification of the ASCR. APEC Ministers wanted the GOS and the EC to work together. There is scope to extend cooperation to APEC's digital agenda. Member economies increasingly recognise these links. GOS-EC cooperation has taken the forms of various events, dialogues, and reports.

How does APEC contribute?

APEC members already operate in several channels that translate into action at the economy level, which feeds into the development of commitments in trade agreements. These:

1. Promote transparency, and the capacity to benchmark policy, in a way that feeds into and informs domestic policy debate and regulatory cooperation. The APEC Index, and its policy simulator, assist.
2. Build awareness of change in trading partners, and understanding opportunities in offshore markets, which adds to the willingness to adapt policy at home. The APEC Index and the IAPs help.
3. Undertake the regular reviews of progress on APEC level commitments (e.g., the mid-term reviews of the EAASR and ASCR), and their lessons and messages.
4. Build sets of principles which can be exercised in other places. The NBPs on domestic regulation in services is an example.
5. Build capacity to manage change. APEC has the processes to share information and experience on setting priorities and then managing change. This includes learning from the experiences of others and arranging collaborations which are critical for regulatory issues.
6. Harness top-down leadership from Ministers and Leaders. Their regular reference to services competitiveness is the work program driver, which also feeds into economy level dialogue.
7. Formulate a vision for the region. Leaders have endorsed the idea of a Free Trade Area of Asia and the Pacific (FTAAP) on several occasions. Peru, the 2024 APEC host, has said that its goal this year is to renew the FTAAP vision. With respect to trade in services this commitment provides an opportunity to keep talking about integration in services and its principles.

About the author

Christopher Findlay is Honorary Professor in the Crawford School of Public Policy at the Australian National University.

What does 2024 hold for Services and Digital Trade? - Jane Drake-Brockman

Abstract

Last year was poor for progress on services and digital trade cooperation. With relatively few exceptions trade agreements received painful setbacks, and a host of domestic regulatory pressures on digital companies intensified. This year the challenges will multiply, presenting growing burdens on the business community, both large and small.

We can't yet predict quite how badly the year might end (though we do already know it will be bad for digital trade policy) but it is already abundantly clear that the trade policy year will start .... not with a bang, but a whimper.

The trade in services negotiations front is gloomy

As the last quarter of 2023 unfolded, we witnessed a series of trade policy whimpers, all stage-managed with the best positive government gloss. We saw more trade policy failures than successes, disguised wherever possible in sustainability cloaks, with governments everywhere turning inwards to domestic vested interests in static goods sectors, to organised labour or worker-centricity, to traditional and emerging strategic alliances.

On balance, 2023 delivered a few useful stutters, perhaps, from the G7, G20 and Asia-Pacific Economic Cooperation (APEC) forum. It also delivered clear failures on the Indo-Pacific Economic Framework (IPEF), the United States (US)-United Kingdom (UK) free trade agreement (FTA), and the European Union (EU)-Australia FTA. 2023 will go down in history as the year of radical protectionist about-turn from the US Administration on digital trade.

One big success stands out; the UK joined the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). Another success deserves mention; the UK is leading an attempted revival on services liberalisation in the World Trade Organization (WTO), to think about later in the year.

The whimpering of little achievements will continue – into and out of — the WTO Ministerial Conference in Abu Dhabi at the end of February, the most important trade negotiating event on the global calendar. The achievements will not be insignificant, but they will be little. They will not be sufficient to retain international business community interest. The global, regional, and local services and digital business community knows this, but is temporarily soldiering on regardless in its pro-trade

policy advocacy efforts, alongside valiant government efforts to minimise the digital services market fragmentation we all know is already underway. But, for many companies for which the WTO Ministerial Conference has been a regular priority haunt this might be their last.

Unilateral policies hold the key, but present complex challenges

All year governments will compensate to the best of their ability, with little, staged successes on the bilateral and regional fronts, and chiefly with trading partners with similar geo-strategic interests. But the digital policy action will be at home, with domestic regulators. Actions will not be overseen by trade ministries but will have enormous trade and investment consequences, and if managed badly will aggravate discontinuities in the global digital market.

The simple fact is that digital disruption is every single day, everywhere, on the front page of the daily news. Artificial intelligence (AI) is the buzz. The business community is focussed on baseline standards development, including AI ethics, and in many quarters is calling for regulation.

Finance ministries will be increasingly front and centre. Competition authorities will be a key focus of attention. Consequently, business input is increasingly and necessarily focussed on domestic and international standards development processes and opportunities — especially in regional bodies — to promote best practice principles.

These complexities feed back into trade cooperation

Some of the associated regulatory challenges, for example around privacy, cybersecurity, and taxation, are witnessing early-stage international regulatory cooperation, but the challenges will not be resolved in 2024. Competition policy issues associated with big tech will intensify. Regulatory cooperation to achieve interoperability in electronic payments systems will start and falter before whimpering along. Financial services firms will be hard hit by digital regulatory wariness, including with respect to AI. The smallest firms will find it hardest to comply with the growing complexity of connecting with trade and investment partners across incompatible digital regulatory jurisdictions.

The thorniest services trade issues of 2023 were growing impediments to cross-border data flows such as data localisation and forced disclose of source code/algorithms. Fragmentation of the global digital market is already well underway. Outcomes at the WTO Ministerial might, if the Moratorium on Customs Duties on E-commerce Transmissions is extended and if a solid plurilateral deal on E-Commerce is reached, be able to slow the fragmentation but are very unlikely to put a stop to it in 2024.

