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Keynote Address

Building Resilience and the Return of Strategic Competition

ANU Crawford Leadership Forum

6 September 2021

Melbourne

CHECK AGAINST DELIVERY

INTRODUCTION

I would like to thank the ANU for inviting me to be the keynote speaker at this important Forum on the topic of *Global Realities, Domestic Choices*.

As the title of the Forum suggests, we live in very challenging times.

COVID-19 has fundamentally reshaped the global landscape.

It has triggered the largest economic shock since the Great Depression.

It has seen the delivery of unprecedented levels of fiscal and monetary support.

It has led to a dramatic change in the way we live and work.

Reshaping global supply chains and accelerating the adoption of new technology.

But it is not just COVID-19 that we must grapple with.

Climate change remains a critical global challenge. One we must all respond to.

And new emerging technologies, such as AI, robotics and nanotechnology are opening up exciting new possibilities, but also creating new tensions.

Today, however, I would like to focus on another key global challenge.

One that is reshaping our external environment. And our domestic policies.

I am referring to the return of strategic competition.

Strategic competition that is increasingly playing out in the economic arena.

Further blurring the lines between economics, politics and national security.

In many ways, Australia is on the frontline of this new strategic competition.

We have faced increasing pressure to compromise on our core values.

And when we have stood firm, as we always will, we have been subjected to economic coercion.

As the Prime Minister said at the USASIA Centre in June “*competition does not have to lead to conflict*”.

“*Nor does competition justify coercion*”.

Australia will always choose partnerships ahead of conflict, wherever we can.

However, heightened strategic competition is the new reality we face.

Now and likely into the future.

Our task is to prepare for and manage this competition.

And in this new world, economic resilience is key.

Key to our strategic interests and key to our economic interests.

That is why the Morrison Government is taking strong and active steps to further strengthen the resilience of our economy. We are doing this by:

- Building a stronger, more dynamic and competitive economy.
- By supporting our businesses to diversify and adapt to this new environment.
- And, where necessary, by securing our critical economic systems and industries.

Today I would like to expand on these points.

THE RETURN OF STRATEGIC COMPETITION

Firstly, there can be no doubt that strategic competition is back.

It is a defining feature of the economic and security landscape we face.

Those that advocated ‘The End of History’ in the early 1990s have been proven wrong.

In March this year, US Secretary of State, Antony Blinken, said that America’s relationship with China represents the “*biggest geopolitical test of the 21st century*”

He further noted that the US relationship with China will be “*competitive when it should be, collaborative when it can be, and adversarial when it must be*”.

This is a very different global environment to that faced by recent Australian Governments.

It is a far cry from October 2003, when President George Bush and President Hu Jintao both addressed the Australian Parliament in successive days.

We have all witnessed the major shifts in global economic weight over recent decades.

Defined by the re-emergence of China and its rapidly growing economic weight.

This has helped to lift more than 800 million people out of poverty and been a major contributor to global economic growth and prosperity.

But more recently, it has also been defined by another feature.

A more confident and assertive China.

A China that is willing to use its economic weight as a source of political pressure.

It offers economic ‘carrots’ through initiatives such as the Belt and Road.

And it threatens economic consequences for perceived misdeeds.

The Australian Strategic Policy Institute (ASPI) noted recently that China had used coercive tactics 152 times between 2010 and 2020, against 27 individual countries as well as the EU.

China is also tightening its control over its business sector, at home and abroad.

We have faced strategic competition before, including during the Cold War.

But there are important differences this time around.

Most notably our highly integrated global economy and trading system.

During the Cold War, the Soviet Union was largely cut off from the rest of the world.

It did not trade or invest much outside of its sphere of influence.

Its investment and trade with the US was negligible.

Contrast this to the present day.

The IMF estimates that China's share of global GDP will increase to 18.8 per cent in 2021, up from just 7.7 per cent in 2001.

China became the world's largest exporter of goods in 2009. And by 2019, it accounted for over 13 per cent of global exports.

In 2001, the year that China joined the World Trade Organisation, more than 80 per cent of countries had a larger volume of trade with the US than with China.

By 2018, this figure was down to only 30 per cent.

Almost 130 countries now have China as their largest trading partner.

This combination of economic weight, global integration and assertiveness poses new and significant challenges for many countries around the world.

And Australia is no exception.

Indeed, Australia is facing this pressure more sharply than most other countries.

AUSTRALIA IS ON THE FRONTLINE OF STRATEGIC COMPETITION, BUT HIGHLY RESILIENT

China is our largest two-way trading partner, accounting for over 30 per cent of our trade.

And the scope of our trading relationship has broadened over time.

Evolving from mining, to agriculture, to services such as tourism and education.

