

What you have 'GoT' to know about... the Trade War

March 2019

An aerial photograph of a port area. On the left, there are stacks of colorful shipping containers (red, blue, green, yellow). In the center, a red truck is parked on a paved area. To the right, a large white cargo ship is docked at a pier. The water is a deep blue-green color. The sky is visible in the upper right corner.

Key findings

The liberalisation of trade and investment flows has been key to Australia's economic prosperity. However this prosperity is at risk if policy makers and business leaders do not carefully consider Australia's role in the 'Game of Trade.'



The trade war and Brexit highlight the growth of protectionist sentiment and unilateralism worldwide. These are a risk to global growth and business operations. All businesses must identify and address weaknesses in their supply chain and operations to better navigate market uncertainty and put in place contingency plans to better adapt to global challenges.



Australia's current neutral position in respect of the US-China trade tensions is advantageous for important services sectors such as education and tourism; each tourist from China is worth thousands of dollars to the Australian economy.



The Australian Government has successfully shielded Australia's steel and aluminium sector from the trade war so far. This is in stark comparison to existing section 232 tariffs damaging the US and Chinese economies.



The international sector of the Australian education system is highly dependent on Chinese students. If Australia is dragged into the trade war, this reliance will be exposed in a similar way to US universities.



The success of our exports, including coal and iron ore, depend largely on North Asian demand which could wane in light of reduced domestic consumption. An ongoing trade war is likely to drive such a reduction.



If the trade war continues to heat up and drag in other key economies and further industries, Australian investor confidence could take a massive hit. Our simulations have revealed a potential \$36 billion loss to the Australian economy as a result of just a 5 per cent decrease in economy-wide investment due to diminished investor confidence.



While Australian wheat is more competitive in China and fills the supply gap left by US producers due to section 301 tariffs, those same US producers are forecast to outcompete Australian wheat in other traditional markets. However, a deal between the US and China will likely hurt Australian farmers.



As the reported slow down in customs clearance of Australian coal through Dalian in China has shown, tariffs are merely the tip of a very large iceberg. Prevailing Non Tariff Barriers must also be considered in the current trade climate. While often invisible or viewed as a cost of doing business, they need to be addressed.



The threatened stepped increase from 10 per cent to 25 per cent threatened by the US administration will wipe out the gross margin of most products sourced in China for US importers, accelerating the transformation of many US value chains and redirecting them further south to emerging markets such as Vietnam, Bangladesh and Indonesia.



In order to ensure the Australian economy continues to prosper, business leaders and the broader community must continue to push for freer trade, advocate for the benefits of trade liberalisation and defend the multilateral, rules-based approach to global trade.



A Game of Trade...

Amidst the wave of populist and protectionist sentiment sweeping across continents, sits the threat of trade wars and a return to unilateralism.

The threat protectionism and unilateralism poses to our economic prosperity is increasingly acknowledged. When asked about threats to growth, 61 per cent of Australian CEOs recently listed trade conflicts, 61 per cent listed protectionism and 63 per cent populism in our 2019 CEO survey. Among global CEO's, our 2019 survey found that 31 per cent listed trade conflicts, 30 per cent listed geopolitical uncertainty and 30 per cent listed protectionism.¹

Despite this concern none of our Australian CEO survey respondents had considered or commenced restructuring their supply chain in response. These concerns are evidently the product of growing global uncertainty. Disruption is forcing CEO's and other business leaders to evaluate new threats and new challenges to business operations.

For Australian CEOs the trade war and Brexit, alongside the overarching theme of protectionism, are influencing sentiment around both global growth and their own organisation's growth prospects: 32 per cent of Australian CEOs project a decline in global growth prospects, up from a mere 7 per cent last year. They also reported a dip in confidence in their own organisation's revenue prospects over the short (12 month) and medium (three year) term.