Cross-border services and digital trade will continue to suffer

The digital economy calls for trade policy advocates to focus on the underlying drivers of international competitiveness in services, including domestic regulatory efficiency, coherence, and cooperation. The trouble is, looking at domestic stakeholder interests in digital trade, in 2023 the big losers everywhere have been in business. Big tech struggles to get a government audience anywhere. Micro, small and medium sized digitalised businesses figure in name only in the trade policy consultation.

The challenge intensifies in 2024.

About the author

Jane Drake-Brockman is a Visiting Fellow with the Institute of International Trade, the University of Adelaide, and Principal Consultant at JDB Solutions.

Key Challenges and Prospects for the International Trade Architecture
- Dr Milton Churche

Abstract

A resilient world economy and international trade architecture continue to provide a stabilizing force for the international order despite the threats posed by populist-driven protectionism and the return of great power competition. Maintaining an open world economy and the trade architecture underpinning it remains critical for a stable world order.

Populist-driven protectionism and the return of great power competition have contributed to an increasing use of force rather than political engagement and negotiations to manage relations and address areas of conflict. But both the world economy and the trade architecture have demonstrated resilience despite the many shocks of recent years, and together continue to significantly constrain the exercise of power and help cushion geostrategic competition. Smaller and middle powers like Australia have a clear interest in their continued vitality.

The global trade architecture is resilient

One of the most important characteristics of our current international environment is how resilient the world economy and the international trade architecture have been. World economic integration has fallen somewhat from its peak but remains at historically high levels despite the shocks of the Global Financial Crisis (GFC), the Covid-19 pandemic, and subsequent supply chain and stimulus shocks, a return of high inflation, and a resurgence of a populist-driven protectionism.

Underpinning this resilience has been the great innovation of the post-World War II trade architecture: legally binding commitments on market access and rules governing trade policy frameworks. While World Trade Organization (WTO) achievements in negotiating new bindings have been limited over the last two decades, the work of negotiating new, more liberal bindings has continued within the framework governed by the WTO through Free Trade Agreements (FTAs). The two great mega-regionals — the Comprehensive and Progressive Agreement for a Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership Agreement (RCEP) — reflect the diffusion of economic power to the Asia-Pacific. The Agreement establishing an African Continental Free Trade Area (AfCFTA) is the most significant and serious attempt at an FTA in Africa and is a good reminder of how strongly entrenched the realization of the benefits of openness remains. Overblown rhetoric about deglobalization or decoupling, or even de-risking, seriously distorts our understanding of this reality.

Political dysfunction presents increasing risks

It is politics, not economics, that remains the key challenge to overcome. The Xi-Biden meeting in San Francisco in November 2023 was an indication that both leaderships, to some degree, recognize that they need to work within the reality of a highly connected and integrated world, even while they seek changes to this order.

The experience with economic sanctions has demonstrated yet again the limits of the weaponization of trade in an open world economy with multiple political entities which are not clearly aligned with any single great power: this can be seen in the sanctions against Russia; Russian sanctions targeted at EU energy markets; and China's sanctions against Australia. In our open, politically and economically diverse world economy, countries continue to have choices when faced with great power pressure. Short-term economic costs may be created by this pressure, but over time significant opportunities to adjust and dilute the pressure will emerge.

However, by wasting resources, encouraging inefficiencies, and worsening political tensions, the blunt use of economic sanctions that has characterized the last two decades can still be destructive. It could also make the transition to a green economy to address the climate change challenge more difficult and expensive. Most importantly, it diverts attention from the pursuit of more effective strategies to manage problems by engaging in dialogue, negotiations, and the strengthening of institutions and agreements. The dangerous weaponization of the economy could be taken to a new level if plans to seize Russian assets gain traction.

The success of populist political movements in many countries is a sign of the fact that the veneration of power seems to have become one of the defining features of the current moment in what is now a global culture, and that constraining the exercise of power is one of our most important challenges.

Middle powers need to harness the global trade architecture more effectively

There are real dangers of fragmentation if lesser powers allow themselves to be intimidated by the great powers.

The role of an open world economy and the international trade architecture in constraining the use of economic power explains why small and medium sized powers like Australia, but even larger powers like Japan, have the greatest interest in maintaining these global public goods. This also means that their interests may be at odds with the positions taken by the great powers. An open world economy makes the emergence of power blocs less likely than in the Cold War as the smaller and medium powers can use this openness to safeguard against becoming too dependent on any of the great powers. The current restructuring of global supply chains, through increased investment and economic activity in a diverse range of emerging markets, is deepening defences against the use of economic pressure.

The ambivalence of the great powers about openness is unlikely to change in the short-term, given the continuing dysfunction of US politics and uncertainty about the direction and capabilities of Chinese policymaking in a political framework characterized by strengthening Communist Party control.

The greatest challenge and opportunity for the international trade architecture in this environment is to engage the great powers in returning to dialogue, negotiations, and agreement-making, rather than the exercise of force, to manage their relations with each other and the rest of the world. The forums in which this must be pursued are multiple: CPTPP (especially China's accession), RCEP, the Indo-Pacific Economic Framework (IPEF), critical minerals agreements, climate change discussions on the role of trade, and the WTO (especially the work on the dispute settlement system).

Progress in these forums will depend on whether small and medium sized powers like Australia are prepared to show leadership in pressuring the great powers to engage, including by demonstrating their own readiness to make serious commitments to reform.

About the author

Dr Milton Churche is a former trade negotiator and Visiting Fellow, Institute for International Trade, The University of Adelaide.

How have Other Countries Responded to the US Attack on the WTO?

