

Preface

The idea behind starting to write this book was simple. Having spent collectively almost 90 years working on different aspects of Australia's trade and economic policy, it was a way of making sense of our own experiences within government, contextualising disparate policy, economic and technological threads, and explaining to ourselves in the first instance how these threads are shaping and reshaping the modern Australian economy.

At the outset we planned to focus on Australia's transition from a protected and increasingly irrelevant country to a more open, prosperous and relevant one with some discussion on medium-term risks and policy choices. But soon into the process of writing, researching and reviewing ideas with officials and experts from business and academia, we found ourselves in a privileged position to write a more ambitious book. Generous access to leading policy makers and analysts inside and outside of government enabled us to write with more authority on the efficacy of current trade policy and tackle more confidently big questions like the global and regional risks to Australia's trade and how trade policy is entwined with foreign policy in shaping and promoting Australia's regional and global interests. It also enabled us to examine (again more confidently) some of the big policy options facing Australia in engaging more closely with the Asia-Pacific region, salvaging outcomes from the wreckage of the Doha Development Round of multilateral trade negotiations and preparing for a potentially bumpy ride on international markets in the decade ahead.

Five years after the onset of the Global Financial Crisis, the global and regional trading environment remains uncertain and

throws up daunting challenges for Australia as the country moves towards the end-phase of the minerals boom. These uncertainties go well beyond the almost daily evidence of volatility in Europe. The strength of the US recovery is a work in progress. Japan's belated attempts to deal with high levels of indebtedness and deflation depend ultimately on whether its political leaders have at last found the conviction to sustain and deepen productivity-enhancing reform over time – something they have shied away from for most of the last two decades. And China's attempts to realign the drivers of its economic growth and move up the value chain should be successful based on recent history, but the danger of falling into a middle-income trap is not trivial.

There also are major uncertainties in the policy framework for global trade and investment, with questions over the effectiveness of international processes in an increasingly multipolar world, the death of the Doha Round in terms of its original mandate and competing regional frameworks for trade in East Asia and the Asia-Pacific region more broadly. At the same time, global business continues to be transformed through finer global value chains. This greatly increases efficiency while increasing the potential for quickly transmitting localised disruptions in production to other links of the chain.

Uncertainty on international markets and the prospect that markets will remain volatile for much of the next decade, and maybe longer, highlights the urgency for Australia of domestic economic reform if real incomes and living standards are to continue rising now that the route to higher incomes from higher terms of trade appears to have been cut off. The Australian economy has been one of the world's most strongly performing developed economies, thanks to the extensive reforms of the 1980s and 1990s and the minerals boom. But the challenges we now face underline the imperative of more economic and social reform to lift productivity.

There is no magic formula for doing this, but strengthening Australia's whole-of-government systems within and between all levels of government is vital. Trade and international perspectives

need to connect more smoothly with the priorities and strategies for domestic economic and social reform and with the needs and capacities of business. This applies as much to ensuring that the right hard and soft infrastructure is developed, as it does to achieving ‘modest’ 21st-century objectives like scrapping remaining tariffs, putting services on the trade and economic pedestal they deserve, and using effective social policies and targeted public diplomacy to facilitate structural change.

Managing the uncertainties of the multipolar world will be Australia’s most important foreign and trade policy challenge in the years ahead. Advancing core national interests will depend increasingly on the quality of Australia’s ideas on the world and region, turning serious ideas into explainable policy and having the arguments (when needed) to put together coalitions to advance national interests. This requires fundamentally high-level political engagement with ideas and interest in contestable policy. It also requires a willingness to focus analytical work within government on more than the immediate briefing needs of ministers. Even in these financially straitened times, more investment is required to strengthen analytical capacity. Leveraging assets across key departments of state, the overseas network of embassies and trade posts, business, think tanks, and relevant community groups to provide ideas, assessments and analytical support would be one cost-effective way of doing this.

Responding effectively to the many domestic and international challenges calls for more openness and flexibility, more focus on building skills, more careful explanations of why reform is necessary, and more careful integration of economic, trade and foreign policy. This book is offered as a modest contribution to charting the way ahead.