These concerns are valid. Paradoxically, we are more connected than ever before despite rising protectionist sentiment. Across four main flows: trade, capital, information and people, the DHL Global Connectedness Index found that we are in fact more integrated and dependent upon one another, and not less.²

And yet global society is entering into uncharted territory. We are more connected, and rely on the connectedness, yet current actions in the United

States (US) and United Kingdom (UK) run against the grain of globalisation good, isolationism bad – that our increasingly connected societies generated opportunity and economic benefits.

So concerns over trade are justified. The current market uncertainty, a combination of American tariffs and Canadian, Chinese, European, Indian, Japanese and Turkish countermeasures, have brought an all out trade war front of mind for government and business leaders worldwide.

Brexit too is challenging the *status quo*. The disruption of established global and regional value chains due to the threat of a 'No Deal Brexit' has left many UK based companies rushing for the exit. The European Union (EU) and UK are about to undergo dramatic change. The world is waiting and watching to see how leaders in the UK and EU respond. The inability to form a cogent and coherent Brexit agreement will almost certainly

“

The liberalisation of trade and investment flows has benefited Australia's economic prosperity. Our findings reveal this prosperity is at risk if policy makers don't continue to carefully consider Australia's role in the 'Game of Trade.'



shock their respective economies, with the UK bearing the brunt of this generational event.

One thing is clear, there will be winners and losers, even if only in relative terms, from the current US-China trade spat.

Where other studies have focused solely on the macroeconomic impacts of the trade war using a set of relatively blunt assumptions, we have chosen to focus on the grey – as the intersecting worlds of business and politics are rarely black and white. We focus on the consequences, both immediate and forecast, of the current and threatened measures and their impacts on trade in goods, services and investment.

To establish a baseline and forecast the macroeconomic consequences of the current and threatened measures, we have modelled the impact of generally higher tariffs worldwide.

We aim to further demystify the trade war and its impacts on Australia through our analysis of the following scenarios:

1. the ongoing and increasing impact of US steel and aluminium tariffs on Australia's mining and resources sector
2. the impact of the US section 301 tariffs and China's countermeasures on Australian agricultural exports
3. changes in preferences of Chinese students seeking higher education opportunities outside the US, increasing demand in Australia
4. Chinese foreign direct investment into Australian manufacturing and technology businesses due to mooted restrictions on investment in US tech companies.

On top of the trade war and Brexit lie other, opaque measures which Australian businesses should never lose sight of. Non-tariff barriers provide a constant roadblock to efficient and streamlined trade, often costing businesses time and money. These 'invisible' measures have hitherto largely been absent from the discussion on the trade war. Our analysis will also address these non-tariff barriers and the heavy drag they place on business activity.

“ Understanding and tackling these hidden measures is just as important as navigating the trade war.

We anticipate many possible changes to the international trade dynamic moving forward. The consequences of the trade war will continue to evolve. Understanding whether your business is a winner or loser from rising tariff measures, both current and proposed, must be a key focus of all executives. Distance will not shelter Australian international businesses or public sector organisations.

Most important of all, business leaders must be prepared to fight for the multilateral rules-based global trading order that has created so much prosperity globally. In addition, they must be active, they should also be active participants in efforts to reform these global frameworks if they are to meet the needs of 21st century digital trade.



The tip of the iceberg...

Protectionist tariffs and a trade war inevitably raise costs for businesses and consumers. This is no surprise.

However, the focus on tariffs has overshadowed the fact that such measures are just the tip of the iceberg when it comes to inhibitors to trade. Tariffs are the most visible impediments to trade. But it is what businesses can't see that should be cause for most concern. There are scores of 'veiled' non-tariff barriers (NTBs) (over 1250 by some estimates) that have an equally, if not greater, impact on trade than tariffs.³

Australian businesses are hamstrung by these NTBs. However, these are often neglected by businesses as a key barrier to trade due to a lack of understanding or an 'acceptance' that they are part and parcel of doing business. The spotlight on the trade war presents a prime opportunity for businesses to identify and address how these NTBs impact them.

The harm and hindrance caused by NTBs requires greater recognition from business and government leaders looking to prosper in an increasingly challenging set of global circumstances.

