The Future of Trade
ARE WE READY TO EMBRACE THE OPPORTUNITIES?

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Foreword

Despite current uncertainty for global trade, it will continue to be critical for the future prosperity of Australia and New Zealand. Trade has evolved beyond exporting and importing. The effects of globalisation and technology have meant that trade is not only a business exchange, but a cultural exchange as well. We see this particularly in the changing landscape of policy on domestic and international levels regarding trade and political positions. We have also seen trade shifting from goods to the exporting and importing of services, including professional services such as accounting.

The appetite for trade has increased and so has the ability of businesses to trade. However, globalisation has seen attitudes towards trade change. Recent events such as the Brexit vote in the United Kingdom and President Donald Trump signing the order to remove the US from the Trans-Pacific Partnership might be seen as signs that the days of free trade are over. The costs and benefits of trade are questioned – as well as the fairness, equality and the impacts of trade distribution. These questions have influenced political choices and raised uncertainties about trade in the future. Policy makers will need to consider how to mitigate risks and maximise the potential benefits of trade. It is also important to consider how we communicate changes and benefits for businesses and what it means for the public.

We are in an environment where trade is continually evolving – new models of trade have emerged online, allowing more people and businesses to participate in trade, including the direct dealing to consumers.

Business will require agility and flexibility to meet the changing needs of trade. We have exporters becoming importers, new markets participating, buyers and sellers connecting directly – the effects of globalisation, policy and technology will continue to shape trade. But the future of trade is bright if we embrace the opportunities it offers.

Lee White FCA
CEO, Chartered Accountants Australia and New Zealand

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## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>2</td>
</tr>
<tr>
<td>Introduction</td>
<td>6</td>
</tr>
<tr>
<td>The megatrends shaping the future</td>
<td>8</td>
</tr>
<tr>
<td>Globalisation</td>
<td>10</td>
</tr>
<tr>
<td>Technology</td>
<td>12</td>
</tr>
<tr>
<td>Policy context</td>
<td>14</td>
</tr>
<tr>
<td>To trade or not to trade?</td>
<td>18</td>
</tr>
<tr>
<td>The changing intermediary</td>
<td>24</td>
</tr>
<tr>
<td>The role of industry in trade</td>
<td>28</td>
</tr>
<tr>
<td>The ethical consumer</td>
<td>34</td>
</tr>
<tr>
<td>Conclusion</td>
<td>36</td>
</tr>
<tr>
<td>How will technology change the future of trade?</td>
<td>40</td>
</tr>
<tr>
<td>The changing intermediary</td>
<td>42</td>
</tr>
<tr>
<td>The megatrends shaping the future</td>
<td>45</td>
</tr>
<tr>
<td>To trade or not to trade?</td>
<td>48</td>
</tr>
<tr>
<td>The role of industry in trade</td>
<td>52</td>
</tr>
<tr>
<td>References</td>
<td>55</td>
</tr>
</tbody>
</table>

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PERSPECTIVES ON PROSPERITY
Executive Summary

International trade is essential to our modern economy

Trade has recently come under greater scrutiny, with the US election and Brexit highlighting voter opposition to integration into the global economy. Yet international trade is essential to our modern economy. It gives us access to a wider range of goods and services, stimulates competition and allows us to focus on areas of comparative advantage. Exports currently account for close to 30% of world GDP.¹ In Australia and New Zealand, exports alone account for 20% and 28% of GDP respectively.² With 98% of the global economy beyond the shores of Australia and New Zealand, international trade presents exciting opportunities for businesses seeking to expand.³

PREDICTIONS

Trade will be growing rather than slowing over the next five years for Australia and New Zealand.

Services exports will become increasingly important for Australia and New Zealand.

Technology is set to facilitate even more trade.
While there are significant opportunities ahead, the rate of growth in international trade has slowed in recent years.

Between 1985 and 2007, international trade was growing, on average, twice as fast as world GDP. This was spurred by rapid growth in industrialising Asian economies, driving increased demand as well as introducing new global producers. Reductions in the costs of trade – especially transport and communication – greased the wheels of trade, enabling new business models and the shift to global supply chains. Liberal trade policies proliferated and further strengthened trade flows, as many countries saw trade as a means of bolstering economic growth.

But since the Global Financial Crisis, international trade has slowed, keeping pace with global GDP growth, rather than growing at double the rate. And in 2016, trade growth was the slowest it has been since the GFC, a result of slower growth in China’s industrial capacity, as well as the appetite for services, which continue to grow as a share of spending.

But the tides are turning. 2016 saw improvements in container volumes, rising orders of manufacturing globally, and an increase in the number of businesses going global – all good early indicators for trade. And while services are generally less trade-intensive than goods, technology and policy mean that the volume and value of trade in services are also likely to increase.

Green shoots are already appearing in Australia, which recorded **AUD32.6 billion in exports in December 2016**, the highest level ever in Australian history. This represents an AUD7.9 billion increase on the previous December.4

Looking forward, **globalisation, technology and policy** will be key factors in determining the future rate of growth in international trade. We may not return to the heyday of trade growing at an average double the rate of GDP growth, but there are many signs that there is still a strong future ahead in international trade for Australian and New Zealand businesses.
On the policy front, businesses would prefer small changes over wholesale shifts in trade policy. Indeed, in both Australia and New Zealand, businesses thought that no change to existing trade policy settings would be the best for their business.

Businesses see consolidating existing trade agreements as the best route for government. Our survey found that 64% of Australian and 72% of New Zealand businesses thought that free trade agreements had no impact on their business, had a neutral impact with the positives and negatives balancing each other out, or they were not sure of the impact. And when we asked businesses about what actions government should take, more preferred faster speed at customs than further free trade agreements.

Overseas, a rising tide of economic nationalism has begun influencing political choices that impact on trade policy – from the US election to Brexit. Yet further trade liberalisation in Asia could be a powerful counterbalance to these international sentiments for global trade.

Historically, trade has been driven by strong demand for primary goods and commodities. In 2015, primary goods (in particular mining commodities and to a lesser extent agricultural goods) accounted for over 80% of Australian exports; in New Zealand, meat and dairy products accounted for nearly 40% of total merchandise exports by value. But advances in technology mean that our export composition will begin to shift to more closely mirror our economic composition. We forecast that Australian service exports will grow by an average 5.8% per annum to 2026 and reach nearly a quarter of total exports within five years. Meanwhile New Zealand’s service exports are predicted to grow an average 1.76% per annum over the next five years to almost a third of total exports.

Online platforms will play an increasingly important role in facilitating trade. Our survey found that three in every four businesses think that technology will have a positive impact on their ability to achieve their business goals over the next five years. Further, nearly one-fifth thought that online platforms would be their main means of reaching consumers in the next five years – almost double the proportion who are using them today.
Strongly growing Asian economies provide a key impetus for Australian and New Zealand trade to also grow. China is already Australia’s largest export market and our forecasts suggest it will continue to be so. Further, by 2025, we predict that China will have overtaken Australia to become New Zealand’s largest export market as well.

The rapid economic growth seen in other developing economies and increasing access to more markets represents an opportunity for trade to flourish. Developing economies accounted for 42% of world merchandise trade in 2015. This share is set to continue to rise and represents an important opportunity that businesses can’t afford to miss. Closer integration and connectivity within Asian economies are likely to be a key spur to trade growth.