- Professor Richard Pomfret

Abstract

WTO reform has stalled due to lack of census. Since 2017 the USA has lost interest in extending world trade law into new areas such as digitalization and has undermined WTO dispute resolution. This blog examines other countries' responses to the US withdrawal from leadership in extending and enforcing world trade law.

The World Trade Organization (WTO) was established in 1995 with high expectations. At the 1996 Singapore ministerial meeting it was recognized that the rules would need to be expanded and updated. However, in the 21st century the need for consensus stymied serious change to the WTO's Charter. Plurilateral agreements among likeminded WTO members (e.g. the 1997 Information Technology Agreement) provided an initial work-around but this seems increasingly difficult as some WTO members veto deviations from universality.

A response was to reach plurilateral agreement elsewhere. The Trans-Pacific Partnership (TPP) was an outgrowth of APEC's open regionalism. Negotiations were slow because they covered complex beyond-WTO topics and, in some cases, had not been tackled before. In 2016 twelve countries, including the United States (US), Japan, Canada, Mexico, and Australia signed the TPP Agreement.

Most TPP chapters were concerned with extending WTO trade law or introducing topics such as digitalization that were not covered in the WTO Charter. The Bush (2) administration, on joining TPP negotiations, highlighted the significance of extending trade law to these areas. In a February 2015 message to Congress President Obama made his reason for negotiating the TPP clear: "My top priority as President is making sure more hardworking Americans have a chance to get ahead. That's why we have to make sure the United States — and not countries like China — is the one writing this century's rules for the world's economy".

One of President Trump's first actions in January 2017 was to refuse to ratify the TPP Agreement. The Trump administration also ceased to approve new members to the WTO Appellate Body, effectively neutering the dispute settlement mechanism, and allowing lost cases to be appealed into the void. The Trump administration simply ignored WTO constraints on trade policy; tariffs were increased and supported on risible grounds, e.g. aluminium imports from Canada allegedly posing a national security threat.

How did other countries react?

The 11 remaining TPP signatories removed twenty provisions that had been of prime interest to the US, changed the name to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), and ratified the agreement — which entered into force in 2018.

In April 2020, 47 WTO members, including Australia, the European Union (EU) and China, created the Multi-Party Interim Appeal Arbitration Arrangement (MPIA), whose signatories recognize binding arbitration decisions on WTO rulings. In December 2020, following a complaint against Colombia's use of anti-dumping duties on imports of frozen French fries from EU countries, the MPIA arbitrators reversed one but confirmed three other panel findings; Colombia and the EU accepted this first MPIA decision.

The impact of these reactions was muted in 2020-1 as the COVID pandemic dominated policymaking and precluded face-to-face meetings, and as the world awaited the outcome of the November 2020 US election.

How has the USA responded?

In June 2020, the US ambassador to the WTO strongly criticized what he called "the China-EU arrangement" for having the same weaknesses as the WTO appellate body. The US fears that the MPIA will, like the WTO dispute settlement process, place too great a constraint on US use of safeguard measures such as antidumping and countervailing duties.

The Biden administration maintained WTO-incompatible measures introduced under President Trump, asserting that decisions based on national security could not be questioned, and made no move towards restoring an appeal process at the WTO. It showed no interest in joining the CPTPP, although admission would presumably be easy in that the text was accepted by US negotiators. The August 2022 Inflation Reduction Act offered large subsidies, many of which were potentially WTO-incompatible, discriminating against rivals and threatening investment diversion from allies. Donald Trump's commitment to gut the IRA if he wins the November 2024 presidential election adds uncertainty to US trade-related policies.

What happened in 2023?

The CPTPP is an open agreement that any country may join if it accepts the obligations. The first application process, by the UK, was successfully concluded in March 2023. Next in the application queue are China, Taiwan, Ecuador, Costa Rica, Uruguay and Ukraine, with Korea and several Association of Southeast Asian (ASEAN) members also expressing interest. With UK accession, despite the P for Pacific, the CPTPP is a global and not a regional agreement.

Japan joined the MPIA in June 2023. After a WTO panel circulated a draft report on Australia's complaint against Chinese restrictions on barley imports in March 2023, the two parties requested that the panel suspend its work until August, when a mutually agreed solution was reached and China dropped the restrictions; the MPIA's existence precluded appealing into the void and, presumably, China suspected that resort to the formal MPIA procedure would be unsuccessful. Implementation of panels' findings is strengthened by the MPIA's existence even without a formal appeal process.

What happens next?

If a new institutional order for global trade based on an expanded CPTPP (with China, Korea, Indonesia, Philippines, Taiwan, and Thailand as members and the EU committed to compatibility) and on the MPIA emerges, then the global economy will continue to function but with different levels of commitment to trade rules. The CPTPP+ and the EU/EEA countries will observe the highest standard world trade rules. A second group (India, South Africa, and many developing economies) will accept WTO rules, but no more – including the absence of an effective dispute resolution mechanism. A third group will have no interest in world trade rules (North Korea and Eritrea). On the post-2017 record, the USA could be in any of these three groups.

About the author

Professor Richard Pomfret is Professor of Economics Emeritus at the University of Adelaide and Senior Adjunct Professor, The Johns Hopkins University School of Advanced International Studies, Bologna, Italy.[2]

European Trade Negotiators between a Rock and a Hard Place?
- Professor Andreas Freytag

Abstract

For more than a decade, the European Union (EU) has used negotiations of free trade areas (FTAs) to implement chapters on trade and sustainable development (TSD). This practice, while widely supported in the EU, is increasingly not well-received in partner countries, notable developing countries and emerging economies owing to the EU's own protectionist agricultural policy. The EU should invest more political capital into the dismantling of agricultural protectionist barriers against these countries.