Motivated by protecting local industries, governments impose NTBs as a form of protectionism, designed to throw up obstacles that make trade that little bit harder.

Examples of this are widespread. These measures are often characterised as 'invisible', yet pose severe challenges to global trade. The reported restriction on Australian Coal through Dalian, China is one such example - albeit a high profile one.

Despite the absence of tariffs and the existence of preferential trade agreements with China, Japan and Korea and favourable relations with the UK and EU, non tariff barriers are still utilised frequently against Australian businesses. This is often with the effect of slowing down trade, increasing costs for exporters and therefore delaying speed to market.

Consequently, while the mainstream coverage of the trade war has predominantly focused on tariffs, NTBs require ongoing attention.

“ Non tariff barriers are said to impose costs of US 790 billion per year in the APEC region.⁸

This sum is even more alarming considering that the costs associated with these barriers are three times higher than the impact of tariffs in the APEC region.⁹

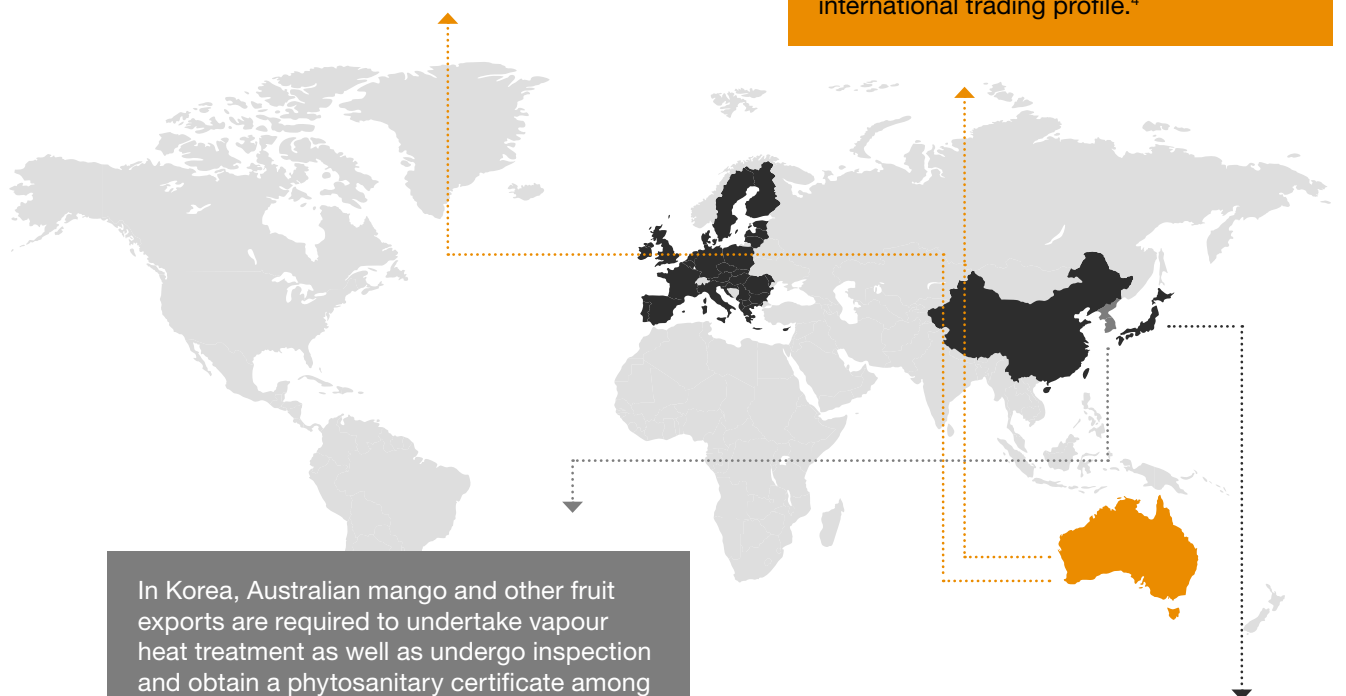
The size of these costs tell us that perhaps we are focusing on the wrong thing. Concerns about tariffs are warranted, given the challenge they pose to existing efforts at trade liberalisation and the longstanding benefits that has brought to the Australian and global economies. Yet, Australian trade has been compromised in a number of ways prior to the trade war. Many businesses just don't always realise it.