IMPORTANCE OF TRADE

It’s clear that trade has been an important contributor to our economic prosperity, and it has the potential to keep growing. Trade provides a growing source of income for Australian and New Zealand businesses, and will be a factor in the broader economic growth over the next five years. Indeed, we forecast that our exports will increase by AUD80 billion and NZD16 billion respectively between 2016 and 2021. This is despite the increasing protectionist rhetoric overseas in key trading partners. But government facilitation – like reducing barriers to trade and improving speed at customs – will help businesses to more fully access the benefits of international trade.

But the impact of emerging technologies on trade could be mixed. On one hand, driverless cars could decrease transport costs by up to 40% as well as decreasing transport time. This would be a boon to exporters in Australia and New Zealand, who could transport goods to a port or airport (and thus to a final customer) at lower cost. 3D printing could make local manufacturing for some products a viable proposition. But it could impact on our demand for imports, as manufactured goods currently represent 95% and 80% of total merchandise imports to Australia and New Zealand respectively.
1. Introduction

Every day, we make scores of transactions – whether it is buying a coffee, online banking or catching a bus. We exchange goods, services and money with individuals, businesses and even with government. Trade gives us access to a wider range of goods and services, stimulates competition and allows us to focus on areas of comparative advantage.

The same is true across borders. International trade – the focus of this publication – is an important feature of our global economy. Indeed, sales across national borders (exports) account for close to 30% of world GDP.\textsuperscript{16} And, just like domestic transactions, international trade has generated economic and social benefits for Australia and New Zealand, as both buyers and sellers. International sales of goods and services were worth nearly AUD312 billion\textsuperscript{17} in Australia and NZD70 billion\textsuperscript{18} in New Zealand in the 2015–16 financial year.

But increasingly, there is a negative voter sentiment about trade. On the 200\textsuperscript{th} anniversary of David Ricardo’s theory of comparative advantage, votes such as Brexit and the US election suggest change in popular opinions towards trade, as individuals and businesses feel that they are losing out.

Sometimes, a domestic individual or business who might have sold a product will be out done by an overseas competitor. Those who are displaced from transactions can lose market share, or need to transition to other industries.

This process is critical to economic growth and progress. Competition spurs innovation, better products and better prices for consumers. It also helps us to allocate scarce resources more efficiently throughout our economy. It’s important to remember that trade is a net positive for our economy and our society. But it does create winners – and losers.
In this context, the future of trade in Australia and New Zealand will be determined by the interplay of three powerful forces – **globalisation, technology and policy**. These are detailed in the next section.

These can be understood in the context of historical analysis – the rise of Asia, the evolution of trade policy globally, and the revolutionary impact of the internet on our ability to transact and interact across national borders.

But although historical analysis can help us to understand trends in trade over time, the future of trade in Australia and New Zealand will be determined not just by the past. Business aspirations and plans for tomorrow will be just as important – if not more so – than what is happening today. To understand the perceptions of businesses on these key themes, Chartered Accountants Australia and New Zealand conducted a survey of over 1,500 Australian and New Zealand businesses that currently engage in or plan to engage in trade. The results of this survey are presented throughout this document, in tandem with other evidence. A summary of the survey methodology is provided below.

**SURVEY METHODOLOGY**

Chartered Accountants ANZ conducted a survey of Australian and New Zealand businesses, asking 27 questions to understand the characteristics of trading businesses, how and with whom they trade currently, and their perceptions of trade in the future. The survey was fielded in October and November 2016 by Research Now.

Survey respondents were senior staff members of businesses with a presence in Australia or New Zealand, where an Australian or New Zealand office made decisions about the office or region. Responses were accepted from staff members representing businesses who either are currently trading (selling to or buying from overseas) or intend to be trading in the future. Over 1,500 respondents met these criteria and are included in the results presented in this publication.

Most of the businesses surveyed were currently trading (either exporting, importing or both), and around 61% of survey respondents were located in Australia. The businesses represent a range of industries and sizes.
The megatrends shaping the future

Looking forward, globalisation, technology and policy will be key factors in determining the future rate of growth in international trade.
Technology, policy and changing consumer preferences have all contributed to eroding geographical barriers over the last two centuries, combining with globalisation to encourage the growth of international trade. The businesses we surveyed see these trends as the main drivers of change, as seen in Chart 1. This chapter explores how these megatrends may play out in Australia and New Zealand in the future.

Chart 1: Top ranked drivers of change for businesses

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Globalisation

Whether it is popular culture, news, tourism or trade, it is clear that we are much more interconnected than ever before. This connectivity has boosted world trade and vice versa. Chart 2 shows that world trade has increased steadily since the 1960s – a result of greater international economic cooperation and integration.20

Trade liberalisation has brought significant economic benefits. Wacziarg and Welch (2008) found that countries which had liberalised their trade regimes between 1950 and 1998 experienced average annual growth rates that were about 1.5 percentage points higher than before liberalisation.21 And OECD analysis found that a 10% increase in trade (including both exports and imports) as a proportion of GDP is associated with a 4% increase in output per working-age person.22
There still is substantial potential for more benefits. Modelling by the Centre for International Economics found that removing some barriers to service exports would provide an annual GDP boost of around AUD116 billion for developed countries and AUD238 billion for developing countries to 2025.24

Beyond the value of trade, globalisation is changing who trades. It has enabled corporate structures like transnational corporations to thrive; and with production processes located across the globe, extensive international trade (often within the one corporate structure) can be required just to produce a final product. For example, parts for a Boeing 787 are made in ten different countries, including the wings constructed in Japan, the landing gear assembled in the UK and the engine built in the US.25

Historically, developed economies have been the major players in international trade. But this is starting to change. Developing economies accounted for 42% of world merchandise trade in 2015; a 9 percentage point increase since 2005.26

Asia will continue to be a strong spur for trade with policy reforms to address and encourage investment creating a firm base to encourage future growth.

This shift is likely to intensify in coming years, as Asian economies continue to grow and mature. We predict that China will continue to be the biggest trading partner for Australia through to 2025, and India will jump to third spot by 2025 (as seen in Chart 3). Indeed, China is also expected to overtake Australia as the top export destination for New Zealand by 2025 (as seen in Chart 4). This is reflected globally, with China overtaking the United States as the largest trader of goods in the world in 2013.27
The Future of Trade: Are we ready to embrace the opportunities?

Chart 3: Australia’s top five export markets

<table>
<thead>
<tr>
<th>Rank</th>
<th>1995</th>
<th>2005</th>
<th>2015</th>
<th>2025</th>
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<tbody>
<tr>
<td>1</td>
<td>Japan</td>
<td>Japan</td>
<td>China</td>
<td>China</td>
</tr>
<tr>
<td>2</td>
<td>United States</td>
<td>China</td>
<td>Japan</td>
<td>Japan</td>
</tr>
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<td>3</td>
<td>Korea</td>
<td>United States</td>
<td>United States</td>
<td>India</td>
</tr>
<tr>
<td>4</td>
<td>New Zealand</td>
<td>Korea</td>
<td>Korea</td>
<td>United States</td>
</tr>
<tr>
<td>5</td>
<td>Singapore</td>
<td>New Zealand</td>
<td>India</td>
<td>Korea</td>
</tr>
</tbody>
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Chart 4: New Zealand’s top five export markets

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<th>Rank</th>
<th>1995</th>
<th>2005</th>
<th>2015</th>
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<td>1</td>
<td>Australia</td>
<td>Australia</td>
<td>Australia</td>
<td>China</td>
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<tr>
<td>2</td>
<td>Japan</td>
<td>United States</td>
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<td>Australia</td>
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<td>3</td>
<td>United States</td>
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<td>Korea</td>
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<td>China</td>
<td>Korea</td>
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This trend, combined with economic growth in the Asia-Pacific region, as well as Australia and New Zealand’s proximity to Asia, has contributed to a shift in the composition of our trading partners. Since 1995, Australia and New Zealand have increasingly traded in the Asia-Pacific region. Even now, survey results show that 40% and 50% of Australian and New Zealand businesses respectively had suppliers located in Asia, and over 50% and 60% respectively had customers in the region.