Almost unnoticed, at the end of 2023, the European Union (EU) had to face two trade policy disasters. Neither the free trade agreement (FTA) with Australia, nor the EU-Mercosur Association Agreement, were finalised. The deal with Australia was prevented by differences over agriculture market access, whereas the agreement with Mercosur was blocked by the issues of sustainability and agriculture market access.

The EU's trade policy dilemma

This pattern shows that European trade negotiators are caught between a rock and a hard place. European citizens, particularly vocal non-government organizations (NGOs), advocate sustainable trade: they do not want to buy goods and services produced under inhumane conditions (e.g. with child labour or other human rights violations), or environmentally harmful impacts. This is highly understandable and backed by European legislators. Consequently, the EU has added a chapter on Trade and Sustainable Development (TSD) to every FTA negotiated since 2011.

Simultaneously, the EU still supports its agricultural sector with policy instruments, notably regulations and subsidies that distort trade relations with food exporters and developing countries. In almost every trade negotiation the Directorate General for Trade (DG Trade) faces fierce opposition to far-reaching concessions from their DG Agri colleagues and the according lobbies. This protectionist stance positions the EU against farmers in mostly poor countries – Australia is one of the few exceptions. This does not allow developing countries to build up a competitive food industry. It is also in strong contrast with the moral high ground the EU places itself on with respect to sustainability.

Under these circumstances, European trade negotiators positioning is highly complicated and somewhat awkward. They must convince their counterparts in other countries of the need to consider TSD aspects in trade deals. This is not easy, since counterparts often claim that the European approach is paternalistic. When dealing with autocracies or even dictatorships, this may even be a reason for failure. Yet, EU trade negotiators have to respond, if not give in to, the protectionist demands of the agricultural sector. These demands are powerful as the agricultural lobbies are well connected in European politics and adroitly secure political support in European capitals.

Basic economics tells us there shouldn't be a dilemma

From an economics perspective, this awkward position is unnecessary. There is no trade-off between open markets and sustainable development, which – of course – is known to DG Trade. Protectionism is not their concern; rather open markets is. However, DG Trade has not been able to convince other DGs, most Commissioners, European parliamentarians, and the

European Council of the implications of the joint use of TSD clauses and agriculture protectionism. It alienates trading partners, especially those in the “Global South” who have alternatives, such as membership in BRICS or participation in the Chinese Belt-and-Road-Initiative (BRI).

The conclusion is relatively straightforward: If the European Union really is concerned about human and social rights, it should open its markets for goods and services not only from developing countries and emerging economies, but also from Australia. Open markets and export opportunities for developing countries contribute to a growing middle class and subsequently political pressure for more sustainability, at least indirectly. Put simply, a country that remains poor will most probably not increase adherence to human rights or environmental awareness. Therefore, insisting on a TSD chapter in FTAs is credible when combined with economic opportunities for the partner countries. In addition, open agricultural markets offer EU consumers better products for lower prices.

Geopolitics cements the case

Under the current geo-economic and geo-political conditions with the multilateral trading order under threat, it would be of enormous importance for the EU to keep markets open as well as to invest in good relationships with developing countries and emerging economies. This strategy includes more than agricultural goods; it may be strategically relevant to gain access to critical minerals and other resources and to new open markets for European products when other markets, such as the Chinese or Russian markets, close. The easiest option is to conclude more FTAs and take care of European companies’ market access abroad as well as European consumers’ cheap access to imports, which also increases competition in Europe to the benefit of consumers.

This is easier said than done. European trade policymakers have a clear vision of the potential of FTAs versus the problems of protecting European farmers in a way detrimental to the conclusion of FTAs. By contrast, other important actors in the Commission, the European Parliament, and Council — notably in Paris and Berlin — are less clear.

In a world of increasing systemic rivalry, such neglect of vital interests of poorer countries may cause much harm in Europe, too. The European actors should make the lives of their trade negotiators easier!

What needs to be done?

After the June EU Parliament elections, a first step would be to return to the negotiation table with Australia and Mercosur, provided the two partners are willing to do so (they should). The Berlin-Paris axis, which currently does not seem to work as smoothly as it used to, can be of relevance. These two partners, who also are the main drivers of European agricultural protectionism, should rethink their priorities and solve this unnecessary dilemma.

About the author

Andreas Freytag is Chair of Economic Policy at Friedrich-Schiller University Jena, and Visiting Professor at the Institute of International Trade, School of Economics and Public Policy, the University of Adelaide. He also holds an Honorary Professorship at the University of Stellenbosch.

China and Africa – What to Expect in 2024, and what consequences for Australia?

- Dr Lauren Johnston

Abstract

Chinese commitment to deepening economic ties with Africa over coming decades was recently elevated via approval of the "China-Africa Economic and Trade Pioneer" zone established in Hunan province. Given Hunan's competitiveness in areas including agriculture, aquaculture, and heavy industry such as minerals processing, and African comparative advantages in agriculture and minerals extraction, the Zone could have substantial competitive implications for Australia, too.

On January 7, 2024, the State Council, China's highest national body with a mandate for implementing government policy, approved the "General Programme for the Construction of the China-Africa Economic and Trade Pioneer Zone" ("the Zone"). The Zone's goals are centred on problem-oriented and in-depth investigation and research, and the testing of innovative policies and measures to deepen China-Africa economic and trade relations. Based in Changsha, provincial capital of Hunan province, the Zone is administered by the Hunan provincial-level commerce ministry.