The important point in all this is that these barriers to trade will remain irrespective of any detente achieved between the US and China. The temporary 'ceasefire'¹⁵ between the US and China could (although it's looking increasingly unlikely) lead to a more permanent resolution. Independent of any agreement on the trade war, NTBs will remain and continue to pose a greater imposition to trade than tariffs. This is the real concern. Businesses should now concentrate on addressing the impact of these barriers. If they do, the economic benefits will follow.



Australian milled rice exports to the UK are restricted due to EU tariff rate quotas, and the imposition of high tariffs on import volumes that go beyond regular tariff rate quota levels.⁵

Australia is subject to an anti-dumping investigation by China for barley exports. This is one such barrier, which could compromise future Australian exports to a crucial market for our Agricultural sector, and have a tangible impact on our international trading profile.⁴



In Korea, Australian mango and other fruit exports are required to undertake vapour heat treatment as well as undergo inspection and obtain a phytosanitary certificate among other procedures. These add to the cost and time taken to access the Korean market.⁶

In Japan, extensive certificate requirements are needed on imports of meat, frozen vegetables and fruit, while import permits are needed when importing food into Japan.⁷



As for the tariff war...

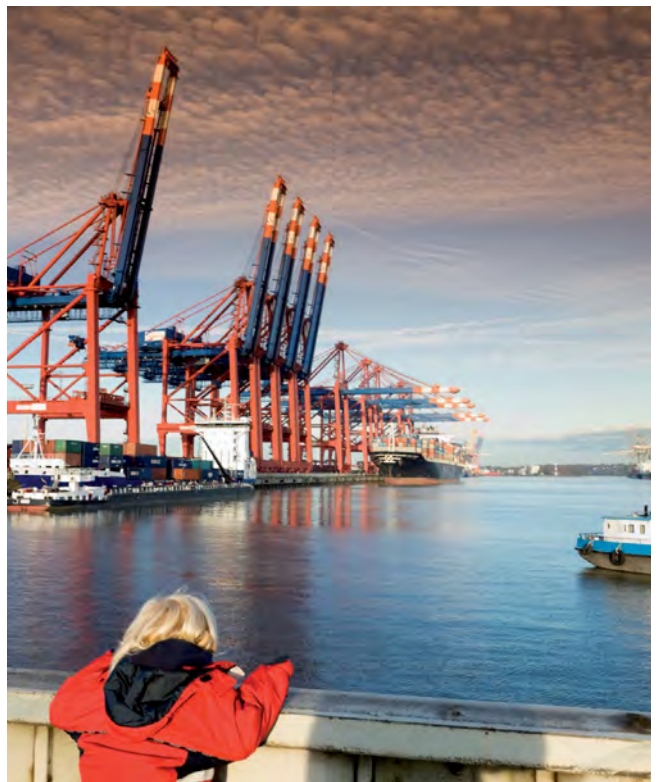
Beyond the impacts that arise from NTBs, PwC has conducted a comprehensive economic analysis on the trade war so far.

Our analysis has canvassed industries that are integral to Australian interests and which make up much of Australia's export portfolio.

Our findings suggest that Australian commodities will benefit under the current measures between the US and China. Australia's reputation as a quality education provider and tourist hotspot should also help in sustaining healthy demand in both sectors in spite of the trade war.

However, our outlook is less optimistic for our agricultural exports. Our analysis has found that our exports will contract through increased competition in traditional markets (outside China) with US trade diverted due to trade war tariffs. These losses could be exacerbated by any deal between the US and China.

Our detailed findings are set out below.





Commodities, what are they good for...?