Technology

The impact of digital technology is underpinned by its ability to remove barriers – whether they be to innovation, access, choice or efficiency. From products and services to information and communication, we now have unprecedented access to a broader range of products and services, and this access is becoming more convenient, faster and cheaper.

New Zealanders spent an estimated NZD743 each online in the 12 months to April 2016, while Australians spent an estimated AUD856 each online in the 12 months to September 2016. This spend is underpinned by increased access and convenience.

Direct sales are only one part of how digital tools are changing the way organisations engage with both current and potential future consumers.
Chart 5: Growth in demand for data

Chart 6: Technologies with the largest impact on business objectives
The Future of Trade: Are we ready to embrace the opportunities?

Around 90% of marketers have reported that social media is important to their business for engaging with customers. Engagement via social media is also the preferred method for almost one-third of customers.

Other emerging technologies may also have a significant impact on trade. 3D printing, robotics, drones and driverless cars will all contribute to significant growth in the digital economy, which is expected to be worth nearly AUD140 billion by 2020 in Australia alone. These technologies will disrupt markets and businesses globally. They will support new business models, some of which may support trade through the import and export of new products, while other technology may make some elements of trade obsolete or less significant.

Policy

After the devastating impact of World War II, the General Agreement on Tariffs and Trade (GATT) was signed in 1947 as a way of promoting international peace.

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Figure 1: The evolution of international trade from 1944 to 2016

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The GATT represented the beginning of a global policy focus on enabling trade through multilateral agreement, with signatory countries espousing:

…that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living... contributing to these objectives by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade... ³⁹

With an ever-increasing number of countries involved and ever-widening scope, it has become increasingly difficult and time consuming to agree on multilateral trade policies. Further, as progress was made on reducing tariffs through forums such as the World Trade Organisation (WTO), “behind-the-border” barriers, which are often more effectively negotiated bilaterally, have received increasing focus. As a result, the 1990s and 2000s saw a proliferation of bilateral agreements and regional trade agreements, as seen in Chart 7. As opposed to multilateral agreements that sought to include as many countries as possible, both bilateral and regional agreements seek to arrange preferential treatment between trading partners, without the requirement to extend these preferences under most favoured nation (MFN)³ clauses. Today, there are more than 250 free trade agreements in force globally.⁴⁰

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³⁹ MFN clauses ensure a country’s trading partner will not be treated less advantageously than any other trading partner with MFN status by the promising country. Members of the WTO accord MFN status to each other.
However, the proliferation of free trade agreements needs to be viewed in a broader policy context. In particular, while many accept the benefits of specialisation which arise from trade, there are concerns about the distributional impacts of trade. While the pie is generally agreed to be bigger, how well is it being shared?

In a more economically open world, it can be more difficult for high wage countries to compete in some product manufacturing, because developing countries with lower wages can often produce goods at a lower cost. This has led to increasing concern about the impact of trade on employment, job security, wages and income inequality – both within and between countries.

The tide of economic nationalism is rising. More free trade agreements are being pursued by Australian and New Zealand governments. Yet in the last 12 months, we have seen strong popular reactions against some aspects of trade – as seen in the votes for Brexit and President Trump. These results were not expected, at least by mainstream media. This shows that concerns about inequality and job security are real, and there are aspects of trade which are now at the forefront of the policy agenda (rather than just occurring in the background as has previously been the case). Over the next couple of years we will see the extent to which these concerns are reflected and implemented in trade policy changes.

With rising concerns about the costs to the domestic economy of activity which has been displaced through more open trade regimes, polls suggest increasing reservations from the public about the benefits of trade. In 2015, nearly a third of Australians viewed the free trade agreements with Japan, Korea and China as bad for the economy. Although not directly comparable, this is a significant change to a decade ago when only one in five believed that a free trade agreement with China would be bad for the Australian economy. This wariness about the distributional concerns over trade has led to a conflicting rise in trade-facilitating measures, despite the number of trade-restrictive measures in force increasing over the last six years.

**Chart 8: Opinions on free trade agreements**

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<th>Positive</th>
<th>Negative</th>
<th>Neutral</th>
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<tr>
<td>2005</td>
<td>51%</td>
<td>20%</td>
<td>29%</td>
</tr>
<tr>
<td>2015</td>
<td>48%</td>
<td>30%</td>
<td>22%</td>
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SPOTLIGHT ON AUSTRALIAN BEEF AND NEW ZEALAND DAIRY INDUSTRIES

Various factors have come together to intensify trade. This can be seen in the Australian beef and New Zealand dairy industries. In 2015, Australia was the world’s largest beef exporter – exporting 1.29 million tonnes.47 Meanwhile, dairy is the highest valued export for New Zealand at NZD11 billion in 2015.48

A number of key drivers contribute to the success of these exporting industries.

**Consumer preferences** – The rapid increase in incomes in Asia, especially from China, has led to increased demand for high quality dairy and beef products.

**Free trade agreements** – A number of recent agreements have improved market access for Australian and New Zealand exporters. Australian agreements with ASEAN in 2010, Japan in 2014 and China in 2015 have led to reductions in beef tariffs for those countries. New Zealand dairy exporters have also benefited from agreements with China in 2008 and ASEAN in 2010.

**Technology** – New vacuum seal packaging can be used to extend product shelf life for Australian beef exports being shipped to Asia and prevent freezer burn that occurred with previous packaging.49 Meanwhile, recent refrigeration developments have created the potential for New Zealand to export fresh milk as opposed to powdered milk.50

**Intermediary shifts** – Dairy products from New Zealand’s Fonterra use e-commerce platforms to connect directly with customers in Asia.51 In late 2015, Bindaree Beef Group used online platform JD.com to be the first to offer Chinese customers chilled, retail-ready Australian beef directly online.52
To trade or not to trade?

A rising tide of economic nationalism overseas has begun influencing political choices that impact on trade policy – from the US election to Brexit. Yet further trade liberalisation in Asia could be a powerful counterbalance to these international sentiments for global trade.
Australia and New Zealand have sought to increasingly engage in trade through WTO membership, with ten and eight trade agreements in force respectively, as well as membership in other trade-promoting and regional agreements. The bulk of these agreements are with countries located in the Asia-Pacific region (as pictured in Figure 2 and Figure 3).

Figure 2: Australian trade agreements in force$^{53}$
These trade agreements mean that many of the traditional barriers to trade – like tariffs and subsidies – have already been removed or substantively reduced. This has led to Australia and New Zealand having low average tariff rates over all goods of 1.83% and 1.38% respectively.\textsuperscript{55}

As the political environment and the nature of trade have changed, trade agreements have also evolved. They have gone from multilateral to bilateral and regional, and their focus has moved from merchandise and tariffs to services and behind-the-border trade barriers. Various multilateral organisations and agreements, such as the Trade Facilitation Agreement, World Customs Organisation, and the currently under negotiation Trade in Services Agreement have also helped facilitate reductions in non-tariff barriers.