So, what might be happening in and is planned for the newly elevated China-Africa Economic and Trade Pioneer Zone? During intensive Chinese language desk research in late 2022 and early 2023 I uncovered the Zone's elemental structure and initial policy initiatives.

The China-Africa Economic and Trade Pioneer Zone: An Introduction

The origins of the China-Africa Economic and Deep Cooperation lie in President Xi Jinping's proposal to establish a long-term mechanism for economic and trade exchanges and cooperation with Africa. Its goal is to overcome bottlenecks in China–Africa economic and trade cooperation in terms of access, finance, logistics, talent, and services. Via what institutions will these goals be achieved?

The Zone's is based within a larger trade zone, and has structural layout includes "one core, three areas, and five functional clusters". The "one core" is a grand, traditional people-to-people trade market, placing trade at the heart of the project. The "three areas" are logistics-focused trade zones: Changsha Free Trade Airport Zone (air-based trade); Yueyang (river-based trade from Changsha to China's coast and beyond); and Jinxia (trade via all four means – water, highway, air and railway).

The Zone prioritises industrial clusters in machinery, mining, industry, and metals processing alongside deepening investments in multi-modal physical freight corridors infrastructure that are incrementally reducing trade times between central China and the outside world, especially Africa. Some of the Zone's early initiatives include the "China-Africa Cross-Border Renminbi Centre", a digital services hub, a trade-related think-tank and research institutions grouping, and even a China-Africa vocational education federation to ensure sufficient human capital is available too.

Hunan province is an ancient food bowl home to unique competencies in agriculture and certain industrial areas, including green-transportation and minerals processing. Alongside, it is home to important universities, as well is the birthplace of Mao Zedong. This combination may support China's next phase of growth and development as well as food security needs, while helping China to realise its goals in partnership with Africa. For Africa, those include supporting Africa's own goal of successfully developing the African Continental Free Trade Agenda over coming decades. To these points, the newly authorised Zone will also focus on key links and explore new paths for sustainable development; expand bilateral trade and build a new platform for business distribution; and deepen interconnection and expand new channels for international logistics.

Implications for Australia and 2024

Back in 2010 as a little-known Vice-President Xi Jinping promised, on a visit to South Africa, that China would optimise the level and structure of trade between China and Africa. At the time China was under intensive criticism for importing raw materials from China and exporting manufactured goods back – a pattern long-associated with Western imperialism. This new Zone in Hunan, and its new national prioritisation, is arguably part of China's efforts to realise such a promise, while also realising many other objectives including those wrapped into the Belt and Road Initiative, the Global Development Initiative, and Global Civilisation Initiative. At their core, these seek to identify, form, and capture new markets for Chinese growth and global development. Global norms – and markets in which Australia presently is a major player, may be impacted too.

This year China will host the triennial Forum on China and Africa Cooperation. FOCAC should be expected to explicitly push forward the Zone's goals. In other words, China seeks to fast-track integrate itself with Africa's own trade and economic agenda, a plan that has gained much high-level support and insistence.

For Australia, these policy changes and events highlight those areas of its own trade comparative advantage – mining, minerals processing, agriculture, and agricultural services, as well as trade-related services such as banking, and even talent development in terms of education and training — are now in focus between China and Africa. With demographics pointing to a greater role for Africa in the future of the world economy, and China looking for trade partners beyond the West, the State Council's new emphasis on Africa calls for a dexterous and informed response from Australia.

About the author

Dr Lauren Johnston holds a PhD in Economics from Peking University, and is an Adjunct Associate Professor, China Studies Centre, University of Sydney, and a Visiting Senior Lecturer, Institute for International Trade, University of Adelaide.

New Zealand Trade Policy in 2024
- Catherine Grant Makokera

Abstract

The new National-led government has an ambitious target to double the value of New Zealand's exports over the next 10 years. This will require ongoing action to support the multilateral trading system, implementation of existing free trade agreements, and reduction of non-tariff barriers. New Zealand is keen to explore new partnerships, particularly with India, but cannot lose sight of its base in the Pacific region in the process.

New Zealand's new coalition government, led by the National Party, will face strong global headwinds in 2024 as it aims to steady the economy. The government has identified trade as one way to do this, with its specific goals that include doubling the value of New Zealand's exports over the next 10 years. This is ambitious and will no doubt require consideration of all available avenues, including further improvement of market access through free trade agreements (FTAs). New Zealand has shown itself to be a creative and proactive player in the international trade space. These qualities will be needed more than ever in the months ahead.

Doubling exports is a formidable ask

Firstly, the multilateral trading system is weak and negotiations for reform of the World Trade Organisation (WTO) have been making little headway as preparations continue for the 13th Ministerial Conference (MC13) in February. New Zealand will assume one of the three vice-chair positions for the event. Todd McClay, New Zealand's trade minister, has indicated that he will focus on agriculture, fisheries subsidies, and reform of the dispute settlement mechanism (which is currently only partly functional). He is not new to trade but Minister McClay will find a WTO that is even more challenged than when he last held this portfolio in 2017. There is no doubt that New Zealand's commitment to multilateral rules and the stability they provide will remain at the forefront of its trade policy for the foreseeable future, but not all partners share the same level of commitment, which will present a challenge for New Zealand.