As I am speaking at an ANU forum, I should note that despite the COVID-19 disruption, China remained our largest education export market in 2020, at \$7.6 billion.

In many ways our economies are complementary.

Ensuring the economic relationship is mutually beneficial.

However, it is no secret that China has recently sought to target Australia's economy.

Citing fourteen so-called 'grievances', covering everything from our foreign investment laws to our willingness to call out cyber-attacks.

They have targeted our agricultural and resources sector, with measures affecting a range of products, including wine, seafood, barley and coal.

We have remained steadfast in defending our sovereignty and our core values.

And we always will.

As Foreign Minister Marise Payne has said “that does not mean we are anti-China or anti any other country. It means we want all countries to operate by the rules that protect our shared interests”.

But in the face of this new reality, our economy has also proven to be remarkably resilient.

Despite China’s wide-ranging actions, our economy has continued to perform very strongly.

At the headline level, this is best reflected in our unemployment rate, which has fallen to 4.6 per cent. The lowest level in around thirteen years.

Our headline trade performance has also been strong, boosted by record commodity prices.

Indeed, our trade surplus hit a record high in the June quarter of \$28.9 billion.

I am not downplaying the impact of China’s actions.

They have hurt specific industries and regions, significantly in some cases.

Nevertheless, the overall impact on our economy has, to date, been relatively modest.

This is perhaps surprising to many.

But it is worth noting that our exports to China of targeted goods accounted for just 5.9 per cent of our total exports in 2019 and 1.2 per cent of nominal GDP.

And while China is easily our largest trading partner, we also have deep trading relationships with many other countries.

Our two-way trade with the US was worth around \$73 billion in 2020.

Our trade with Japan was worth around \$66 billion.

And our trade with South Korea was worth around \$35 billion.

To name just a few.

And our largest contributor to foreign direct investment is the United States.

China is only our sixth largest source of foreign direct investment.

And this investment has fallen by around 5 per cent since 2019, in line with a broader decline in overseas investment from China overall.

We are also continuing to pursue new free trade agreements.

To deepen our existing relationships and open-up new and growing markets.

We have agreed on the broad outlines of an Australia-UK FTA.

This will see 99 per cent of Australian goods, including wine, enter the UK duty free.

Our Comprehensive Economic Partnership with Indonesia entered into force in July last year, creating new export opportunities in a large and fast-growing market.

And the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) includes specific measures to help make it easier for small businesses to establish new export markets.

This includes common and transparent trade rules to cut administration costs.

Many of the firms and industries targeted by China's trade restrictions have also been successful in re-directing goods to other export destinations.

This is particularly the case for larger bulk commodities that trade on global markets.

Of those goods targeted by trade actions, our total exports to China are estimated to have fallen by around \$5.4 billion over the year to the June quarter.

But over the same period, exports of those goods to the rest of the world have *increased* by \$4.4 billion.

Australian coal, that otherwise would have gone to China, has found buyers in other markets including India, South Korea and Taiwan.

Over the past year, our coal exports to China have fallen by around 30 million tonnes.

But our coal exports to the rest of the world have risen by around 28 million tonnes.

Australian barley has also been redirected, including to new markets such as Saudi Arabia.

Overall Australian barley export tonnage was up almost 70 per cent to the June quarter.

And Saudi Arabia accounted for over 22 per cent of our total barley export volumes, up from nothing in the June quarter last year.

Australian wine producers are also looking to redirect more of their products to alternative markets such as the UK, Singapore, Germany and South Korea.

Importantly, this demonstrates the power of open global markets.

In many cases, trade actions simply see a reordering of global trade flows.

I want to be very clear. China's trade actions carry a cost.

To both Australia and China.

They rob Chinese consumers of premium Australian wine, seafood and other goods.

And they rob Chinese industry of high quality and high value inputs, such as Australian coal.

We would both be better off if markets were allowed to operate freely.

This is why we want a constructive relationship with China.

Nevertheless, in the face of these challenges the Australian economy has shown itself to be highly resilient.

Our economy has continued to grow strongly.

Australian firms have pivoted, by finding new buyers for their goods.

And global markets have responded, redirecting Australian commodities.

That is the benefit of a strong, dynamic, open, market-based economy.

A precondition for our prosperity and something we should always seek to protect, preserve and promote.

BUILDING GREATER ECONOMIC RESILIENCE FOR THE LONG TERM

Despite Australia's proven economic resilience, we cannot stand still.

As I have outlined, our external environment has become more challenging.

And it is likely to remain that way for some time to come.

So we need to continue to find new ways to reinforce that resilience.

Not just for now, but for the long term.

This is a key priority for the Morrison Government.

As I said earlier, we are seeking to do this in three important ways.