But other barriers – like lack of internationally recognised accreditation, intellectual property protection and domestic regulations – remain. These behind-the-border barriers to trade can be significant but hard to address.
SPOTLIGHT ON THE BENEFITS OF BILATERAL AGREEMENTS

Various groups, including the Productivity Commission, have called into question the benefits of the Australian Government’s focus on pursuing bilateral trade agreements. One particular concern is that some sensitive industries may be omitted from consideration during trade agreement negotiations to ensure an agreement is reached.56

The Commission has stated that the benefits promoted from previously proposed trade agreements were sometimes “exaggerated” before negotiations were concluded. In addition, complex rules of origin in Australia’s preferential trade agreements are likely to impede the ability of businesses to use the agreements.57

The Productivity Commission has argued that multilateral negotiations (such as the existing Doha Negotiations facilitated by the WTO) could create greater benefits, and that many of the gains from trade agreements can be achieved through unilateral action.

For example, estimates suggest the benefit from removing barriers in the Trade Facilitation Agreement could reduce trade costs by between 12.5% and 17.5%.58 The New Zealand Institute of Economic Research found that non-tariff measures impose a cost of USD5.9 billion on New Zealand exporters for trading in the APEC region alone.59

Trade agreements are seeking to address these issues, and typically include sections and various side-letters promoting trade in services, and the encouragement of mutual recognition arrangements for professional services.

For example:

- the China-Australia Free Trade Agreement includes reducing barriers to market access in services and longer-stay business visas.60
- the Singapore-New Zealand Free Trade Agreement includes terms which reduce business costs and red tape associated with customs processing, competition law, and technical and quarantine standards.61

Until recently, governments have sought further reductions in barriers to trade, largely with the popular support of their communities. For example, the Trans-Pacific Partnership (TPP) was aimed at reducing barriers to international trade and investment, with the bulk of the agreement focused on reducing non-tariff barriers, such as intellectual property enforcement, as well as consumer protection and privacy.62
But there has been a change in popular opinion – and policy. Increasingly, governments and individuals are questioning the benefits of trade (and trade agreements), and noting the costs. In the USA and the UK, this is starting to be reflected to some extent in policy. One of President Trump’s first actions in office was to sign an executive order removing the USA from the TPP.

But obviously, trading businesses think differently. Of the businesses who think that free trade agreements have had an impact on their business, most thought that the impact was positive. However, of those surveyed, 64% of Australian and 72% of New Zealand businesses thought that free trade agreements had no impact on their business, a neutral impact with the positives and negatives balancing each other out, or they were not sure of the impact.63

PRESIDENT TRUMP’S STATEMENTS ON TRADE

The recent election in the USA marked a noticeable shift in tone away from the benefits of trade in both major party candidates’ remarks. President Donald Trump stated during the campaign:

“Our politicians have aggressively pursued a policy of globalization, moving our jobs, our wealth and our factories to Mexico and overseas. Globalization has made the financial elite, who donate to politicians, very, very wealthy.”64

President Trump’s policy platform included significant changes to US trade policy, including promises to:

• withdraw from the Trans-Pacific Partnership (enacted on day one in office)65
• tell NAFTA partners that the USA intends to immediately renegotiate the terms of that agreement to get a better deal for its workers, and if they don’t agree to a renegotiation, the United States will submit notice that it intends to withdraw from the deal66
• instruct the Treasury Secretary to label China a currency manipulator.67
This might be due, in part, to a lack of understanding about the free trade agreements in force. A separate survey of 227 Australian businesses found that two-thirds of businesses did not understand or use free trade agreements.

The declining enthusiasm for trade agreements is also evident in New Zealand, where support for free trade agreements with Asia fell 5% last year. However, New Zealand has higher overall levels of support for free trade agreements, with 79% of New Zealanders in favour.

**Looking forward**

There has been increasing concern about sharing the benefits of trade. A greater focus on inequality in both developed and developing countries has called into question aspects of how gains from trade are shared, and the structural employment impacts of trade agreements have attracted greater attention, particularly in times of economic hardship. Indeed, even the WTO recognises that trade can contribute to increasing rates of unemployment in selected areas and increasing income inequality.

Evidence suggests that there is an increasing use of non-tariff barriers that restrict the capacity for trade. Of the 2,835 trade restrictive measures recorded for WTO members since 2008, only one-quarter had been removed by mid-May 2016. This trend towards less liberal trade policy is likely to continue in key trading partners over the coming years.

Businesses and individuals are increasingly uncertain about the benefits of trade agreements. This
can be seen through survey results shown in Chart 9, where over twice the number of businesses currently trading preferred the current policy settings compared to those wanting further free trade agreements. The President of the European Council reflected this sentiment when he stated that the EU would be unlikely to initiate any further trade agreements unless the European people were convinced of the benefits of these agreements.\textsuperscript{74}

In considering future trade agreements, it is important for governments to weigh the time and expense associated with negotiating free trade agreements against the proportion of businesses and individuals who will benefit from the agreement, as well as the value of these benefits. Post-Brexit there is potential for both Australia and New Zealand to negotiate a free trade agreement with the UK.

![Chart 9 Desired policy by businesses](image)
SPOTLIGHT ON BREXIT

The decision in June 2016 by the British public to leave the European Union will affect the UK’s trade relations, including trade with Australia and New Zealand.

Two-way trade between the UK and Australia was worth AUD27.0 billion in 2015–16 and is Australia’s third largest service export destination. Meanwhile, the value of trade between New Zealand and the UK (including imports and exports) was NZD2.5 billion in 2015–16.

Brexit provides an opportunity for both countries to negotiate a free trade deal with the UK once formal notification for the withdrawal from the EU is provided. Bilateral negotiations are expected to be more attainable than negotiating a regional trade agreement with the entire EU bloc.

Also, the possibility of a free trade agreement not being reached between the UK and the EU means there could be an increased demand for Australian and New Zealand exports.

However, Brexit has created and will continue to create uncertainty in the UK economy as conditions on trade, immigration and investment are negotiated.

As trade agreements stall, countries continue to pursue other methods of trade facilitation that can be achieved outside of negotiated trade agreements, hence avoiding some of the political difficulties of those agreements. For example, authorised economic operators (AEO) programmes are being used by countries to reduce non-tariff barriers to trade at the border, while mutual recognition agreements for professional accreditation are being pursued by industry bodies, benefiting from the support of governments and other regional bodies.

As an example of the benefits available from such initiatives, in 2013, almost 1/3 of all New Zealand exports originated from authorised exporters under AEO programmes. As a consequence, New Zealand exporters were three and a half times less likely to see their goods held up for examination at a port in the US than Australian counterparts, despite Australia having a free trade agreement with the US.

Australia started its own AEO programme, Australian Trusted Traders, in July 2016. By 2020, Department of Immigration and Border Protection modelling predicts there will be over 1,000 businesses participating in the programme, representing 30% of Australian trade by volume and 50% by value.

Developing countries are also likely to play an increasing role in international trade as incomes rise, leading to higher demand for products and also developing infrastructure necessary to engage in trade.