As a small and geographically isolated economy, New Zealand will continue to rely on its relationships with a wide range of partners to achieve its trade policy goals. China remains extremely important as a market for New Zealand exports but diversification is likely to continue to be a focus in 2024. The National-led government has specifically identified India as a strategic priority for increased trade and investment. New Zealand does not often find itself aligned with India on issues in the WTO context and prospects for a bilateral free trade agreement are faint in the short term. New Zealand will be best placed to take a pragmatic approach to engagements with India in 2024, focusing on deepening relationships in the medium to long-term as well as trade and investment promotion interventions. Working closely with New Zealand and Indian business networks will be critical to identifying and supporting concrete opportunities.

Reducing non-tariff barriers is a critical priority

While there are undoubtedly still some wins that could be achieved for New Zealand exporters in negotiating tariff reductions in markets such as India, the National Party trade strategy stressed the importance of reducing other trade barriers, including non-tariff barriers. This was also emphasised by Sense Partners in their October 2023 discussion paper that contained excellent suggestions for the repositioning of New Zealand's trade policy. Sense Partners estimated that non-tariff measures cost "Kiwi exporters around $12bn per year". Existing regional and bilateral trade agreements contain commitments to reduce these trade costs but there is room to strengthen their monitoring and implementation to ensure that the words lead to improved competitiveness of New Zealand exporters.

Again, this requires strong cooperation between government agencies and with non-government stakeholders, specifically the private sector. Trade officials have become more adept at working with colleagues from different departments, especially as the trade policy agenda has evolved with technological and innovative developments. There is always room to improve, however, especially with regards to deepening the understanding of the specific needs of traders and investors. New Zealand can continue to improve its collection of disaggregated data and evidence that will help in prioritising the non-tariff barriers that can be addressed to bring down costs and contribute to the growth of exports.

We remain anchored in the Pacific

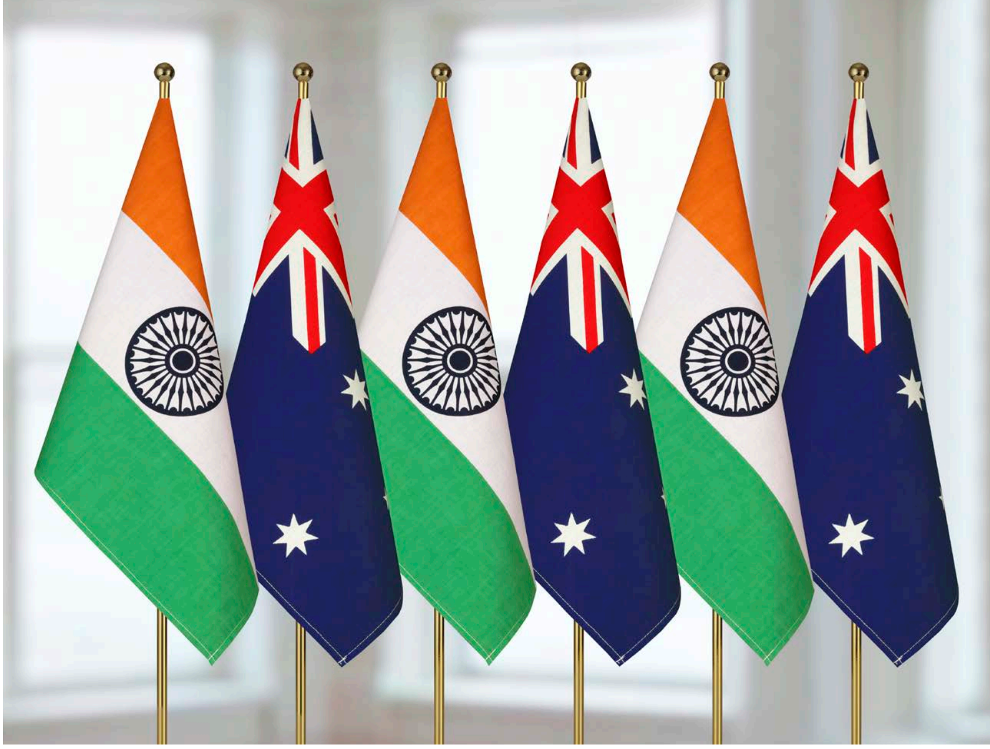
The focus on growing exports will clearly be front and centre of New Zealand's trade strategy in 2024 but the National-led government's foreign policy has acknowledged the importance of our economic linkages with Pacific Island countries. With increasing geo-political tensions, the importance of a strong regional base cannot be underestimated and trade can form a critical part of New Zealand's commitment to work closely with its neighbours to achieve sustainable, inclusive, growth and development. The Pacific Agreement on Closer Economic Relations (PACER) Plus trade agreement between New Zealand, Australia and some Pacific Islands is currently undergoing a review that will provide useful indicators on how the first phase of implementation has gone. In 2024 New Zealand could apply its creativity to ensure that the next phase of PACER Plus achieves a real difference for Pacific Island traders and communities.

About the author

Catherine Grant Makokera is Visiting Senior Lecturer with the Institute for International Trade at the University of Adelaide.

From ECTA to CECA: Acing India-Australia Trade Ties

- Pradeep S. Mehta and Advaiyot Sharma



Abstract

Both Australia and India have pursued a strategy of pragmatism when it comes to bilateral Free Trade Agreements. This has helped lock-in mutually beneficial economic gains through the Economic Cooperation and Trade Agreement (ECTA). Both sides must retain their commitment to this strategy to seal a broader, deeper, and more ambitious Comprehensive Economic Cooperation Agreement (CECA) and further expand and future-proof trade ties.

