



THE CHALLENGES AND OPPORTUNITIES OF

ASIA-PACIFIC TRADE

14 -22 PERCENT

INCREASE
VALUE OF
AUSTRALIAN
EXPORTS TO
KEY MARKETS

2017 WAS A BANNER YEAR FOR TRADE GROWTH IN THE ASIA-PACIFIC (APAC) REGION

In fact, the latest data from the Department of Foreign Affairs and Trade reveals that the value of Australian exports to key markets such as China, Japan and the Republic of Korea increased by between 14 and 22 per cent during the 2016-17 financial year, with APAC countries now comprising a little over 75 per cent of Australia's total export market. This reflects the breaking down of barriers within APAC, as well as several emerging opportunities which businesses on both sides of the Pacific have been quick to take advantage of.

If the region's major players - including Australia — can continue to tackle challenges and explore opportunities, there's no reason why the next few years can't see similar or even improved development in Asia-Pacific trade.

So, what are these challenges and opportunities, and what do they mean for Australian businesses and the APAC region?

1. THE US-CHINA RELATIONSHIP

The United States has traditionally been a major trading partner of APAC countries. Over the last few years, however, we've seen a small but not insignificant reduction in the value of APAC's trade with the US, while at the same time, China has stepped in to fill the gap.

In the background, political tension and the introduction of trade tariffs between these two superpowers have the potential to disrupt global markets. This could expose Australian exporters in two ways: a slowing of demand from China (our largest trade partner) and via supply chain links with other Asian countries. It's not all bad news for Australian businesses though, as there's the potential to step up and fill some of the gaps as a neutral partner of both sides.



2. US DISAVOWAL OF THE TRANS-PACIFIC PARTNERSHIP

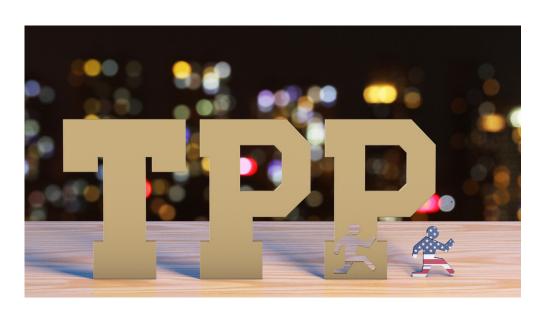
One of the hottest talking points surrounding trade in the Asia Pacific region has been the Trans-Pacific Partnership (TPP) — a deal that aims to reduce tariffs and open up new trading opportunities. While the United States' withdrawal from the deal in 2017 did create some uncertainty around the TPP, an amended deal was eventually signed in March 2018 by 11 countries:

- Australia
- Brunei
- Canada
- Chile
- Japan
- Malaysia

- Mexico
- New Zealand
- Peru
- Singapore
- Vietnam

Known as the TPP-11, this deal offers huge potential to Australian businesses, particularly within the agricultural export sector. After the deal was signed, trade minister Steve Ciobo explained to The Guardian that: "The world will be drinking more Australian wine, eating more Australian beef and using more Australian services thanks to the TPP-11."

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3. CHINA'S BELT AND ROAD INITIATIVE

Alongside the Trans-Pacific Partnership, one of the most important trade projects in the APAC region is China's Belt and Road (B&R) initiative. At an estimated cost of \$5 trillion, the B&R initiative will aim to improve infrastructure, in turn facilitating trade and connectivity in countries along the ancient Silk Road. These include Asia and the Middle East, but also Europe and Africa, with more than 60 nations signed up so far.

The initiative is seen as a key part of the rebalancing of China's economy, as the country moves from a period of growth to a consumption-oriented model that's more sustainable over the long term. While there has been concern from some quarters that this could lead to reduced trade with the rest of APAC, there are benefits to this rebalancing process. These include everything from more regional stability and prosperity to a growing Chinese middle class, who enjoy improved spending power and have been boosting tourism throughout APAC — becoming Australia's top source of tourists in 2017–18.

While the direct impact of the B&R initiative on Australia is not as significant as other parts of the world, the project itself is likely to provide opportunities to businesses, particularly via demand for Australian exported minerals during the initial establishment phase.

4. AGEING POPULATIONS

According to a 2017 Grant Thornton report on trade in the APAC region, roughly a third of business leaders see ageing populations as one of the most significant challenges that will need to be overcome to ensure continued growth. East Asia — and China in particular — is the fastest-ageing region in the world. The effects of this include reduced access to labour and a need to redirect government investment towards support infrastructure.

The most important way to ensure ageing populations don't restrict growth is to create new policies that prioritise education, eliminate traditional retirement barriers and open up new pools of employees. Taking these steps will ensure that East Asia's ability to provide economic stimulus to itself and the rest of the region won't be threatened by the need to cover for vast numbers of elderly dependants.

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5. ACCESS TO GLOBAL SUPPLY CHAINS

Finally, perhaps the biggest opportunity presented by Australia's place in the APAC region is access to some of the world's most important global supply chains, including the electronics, automotive, textile and machinery industries. This will only be strengthened by deals such as a TPP-11 and Belt and Road, which underline the growing economic cooperation within the region and a wider commitment to increasing trade.

In fact, Grant Thornton's report found that 33 per cent of business leaders see increased cooperation as the biggest opportunity for trade within APAC, up 9 per cent from 2016. While Australia sits outside the ASEAN region (Association of Southeast Asian Nations) where much of this change is taking place, Australian firms still see ASEAN economic cohesion as hugely important.

"The ASEAN Economic Community is a thriving and rapidly growing part of the global economy. Trade is central to the agreement, and it is positive that businesses inside and outside ASEAN see greater cooperation there as such a significant growth opportunity," explained Ian Pascoe, Managing Partner at Grant Thornton Thailand.

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