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ii An AEO programme is a partnership between government and industry in which the accredited entities receive faster processing time at customs in exchange for accredited transparency in the supply chain of the product.
QUESTIONS FOR POLICY MAKERS

1. How can you support and encourage multilateral agreements, including those which are currently under negotiation, such as the Regional Comprehensive Economic Partnership (RCEP)?

2. How will you enforce consumer protection, intellectual property and other standards in a more globalised economy?

3. Which industries are most likely to be outcompeted by international businesses? How could transitions to other industries be managed?

QUESTIONS FOR BUSINESSES

1. How will recent shifts in trade policy in the UK and USA impact on your business?

2. Where will your most important customers and suppliers be geographically located in ten years’ time? What steps will you take to access new suppliers and/or customers?
The role of industry in trade

The trend towards trading in services will continue to intensify, facilitated by new technologies and delivery methods.
The value of trade in most countries has increased over time, with exports and imports representing an increasing proportion of world GDP.\(^{61}\) Similarly, international transactions have been increasingly important to Australia and New Zealand’s economies, as shown in Chart 10.

This is the result of a number of factors – like increasing wealth, improved infrastructure and decreasing trade barriers in many countries. But the industrial and economic composition of a country can also be an important factor in shaping the importance of trade to an economy. It can impact on the demand for a country’s goods and services (as well as the country’s demand for foreign goods and services) in the global market.

In trade, both Australia and New Zealand have benefited from increasing global demand for primary products – mining commodities, dairy and protein. Much of this growth has come from China – a result of the need for fuel to support its rapid industrialisation, as well as premium quality food to meet the demands of a growing middle class.\(^{83}\)

Both Australia and New Zealand also have relatively high wages. This has impacted on our ability to compete in product manufacturing where labour costs tend to be a high proportion of overall costs – like textiles, electronics and cars. With domestic demand for these products increasing, the result...
Australia’s total exports: A$312.3 billion
Goods 78%
Services 22%

New Zealand’s total exports: NZ$70.9 billion
Goods 70%
Services 30%

Australia’s GDP composition
Goods 23%
Services 77%

New Zealand’s GDP composition
Goods 20%
Services 80%

Chart 11: Goods and services share of exports and GDP for Australia and New Zealand, by value, for year ended June 2016

has been a growing rate of imports of manufactured items as a means of satisfying consumer preferences for more products at lower prices.

As a result of the increased competition in these areas and shifting demand patterns, both Australia and New Zealand have diversified, with knowledge-intensive services constituting an increasing share of our economies.

But this hasn’t been fully reflected in our trade composition to date. Service exports currently represent only 22% and 30% of Australian and New Zealand exports respectively. This may be due to a number of factors, such as behind-the-border issues, which can restrict trade in services. As an example, mutual recognition of international qualifications remains a barrier that can prohibit the movement of some professionals, such as doctors and lawyers.
SPOTLIGHT ON BORN GLOBAL

Technology has also developed the possibility for businesses to be born global, exporting from their inception. These firms are different from domestic small firms and conventional international firms, in that born global firms selectively invest in projects that are designed to use resources and produce goods and services on a large scale in multiple countries. For example, Orca NZ, Skype and Cochlear are all born global companies.

The number of born global companies is growing, and studies show that firms that originate in industries with higher levels of international competition and high levels of global integration are more likely to be born global.87 This is true for the technology sector, where digital technology has streamlined geographical markets and enabled the development of an international market. As a result, more than 80% of technology start-ups worldwide are born global.88

Another factor is that services, with the exception of tourism, were historically seen as difficult to provide overseas.

But this is changing. Innovative digital technology is helping to break down the geographical barriers to service delivery. Interactive lectures can be delivered online in real-time, and virtual reality can make classes come to life. Organisations can use a peer-to-peer marketplace to find a designer to create a logo or infographic. Back-office functions can be done remotely and integrate seamlessly into existing systems. Assisted by the proliferation of high speed internet, there has also been strong growth in “born global” businesses. It is now possible to trade a whole range of business services across borders.

This is supported by our survey results – shown in Chart 12 – as businesses see technology and digital trends as one of the main drivers of change over the next five years, especially for service-oriented sectors such as finance and insurance.

For open economies like Australia and New Zealand, managing a competitive services export sector is important for supporting our terms of trade and reducing the influence of commodity prices and currency volatility on our income from trade.

The Productivity Commission noted that rising incomes in Asia, alongside the average annual 12% growth in the value of service exports from Australia to China over the ten years to 2014, represent an increasing source of demand that will continue to drive Australian service exports.89

New Zealand’s shifting industrial structure is starting to be mirrored in trade statistics. As the services sector has grown, so too have service exports. In 1951 service exports accounted for just 5% of New Zealand’s total exports; by 2016, they had grown to represent almost a third of exports.90
Chart 12: Top ranked drivers of change over the next five years by industry
SPOTLIGHT ON BORDERLESS LEARNERS AND THEIR ECONOMIC IMPACT

The market for international education has grown dramatically in recent years, spurred by demand from an expanding middle class, both in Asia and globally. Australia and New Zealand are well-placed to capitalise on these opportunities. Our well-developed education systems, proximity to Asia, multicultural societies, price competitiveness with key competitors and lifestyle, all make Australia and New Zealand sought-after providers of international education.

Indeed, international education is Australia’s largest service export and fourth-largest export overall, generating AUD18.8 billion export revenue in 2014–15. International education exports are also important to New Zealand, contributing NZD4.2 billion to the economy in 2015–16.

Technology has opened up a whole new range of delivery options which do not require any movement of students or teachers. Online-only courses, partnerships and massive open online courses (MOOCs) are reshaping how education and training services are designed and delivered. These new delivery modes may entice more students to enrol in domestically provided MOOCs, but as the students remain overseas this limits the economic impact of this key export on the domestic economy.

Education is likely to continue to be Australia’s largest service export, with the sector’s contribution to export earnings projected to double to in excess of AUD33 billion by 2025. While Australia’s key onshore markets (China and India) will continue to be important over the next decade, there are also great opportunities from the borderless market that will require the industry to be diversified and innovative to capture the opportunities.

Looking forward

Services will continue to dominate the Australian and New Zealand economies. Our forecasts suggest the importance of services will persist. Around four in five Australians are employed in services currently, and this will grow to 2025.

This trend towards trading in services will continue to intensify, facilitated by new technologies and delivery methods. We forecast that Australian service exports will grow by an average 5.8% per annum to 2026, reaching nearly a quarter of total exports within five years. Meanwhile, New Zealand service exports are also expected to see solid growth. This will bring new opportunities for businesses and greater access for local consumers.

Continued growth in demand for services such as education and tourism, will create opportunities for Australia and New Zealand. However, there are also opportunities in other industries such as professional services, and legal and intellectual property-related services. These are not only important in themselves but also for supporting growth in the export of both goods and services.
However, this is not to diminish the continued importance of trade in primary goods. As growth in Asia continues there will be continued high demand for some of our core exports. Imports will also continue to dominate the provision of many manufactured goods in Australia and New Zealand, while offshoring will increasingly be used as a method to gain access to skilled labour overseas.

**SPOTLIGHT ON OFFSHORING**

Offshoring has become increasingly important to Australian and New Zealand service sectors. In 2015, Australia imported over AUD4 billion in business services, while New Zealand imported over NZD4 billion.\(^97\) The 2015 *What is the Future for Offshoring?* publication found that 50% of businesses thought that developments in big data, hosted virtual desktops and cloud computing would increase outsourcing in the future.\(^98\)

Another factor increasing outsourcing is the burgeoning middle class in Asia (expected to reach 3.2 billion people by 2030)\(^99\) with increased rates of higher educational attainment. This means that the scale and complexity of tasks that can be outsourced has increased.