In early 2008 Australia and India first undertook a joint exploratory study on the feasibility of a bilateral Free Trade Agreement (FTA). The Joint Study Group recommended that both governments consider commencing negotiations on a comprehensive bilateral FTA.

The State of Play

Talks began in 2011, but after a series of fits and starts, were formally suspended in 2015. After a hiatus, the two sides relaunched negotiations in September 2021. This time there was a clear mandate to first conclude an interim agreement, which would be followed by negotiations towards a full Comprehensive Economic Cooperation Agreement (CECA). The interim agreement ("Australia-India Economic Cooperation and Trade Agreement (ECTA)") was signed in April 2022 and entered into force in late December that year. A dedicated Negotiation Subcommittee under the ECTA is now holding discussions to upgrade the agreement to a CECA.

Setting the Stage

In the over fifteen years that have transpired since the first efforts to seal a preferential trade deal, both countries have undergone significant transformation. India has firmly imprinted its geoeconomic and geopolitical footprint on the back of rising economic heft, a large and growing domestic consumer base, and a stated desire to engage with the world on its own terms. Australia has cemented its global position as a fast-growing, services-oriented developed economy and a natural resources powerhouse driving the transition to a more sustainable, low-carbon economy of the future.

The regional and global trade context has also evolved. Trade has been reshaped by the ascendancy of national security concerns and pandemic-induced supply chain challenges. Finally, rising economic unilateralism and inward-looking tendencies of major powers, the return of armed conflict to Europe and the Middle East, and flashpoints in many other parts of the world together indicate early signs of a more fragmented global trade landscape.

It is against this backdrop that Australia and India have decided to lock-in mutually beneficial terms of trade through a bilateral trade pact.

Trade Realpolitik

The strategies deployed by both India and Australia towards their respective FTA negotiations are steered by a businesslike and pragmatic approach. Such an approach was the basis for signing the ECTA and will be the driving force required for successfully concluding a CECA.

This pragmatism has a few basic anchors. There is a noticeable distinction between both countries' respective strategies towards bilateral FTAs and their approach to other aspects of international trade policy such as in the World Trade Organisation (WTO). In the Indian case, a further line of distinction can be drawn between its strategy for bilaterals and its stance towards mega-regional trade agreements.

A recalibration of India's bilateral FTA strategy has been evident since 2021, when it began making fresh overtures to key trading partners with complementary trade interests and commenced FTA parleys. A related feature has been a greater willingness on India's part, hitherto unseen, to agree to the inclusion of trade-related/non-economic issues on the negotiation agenda in bilateral talks with developed country partners.

In a similar vein, Australia's FTAs reveal a preference for a pragmatic over a dogmatic strategy. Australia has bilateral FTAs with five of the world's six largest economies (the United States, China, Japan, India, and the United Kingdom). The scope of Australia's FTAs indicates a high degree of flexibility and lesser reliance on strict templates. Coverage ranges from the inclusion of chapters regulating frontier aspects in FTAs with like-minded developed trading partners (such as Trade and Gender Equality, Animal Welfare and Antimicrobial Resistance, and Innovation in the Australia-UK FTA), to restricting disciplines to core goods, services, and investment related aspects in others.

Australia is party to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Regional Comprehensive Economic Partnership (RCEP) and the Pacific Agreement on

Closer Economic Relations (PACER) Plus, each with unique (and in some cases, competing) visions and architectures. Overall, Australia is party to an extensive network of bilateral FTAs, overlaid with a web of mega-regionals.

From ECTA to CECA: Sealing the Deal

India's key objective for bilateral FTAs is to secure favourable terms of trade for Indian goods and services and thereby enhance market access. Simultaneously, to secure access to inputs for use in domestic production and better integrate with production networks.

There is a high degree of alignment and complementarity with Australia's desire to leverage its strengths in raw materials, natural resources, and critical minerals, among others. This explains the businesslike approach guiding the bilateral negotiations, with areas which can translate into concrete economic gains being prioritised. With the ECTA sealed, the CECA negotiations will have to retain this overarching commitment to pragmatism to succeed. This will be particularly important when discussions on liberalisation of protected sectors such as agriculture move ahead.

Way Forward

There is bipartisan support in Canberra for deepening Australia-India trade ties. For New Delhi, the ECTA has marked one of the first FTAs with a large, developed country trading partner. The ECTA has helped secure initial convergence between economic and strategic interests of India and Australia through a new framework for cooperation in areas such as critical minerals, pharmaceuticals, organic goods etc.

As the ECTA ratchets into the proposed CECA, it must expand in ambition and leverage the full range of the India-Australia Comprehensive Strategic Partnership by building greater interdependencies. Apart from further liberalisation of bilateral trade flows, the CECA must also provide an enabling framework for more avenues of cooperation in emerging economic spheres. The two sides are already off to a good start with the ECTA; the proposed CECA can now take shape as a real ace in India-Australia trade ties.

About the author

Pradeep Mehta is Secretary General of CUTS International, a global public policy research and advocacy group. Advaiyot Sharma is Assistant Policy Analyst, CUTS International.

Rediscovering Southeast Asia as a trading partner with Australian
- Nathan Gray

Abstract

In 2023 the Australian Government released a new Southeast Asia strategy. The strategy's key elements are discussed and the importance of Southeast Asia to Australia's trading relationships globally is emphasised. Some early policy steps that should be taken to realise the economic opportunities present in the region are also proposed.