First, by continuing to build a stronger, more dynamic and competitive economy.

This is always our first, and most important line of defence, against economic disruption.

A strong economy is the foundation of a country's resilience and strategic weight.

And our strong and flexibly economy has served us well.

It helped Australia to achieve almost three decades of uninterrupted economic growth, despite many external shocks, including the Asian Financial Crisis and the GFC.

And it has helped us to navigate the COVID-19 crisis.

That is why our entire Economic Plan is designed to deliver an even stronger economy.

By lowering taxes for individuals.

By providing business tax incentives to encourage support investment.

By supporting Australia's digital transformation.

By reducing regulation and making it easier for businesses to invest and grow.

And by investing more in skills, training and education.

The benefits of a flexible and dynamic economy were apparent early in the COVID crisis.

As manufacturers of sleep apnoea equipment pivoted to produce much needed ventilators.

As gin distilleries shifted to producing hand sanitiser.

As businesses partnered with the CSIRO to test and manufacture surgical face masks.

And as our sovereign vaccine manufacturing capability was put to good use by CSL.

Quickly enhancing the resilience of our economy and benefiting Australia business.

In the vast majority of cases, Australian businesses will have the capacity to pivot and respond to economic shocks, without direct Government support.

However, where necessary, we will continue to support our businesses to adapt to the new environment that they face.

In particular, we will continue to support our businesses to access new export opportunities, reducing their reliance on any single market.

As part of our **Agri-Business Expansion Initiative**, the Government is providing \$72.7 million dollars to help our farmers diversify and open new markets.

We have reformed the **Export Market Development Grants** program, which provides support to around 4,000 small and medium sized businesses every year.

The Government will now reimburse up to half of all eligible international marketing and promotional expenditure, up to a total of 150,000 dollars per business each financial year.

We are also defending the interests of our barley and wine exporters in the World Trade Organisation.

We will also continue to support our manufacturing sector to access global markets and to build more sovereign capability in areas of critical need.

Our \$1.3 billion **Modern Manufacturing Initiative** will support business to scale up, translate ideas into commercial opportunities, and integrate into international supply chains.

And our **Supply Chain Resilience Initiative** provides grants of up to \$2 million to firms to help remove supply chain vulnerabilities for critical goods such as medicines and chemicals.

This assistance empowers individual businesses and strengthens our economy overall.

We will also help to forge new partnerships with like-minded countries around the world, to further strengthen the resilience of our critical supply chains.

Finally, the Government is also strongly committed to securing our critical infrastructure.

This includes in areas such as energy, telecommunications and transport.

The essential backbones of our economy.

There are a large number of initiatives underway in this area, but given the time, let me mention just a few.

We are investing heavily to strengthen our cyber capabilities.

Cybercrime is estimated to have cost Australia \$3.5 billion dollars in 2019.

And the Australian Cyber Security Centre estimates that at least 10,000 Australian-based servers were potentially vulnerable to the Microsoft Exchange cyber-attack earlier this year.

That is why the Government has committed over \$1.67 billion to strengthen our cyber capabilities, in line with our 2020 Cyber Security Strategy.

We have also undertaken the most significant reforms to our foreign investment regime since their introduction, to ensure we effectively respond to our new strategic environment.

This includes applying a new national security test for foreign investors.

This will require investors to seek approval to acquire a direct interest in a 'sensitive national security business' regardless of the value of the investment.

New stronger and more flexible enforcement options have also been introduced.

Some of these measures involve economic costs of their own.

Through increased regulation or necessary investments in new capabilities.

And we will always seek to minimise these costs for business.

But given the changes in our external environment, there will be times when we must pay a 'premium' to protect our economy and ensure our long-term economic resilience.

It is also the case that Australian businesses will need to enhance their own resilience.

Many have worked hard to access the lucrative Chinese market.

This has brought great benefits to them and to Australia overall.

And they should continue to pursue these opportunities where they can.

But going forward, businesses also need to be aware that the world has changed.

And that this creates greater uncertainty and risk.

In this respect, they should always be looking to diversify their markets, and not overly rely on any one country. Essentially adopting a '*China plus*' strategy.

And in the same way that Governments are investing in economic resilience.

So too, should Australian businesses — from cyber risks to supply chains and everything in between.

CONCLUSION

Before we move to questions, I would like to summarise my key messages.

The world we operate in has fundamentally changed.

We face increased strategic competition.

This will see our economic and security interests increasingly overlap.

Australia is on the front line of this new battleground.

But we have shown great resilience to date.

And I am confident in our ability to withstand any shocks we may face.

The Morrison Government is taking active steps to bolster our economic resilience.

And so too should business.

Not just for the short term, but the long term as well.

This is a responsibility we all need to take very seriously.

Thank you.