The pool of skilled workers globally is expanding and it is increasingly easy for business to access this pool as offshoring becomes more common. The potential for adding value through offshoring is large for both Australian and New Zealand businesses in knowledge-intensive industries. It also provides an opportunity for businesses to shift operations where there are comparative advantages.

**QUESTIONS FOR POLICY MAKERS**

1. How can you better work with business to understand the barriers to trade (such as customs processes) in each industry and with each trading partner?
2. What barriers to service export growth in key industries still exist (such as visas for education in Australia and tourism in New Zealand)? Should these be re-examined?

**QUESTIONS FOR BUSINESSES**

1. What will be the level of global competition in your industry and where will it come from? How will you navigate through this?
How will technology change the future of trade?

The impact of emerging technologies on trade could be mixed. Driverless cars could decrease transport costs for exporters where as 3D printing could make local manufacturing a viable option for some products.
Technology is now fully embedded in the fabric of business strategy and operations. It’s no longer just a tool but a critical part of business infrastructure. Harnessing this potential can help businesses become more efficient and competitive. A clear majority of the businesses surveyed were optimistic about how technologies would assist in reaching their business goals.

Digital technology has significantly changed what gets traded, how trade occurs and the direction of trade. Trade has already been revolutionised by the internet; for example, nearly 20% in Australia\textsuperscript{101} and 45% in New Zealand\textsuperscript{102} of online spending is directed to an international retailer.

And globally, more is yet to come, with new technologies being introduced and adopted. For businesses in Australia and New Zealand, these technologies could be transformative. They can create more efficient production processes, enable businesses to reach new customers, or reduce the tyranny (and cost) of distance. Beyond helping businesses to be more productive, these disruptive technologies could shift the composition of trade, by changing what it takes for a business to be competitive.
ALL BUSINESSES ARE DIGITAL BUSINESSES

The adoption and potential of new technologies in business is not limited to white-collar workers or start-ups.

Deloitte Access Economics’ 2015 report, The Connected Continent II, found that the digital economy is changing from a standalone industry to being embedded in the core operations of businesses across the economy – from traditional areas such as retail and manufacturing, to services such as banking and business services. And having digital technology embedded in the fabric of the business model makes businesses more likely to trade. For example, digitally advanced small and medium sized businesses are seven times more likely to be exporting compared to those that rely on traditional means of marketing, and product and service distribution.

3D printing has developed significantly since its earliest applications in the 1980s. Today, it allows designers, architects, manufacturers and retailers to produce increasingly complex objects on demand. And the materials that can be printed are expanding – from traditional plastics to metals, porcelain and new thermoplastic composites that contain carbon nanotubes and fibres.

3D printing helps reduce the need for labour – and thus costs – in producing manufactured goods such as cochlear implants (see box below). Instead of requiring a plant, expensive capital equipment and a production line, some goods will be able to be produced in an office or home, with nothing but a computer, printer and the printing materials.

CASE STUDY – COCHLEAR IMPLANT 3D PRINTING

The medical industry has been using 3D printing to help millions of people worldwide to regain their hearing. Unwanted inflammatory side-effects are associated with implanting cochlear devices produced using traditional manufacturing techniques. Researchers have used 3D printing technology to reduce these side effects. 3D printing enables the production of a polymer scaffold, mixed with anti-inflammatory medication that is able to be implanted along with the cochlear implant to treat the initial swelling. The scaffold then gradually breaks down in the body.
The first driverless trucks are already being used by Rio Tinto in the Pilbara to move iron ore. These trucks were imported from Japanese multinational firm Komatsu, underscoring the international nature of the industry.

Market commentator Giuliano Sala Tenna explained that “what they are really looking at is what is going to be required for the next decade to stay profitable. This is one of the things they need to do in order to stay profitable through the entire cycle.”

Self-driving smart trucks completed a trip from Sweden to the Netherlands in 2016. Because they can operate 24 hours without the need for rest breaks, estimates suggest they could reduce costs by up to 40%.

For high wage economies like Australia and New Zealand, this could represent a significant opportunity. By allowing manufacture of the required inputs in-house, 3D printing could reduce our reliance on imports for manufactured goods, and potentially reduce the involvement of labour required in the production process. With a lower local production cost, this technology may have significant implications for trade.

On the other hand, some new technologies can be seen as greater facilitators of trade. Drones and driverless cars could provide some efficiencies to exporters in Australia and New Zealand by reducing the time needed to deliver goods to ports and airports – and thus to final customers. In both Australia and New Zealand, getting goods to a port or airport can take days. Improved transport speed is particularly important for primary goods, where delays can impact on quality and freshness.

With car makers globally pumping billions into research and development, driverless cars could soon become a reality. Indeed, Volvo, Toyota and Honda all plan to unveil fully driverless car models by 2020.

Looking forward
This section has highlighted some “blue sky” technologies coming over the horizon. Technologies like these will enable new business models, reduce transaction costs and open up access to new global markets. This offers significant opportunities for businesses. 3D printing could reshape the competitiveness of manufacturing in high wage countries. Technologies such as these will affect selected industries and potentially divert current trade flows.
SPOTLIGHT ON DIGITISING CUSTOMS

Digital technology has already accelerated trade through the online transfer of customs documents, and this trend will continue to grow. However, many stages in the customs process require physical presentation of documents, manual transfers of data from paper into systems (such as permit applications) and visual matching of data (like permit numbers), all of which can slow trade.

Australia and New Zealand are seeking to address these barriers. For example, Australia has introduced a single point of data entry for numerous agencies such as customs authorities, quarantine authorities and meat producers.111

The increased efficiency from the digital transfer of customs data could provide an increased incentive to buy and sell overseas. Estimates suggest that decreasing the mean shipment time from 23 to 20 days increases the probability of any one product being exported by 0.13%, and that every added day in transit is equivalent to a tariff of 0.6% to 2.3%.112

There will be new opportunities for domestic firms to take part in global production services as technology allows work to take place across further distances. For instance, Nighthawk Radiology Services relies on broadband technology to employ radiologists in India and Australia to provide diagnostic interpretation of CT images taken in the US.113

But these benefits won’t come automatically. Businesses will need to embrace and harness these technologies in order to more specifically meet customer needs in a changing competitive landscape.

QUESTIONS FOR POLICY MAKERS

1. What existing trade processes (such as customs procedures or import permits) are still manual or paper-based? How can these be automated or digitised?
2. Should government play a larger role in assisting entrepreneurs to connect with international markets?