Australia has longstanding trading relationships with Southeast Asia, from pre-colonial trading between Indonesia and northern Australia, through the European colonial period where Australia, British and Dutch outposts in Southeast Asia traded regularly. Through much of the past 70 years Australia has had a fundamentally strong political, social, and economic relationship with Southeast Asia. Australia's prosperity and security is intimately linked to the prosperity and security of its neighbours, and their security and prosperity is similarly linked to ours. Therefore, it is unsurprising that the Australian Government's recently launched Southeast Asia strategy was titled "Australia's Southeast Asia Economic Strategy to 2040".

Unpacking Australia's Southeast Asia Economic Strategy

The economic strategy identified a range of economic relationships in the region and the significant opportunities for growth as we head towards 2040. It notes that Australia is well positioned to support Southeast Asia through trade and investment and can help our neighbours realise prosperity through economic growth, and makes some key observations of the economic relationship:

- Two-way trade between Australia and Southeast Asia was worth around A$178 billion in 2022, larger than Australia's trade with the United States.
- The 20-year compound average growth of trade has been around 5.5%, and if this was to continue total trade would be around A$465 billion in 2040 — an increase of A$287 billion on current levels.
- Australia was ASEAN's eighth-largest two-way goods trading partner in 2022.
- Australia's direct investment into Southeast Asia has stagnated in recent years, while overall direct investment in the region from other countries has increased materially.
- Southeast Asia requires substantial capital investment; by 2040 the region will require an estimated $3 trillion in infrastructure investment and have similar needs for sustainability and renewable investments.
- Australian foreign investment in Southeast Asian countries was valued at A$123.1 billion in 2022, 3.4% of Australia's total outward foreign investment stocks (A$3.7 trillion).
- Most of the Southeast Asian investment was concentrated in Singapore (A$76.2 billion) and Timor-Leste (A$16.7 billion).

Australia's trade architecture in Southeast Asia

Australia and the 10 countries that form the Association of Southeast Asian Nations (ASEAN) enjoy economic ties stretching back nearly half a century, when Australia became ASEAN's first dialogue partner in 1974. When viewed through the prism of trade and investment partnerships with ASEAN countries Australia has significant bilateral and regional preferential trade agreements providing policy, governance, customs, investment, and trading advantages for Australian companies. This includes bilateral Free Trade Agreements (FTA) with Singapore (2003, Digital Economy 2020 and Green Economy 2022), Thailand (2005), Malaysia (2011), and Indonesia (2020); and overlapping regional FTAs and trade cooperation frameworks and with ASEAN members: Australia New Zealand Free Trade Area (AANZFTA)(2010), Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)(2018), Regional Comprehensive Economic Partnership (RCEP)(2022), Asia-Pacific Economic Cooperation (APEC), and the Indo-Pacific Economic Framework (IPEF). Many of these agreements have been enhanced and upgraded to further liberalise the trading relationships between Australia and Southeast Asia.

What does Australia need to in the 2024 to realise the opportunities over the next 16 years?

We often forget that it was relatively recently that China came to dominate our trading relationship. Only after China joined the WTO in December 2001 did China become a realistic trading partnership opportunity for many Australian companies. This only took off in the last decade. Prior to that Southeast Asia, and Japan was "Asia" for many Australian businesses. In the 1990s Singapore, Indonesia, Malaysia, and Thailand were important Australian trading partners in agriculture, education, manufacturing, and mining.

It is time to once more think of the opportunities that can be afforded to companies looking to invest the time in developing trade with Southeast Asia. The Southeast Asia Economic Strategy highlights the need for greater awareness of the opportunities for trade and investment, and particularly the need to engage in structural investment in the region beyond the comparatively small existent investments. This will require a whole of government refocus on regional awareness-raising and encouragement for Australian industry to once more look at the significant opportunities available on our doorstep. Some of the key government policy responses that should be considered in 2024 to help realise these opportunities include:

- Openly acknowledging and supporting the need for Australian outbound investment in regional value chains.
- Developing government policies to encourage outbound investment to create value chain opportunities in Southeast Asia. Too often we have taken a direct export approach and missed the opportunity to participate in value chain activities as economies grow and mature.
- Enhancing education linkages at secondary, technical, and tertiary levels throughout Southeast Asia. This should be through a combination of offshore investment in facilities, and greater partnerships in Southeast Asia with local education providers to build the Australia-Southeast Asia education connection. Australian education exports to Southeast Asia has fallen over the past two decades as local quality standards have improved. The opportunity for the future is to invest in local education capacity and showcasing Australia's knowledge economy to the region.
- Creating linkages at government-to-government, and sub-national government to sub-national government levels. This can be done through converting the cultural agreements of the past in sister city and sister state agreements into economically focused engagements.

About the author

Dr Nathan Gray is Visiting Senior Fellow at the Institute for International Trade, and Managing Partner of AsiaAustralis.

Endnotes

1. MSP partners include Australia, Canada, Finland, France, Germany, India, Italy, Japan, Norway, the Republic of Korea, Sweden, the United Kingdom, the US, and the EU.

2. This piece draws on Richard Pomfret "Australia's Perspective on the Applications from the UK, China, and Taiwan to join the CPTPP" in Chun-yi Lee and Michael Reilly, eds. China, Taiwan, the UK and the CPTPP: Global Partnership or Regional Stand-off? (Palgrave Macmillan, Singapore, 2023), 117-40, and "Searching for a New Institutional Structure for The Global Trade System: What role for Asia in the age of US-China competition?" Asia and the Global Economy 3(2), July 2023 https://doi.org/10.1016/j.aglobe.2023.100068

Further enquiries

The University of Adelaide SA 5005 Australia
enquiries iit01@adelaide.edu.au
phone +61 8 8313 6900
web iit.adelaide.edu.au