QUESTIONS FOR BUSINESSES

1. What technologies will most significantly affect your ability to compete internationally for customers and suppliers?
2. Are you able to access overseas suppliers directly at a cheaper cost? What activities would be more cost effective if offshored or outsourced?
The changing intermediary

New technology will shape how - and through whom - goods and services reach their final destinations. Intermediaries will play an increasing role in international trade, with significant growth in the use of online platforms.
Today, any business or individual can be an exporter or importer. Global shipping and postal companies – like TNT, DHL and FedEx – mean that an individual or business can easily and directly transport goods overseas efficiently to customers. Of the businesses surveyed, more than half delivered goods directly to customers.\textsuperscript{114}

![Chart 14: Businesses methods of delivery\textsuperscript{115}]

But this was not always the case. Traditionally, international trade required the involvement of a specific type of intermediary – a “pure trader”. These companies were not transporters or producers of goods – their sole business activity was buying from and/or selling to overseas. Local producers would sell goods to an exporter, who would then sell on to a foreign importer, before the goods reached a foreign consumer. Sometimes the role of importer and exporter was consolidated – like in the case of the British East India Company. And in some economies, intermediaries are still the dominant means of exporting. Around 20% of China’s trade goes through an intermediary.\textsuperscript{116}

These pure trader intermediaries play an important role in supporting global trade. Establishing an export network and directly exporting goods can be associated with high establishment costs.\textsuperscript{117} These can be prohibitive for firms which do not have sufficient scale.\textsuperscript{118} Intermediaries can help firms to overcome these costs, by closing the gap between buyers and sellers\textsuperscript{119} through transport and repackaging.\textsuperscript{120}

But more change is coming. The dominance of traditional intermediaries is being eroded. Online marketplaces for goods and services – like eBay, Alibaba and Airtasker have become a feature of international trade. Using new infrastructure – including high speed...
internet – they are competing with traditional intermediaries to facilitate trade.

These new digital platforms directly connect buyers and sellers. By facilitating transactions where sellers arrange the transport and terms of transactions, these platforms can support low value, high volume international trade.

And this facilitation seems to be encouraging more businesses and individuals to expand their platforms and trade internationally. In 2014, 78% of retail sellers on ebay.com.au sold their products directly overseas, compared to only 6% of Australian retail businesses and 7% of New Zealand retail businesses. That said, Australian and New Zealand retailers have been rapidly expanding their online presence more recently.

**Looking forward**

Clearly, new technology will continue to shape how – and through whom – goods and services reach their final destinations. This is particularly true for internationally traded goods, where intermediaries can play an important role in helping businesses reach their target markets.

And exporters see this importance increasing over time. Of those surveyed, nearly one-fifth thought that online platforms would be their main means of reaching consumers in the next five years – almost double the proportion who are using them today, as seen in Chart 16.

While this will not overtake the dominant method of delivering direct to customer, the survey results suggest that online platforms will be a growing trend.

Propensity to use intermediaries appears to be correlated with business size: smaller businesses are more likely to sell directly to customers than larger businesses. However, more businesses of all sizes are expected to be reaching their customers primarily through intermediaries – whether traditional or online – in the next five years.
This suggests that intermediaries will play an increasing role in international trade in coming years. Use of traditional intermediaries will remain a significant delivery method, yet the most significant growth will be in the use of online platforms. This growth will continue to challenge the dominance of direct-to-customer methods of trading.
QUESTIONS FOR POLICY MAKERS
1. How will the trade-facilitating infrastructure needs of business change in the future and is there a role for government? How can these needs best be met?
2. What are the consequences of global value chains and increasing use of online platforms for taxation revenue?

QUESTIONS FOR BUSINESSES
1. How can you use online platforms to more cost effectively explore the potential of new markets?
2. If you are selling directly to a business, how can you tap into your customers’ overseas networks and affiliates?
The ethical consumer

Whilst traditional considerations, like price and quality, will continue to dominate consumer decision making, businesses will need to be increasingly mindful of the growing awareness and value of ethical and environmental considerations by consumers.
Individuals, businesses and governments have always considered a range of factors when deciding what to purchase and from whom. According to the businesses surveyed, traditional considerations – like price, quality and customer service – remain key to consumer decision making. For example, more than two-thirds of businesses think that quality is the key factor that consumers consider when choosing whether to purchase their products or services.\textsuperscript{128}

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<th>Top ranked drivers of change over the next five years by industry\textsuperscript{127}</th>
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<td>Quality</td>
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But as consumer preferences have changed, so too have the factors influencing purchase decisions. Ethics and environmental concerns can play an important role in decision making. Consumers around the world are saying loud and clear that a brand’s social purpose is among the factors that influence purchase decisions.\textsuperscript{128} – Nielsen

For example, nearly one-quarter of New Zealanders see climate change as an important problem facing the world in the future.\textsuperscript{129} And this is influencing purchasing decisions – over one-third of New Zealanders are likely to boycott companies that are not environmentally friendly.\textsuperscript{130} Similarly, nearly one-third of Australians are more likely to switch to green cleaning products and grow fruit and vegetables to reduce their personal impact on the global ecosystem.\textsuperscript{131}
Many consumers claim that they are willing to pay more for products and services produced by companies that are committed to positive social and environmental impact. By region, the propensity to pay more for a brand known to be socially responsible is strongest in Asia-Pacific (64%), suggesting that ethical considerations may be more highly valued than in other regions.

Despite the sentiment, evidence shows that many consumers choose not to pay a price premium to purchase ethically in practice. A study of consumer purchasing behaviour across 26 stores of a major United States grocery chain found a remarkable variability in consumer willingness to pay higher prices for goods which are more socially, ethically and/or environmentally responsible.

This variation can also be across different goods. For example, shoppers are willing to pay a price premium for Fair Trade certified coffee of 23% to 38%. In comparison, shoppers are only willing to pay a low premium for other Fair Trade labelled goods, such as honey, tea, wine, sugar, nuts and oilseeds.

With increasingly diversified supply chains, however, ethical sourcing can be hard to implement. Even organisations who are committed to minimising environmental and social impacts may find it difficult to verify the ethical performance of their direct suppliers, let alone those further back in the supply chain.

Ethical and environmental standards can offer businesses a way to differentiate their products and brand. But for businesses who get it wrong, the damage can be significant.
SPOTLIGHT ON CONSCIOUS CONSUMERS: THE COSTS OF GETTING IT WRONG

In a globally connected marketplace, brand reputation plays an increasingly important role. The ubiquity of social media means that one negative voice can be heard – and repeated – worldwide. Unethical or unsafe behaviour – even when it is by a supplier, rather than the business itself – can have big consequences.

In the early 1990s, Nike faced extensive criticism around its treatment of factory workers. As a result, Nike’s earnings fell by 69% in the 1998 fiscal year, forcing the company to lay off workers and reconsider its strategy. Nike created the Fair Labour Association, a non-profit group with representatives from industry, and human rights and labour organisations. They set up an independent monitoring system for the minimum age of workers and a 60 hour work week. In 2005, Nike became the first company in the industry to publish a complete list of factories it contracts.

Similarly, the 2013 collapse of the Rana Plaza factory building in Bangladesh drew global scrutiny on dangerous workplaces in the local garment industry. This led to the development of the Accord on Fire and Building Safety – a legally binding agreement including trade unions and retail fashion companies. As a result of the Accord, almost 2,000 factories in Bangladesh have been inspected to check for structural, electrical and fire safety. Retailers who are signatories to the agreement are required to stop sourcing from factories that fail to make the required improvements.

Looking forward

Traditional considerations – like price, quality and customer service – will continue to dominate customer decision making. Yet ethical and environmental considerations will become increasingly important to consumers. Businesses will need to be increasingly mindful of the growing awareness and value of ethical and environmental considerations. Less than 3% of businesses currently trading believe that ethical considerations are the top consideration for their customers. Looking to the future, this share is expected to marginally rise over time.
While customers are not currently very willing to pay more for ethically sourced goods, the cost of getting it wrong is only likely to be magnified over time. In an increasingly globally interconnected world, brand and reputation are more important. The value of brands was estimated at AUD125 billion for Australia’s top 100 companies. Anything which threatens this could be devastating, so businesses will be increasingly sensitive to information that may impact on their brand.

Complex supply chains make it challenging for consumers to assess and verify the ethical claims made by different products or brands. However, new technology such as blockchain could make supply chains increasingly transparent, helping consumers and businesses to make informed sourcing decisions which may reflect ethical and environmental factors. Independent labelling and certification will also play an important role in assisting consumer decision making and cutting through the noise.

Chart 19: Ethical and environmental considerations as the primary driver of consumer decisions (as % of businesses)

Complex supply chains make it challenging for consumers to assess and verify the ethical claims made by different products or brands. However, new technology such as blockchain could make supply chains increasingly transparent, helping consumers and businesses to make informed sourcing decisions which may reflect ethical and environmental factors. Independent labelling and certification will also play an important role in assisting consumer decision making and cutting through the noise.
SPOTLIGHT ON BLOCKCHAIN

Blockchain is a type of distributed ledger technology which keeps a log of transactions by a number of different players, without requiring the intervention of a trusted third party. The recently released paper *The Future of Blockchain* explores how, among other benefits, blockchain is offering some organisations an alternative decentralised method of tracking goods and services through the supply chain, meaning customers and businesses can verify the provenance of the goods and services they are buying.

Sydney-based company Full Profile is piloting distributed ledger technology in the grains industry. The goal will be to provide field-to-plate provenance tracking, so that buyers and consumers can be certain of where their products come from.

These benefits rely on widespread uptake and good governance. However, clearly the technology has significant potential in addressing some of the difficulties associated with ethical sourcing at present.

QUESTIONS FOR POLICY MAKERS

1. What is the role of government in creating and maintaining a national brand?
2. Should government re-examine remaining local content requirements in procurement decisions, such as in infrastructure or defence?

QUESTIONS FOR BUSINESSES

1. How important is ethical sourcing to your consumers and staff? What are the implications for your business operations?
2. What is your plan for managing an unexpected negative incident on your brand or reputation?
Conclusion

Trade will continue to be important in driving economic growth in Australia and New Zealand.

The rate at which Australia and New Zealand agree and ratify new bilateral and regional free trade agreements may slow over coming years. But benefits will continue to flow from those which are already in place. By pursuing other trade-facilitating measures – like authorised economic operators (AEO) programmes – governments could still generate significant benefits as mutual recognition agreements are reached with top trading partners.

Primary goods and commodities will continue to dominate exports for Australia and New Zealand. But new opportunities for exports in services, particularly in Asia, will mean that the composition of our trade will start to more closely reflect the composition of our domestic economy. We forecast that Australian service exports will grow by an average of 5.8% per annum over the decade to 2026. This growth will be driven by key industries, such as education and tourism. For example, export earnings from education in Australia are projected to double, topping AUD33 billion by 2025.

Technology will continue to reduce barriers to trade. New delivery methods will mean that a broader range of goods and services can be traded. For example, 50% of businesses think that developments in specific technologies will increase outsourcing in the future. Costs of transport will be reduced as driverless cars and drones help to reduce labour costs and get goods overseas in a more timely way – which can improve the value of exports.

But it could also disrupt the current composition of trade and challenge the status quo on some countries’ fields of competitive advantage. For example, widespread adoption of 3D printing could significantly reduce manufacturing costs, making onshore manufacturing a more attractive proposition.
We can expect the transaction costs of trade to continue to fall, as manual and paper-based processes are digitised. Moreover, online platforms – like eBay, Alibaba and Airtasker – will be increasingly important as facilitators, making it easier for consumers to find what they are looking for, and creating new ways for businesses to access their target markets. The proportion of businesses expecting to use these platforms to reach consumers in five years is double those using them today.

Despite this, purchasing decisions will become more complex for customers. Traditional considerations will remain key – for example, more than three-quarters of businesses think that customer decisions will be driven by price, quality and fitness-for-purpose in five years’ time. But in an increasingly informed and interconnected global marketplace, other factors such as ethical and environmental considerations will become more important.

For businesses, buying and selling overseas continues to be a great opportunity. It can provide access to bigger markets and sales growth, as well as new suppliers and products. And with more participants in the global market, online platforms for trade and new delivery models enabled by technology, more businesses have the ability to trade than ever before.

For government, rising tides of economic nationalism abroad introduce concerns about the future of trade. Overall, international trade delivers a significant national benefit, and therefore should be encouraged and facilitated. However, the benefits do not accrue evenly across society; government should consider how best to support those who are hurt by international trade.

There are justifiable concerns about the best way to facilitate trade. In particular, bilateral free trade agreements can be complex and opaque – and there is little evidence on how many businesses actually use them and benefit from them. Beyond free trade agreements, though, behind-the-border trade facilitation – like mutual recognition and digitising customs processes – could bring significant commercial benefits.

The current landscape – with new technology and more participants in the global market – is conducive to more trade in the future.

Ultimately, international trade has delivered net positives for our economy, businesses and society. To fully seize its potential, though, we need to continue a conversation about how to fully facilitate, embrace and encourage trade and the opportunities it offers.
QUESTIONS FOR POLICY MAKERS

1. How could you support and encourage multilateral agreements, including those which are currently under negotiation such as the Regional Comprehensive Economic Partnership (RCEP)?

2. How will you enforce consumer protection, intellectual property and other standards in a more globalised economy?

3. Which industries are most likely to be outcompeted by international businesses? How could transitions to other industries be managed?

4. How can you better work with business to understand the barriers to trade (such as customs processes) in each industry and with each trading partner?

5. What barriers to service export growth in key industries still exist (such as visas for education in Australia and tourism in New Zealand)? Should these be re-examined?

6. What existing trade processes (such as customs procedures or import permits) are still manual or paper-based? How can these be automated or digitised?

7. Should government play a larger role in assisting entrepreneurs to connect with international markets?

8. How will the trade facilitating infrastructure needs of business change in the future and is there a role for government? How can these needs best be met?

9. What are the consequences of global value chains and increasing use of online platforms for taxation revenue?

10. What is the role of government in creating and maintaining a national brand?

11. Should government re-examine remaining local content requirements in procurement decisions, such as in infrastructure or defence?
## QUESTIONS FOR BUSINESSES

1. How will recent shifts in trade policy in the UK and USA impact on your business?

2. Where will your most important customers and suppliers be geographically located in ten years’ time? What steps will you take to access new suppliers and/or customers?

3. What will be the level of global competition in your industry and where will it come from? How will you navigate through this?

4. What technologies will most significantly affect your ability to compete internationally for customers and suppliers?

5. Are you able to access overseas suppliers directly at a cheaper cost? What activities would be more cost effective if offshored or outsourced?

6. How can you use online platforms to more cost effectively explore the potential of new markets?

7. If you are selling directly to a business, how can you tap in to your customers’ overseas networks and affiliates?

8. How will you reach your customers and suppliers in five years? Will you need to change your method of delivery in the face of international competition?

9. How important is ethical sourcing to your consumers and staff? What are the implications for your business operations?

10. What is your plan for managing an unexpected negative incident on your brand or reputation?
“International trade is an engine for inclusive economic growth and poverty reduction, and contributes to the promotion of sustainable development.”

source: The 2030 Agenda for Sustainable Development, United Nations
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