Australian resources businesses stand to win under the current measures.

Despite Australia's exemption, the US imposition of tariffs on steel and aluminium products will impact on major iron ore and coking coal customers China, India and Japan.¹⁰ Given China's status as Australia's number one destination for resources exports (51 per cent), one might expect that Australian iron ore and coal exports might be adversely impacted through reduced US demand for steel products from these countries. However Australia is largely insulated from the effects of the US tariffs. This is in part due to an estimated 77 per cent of Australian resources exports to China being consumed in the domestic market.¹¹

Australian income up
USD \$542m ↑

China income down
USD \$482m ↓

US income down
USD \$1,005m¹² ↓




Our economic analysis reveals that the US Administration's steel and aluminum tariffs are damaging the US economy. Tariffs are a tax on domestic consumers and manufacturers which both increase and reallocate losses around the world. China is damaged less because some of its competitors for the US market are also now subject to tariffs. Those major suppliers excluded from the tariff are effectively protected from competition, for example Australia.

However, any general reduction in growth in the middle kingdom from the trade war will impact Australian miners and their downstream extraction and exploration value chains.¹³

The trade war cease fire between the US and China has sought to provide some stability for global markets. Yet, we cannot rule out that this agreement will have some short term impacts on Australian businesses and could cost Australian exports.¹⁴ Given the terms of the mooted 'deal', and Beijing's commitment to buy more US goods, this could see a short term reduction in export demand for Australian LNG, as well as wheat, sorghum

and other agricultural staples which Australia exports heavily to China and further afield and which the US also produces.¹⁵ In turn, while the 90 day ceasefire and the US administration's recent extension to that halt on the trade war is a welcome sign, we still anticipate further uncertainty leading up to and beyond this extended deadline. The trade war is rightly recognised by senior politicians and key stakeholders as a global threat to economic sustainability.¹⁶ A hiatus of sorts will do little to dispel this uncertainty. Australian businesses will experience a short term fall in exports to China in the event of a deal, but we would expect this to pick up with greater stability in global markets.



From mining boom to dining boom?

The reputation of high quality Australian produce is sure to keep us in good stead moving forward.

Yet, a brewing trade war has justifiably left Australian farmers concerned.

Roughly 80 per cent of the food produced in Australia is exported.¹⁷ Tariffs against the US therefore could see greater demand for Australian beef in China. However, a flood of US foreign goods into other neighbouring countries could be our undoing. For example, previous Russian sanctions on EU dairy exports saw European agribusinesses flood Asian markets with lower priced products. Australia's dairy exports were heavily impacted by this move.¹⁸

Australia currently exports 25 per cent of its rural produce to China – our largest agriculture, forestry and fisheries export market.¹⁹

Meat exports down
2.2% ↓

Wheat exports down
1.5% ↓

Fruit & veg exports down
0.3% ↓



Should China increase tariffs on the US further, this would obviously create pricing advantages and see Australian agribusiness gain further traction in China after initial successes due to the introduction of the China-Australia Free Trade Agreement (ChAFTA).²⁰

Demand for Australian wines and grains will also grow following Chinese retaliation against US wines and soybeans. China accounts for 25.1 per cent of export demand for Australian wine.²¹ Any decline in US wine sales in China could therefore reap benefits for Australian producers.

Our simulation has revealed that the current measures will likely lead to slight reductions in Australian agricultural exports.

While these results might appear counterintuitive, they point to a deeper game. For example, while Australian wheat exports are tipped to fall overall, exports to China are forecast to *rise* 10 per cent.

“

So while Australian wheat is more competitive and fills the supply gap left by US producers in China, those same US producers outcompete Australian wheat in other traditional markets.

This story is repeated across many key agricultural commodity groups, highlighting that the Game of Trade is not always what it seems. That said, if the US and China strike a deal which sends significant new volumes of American agricultural produce to China, that will ultimately hurt Australian farmers.

An aerial photograph showing a multi-track railway line. A train is visible on one of the tracks. To the right of the tracks, there is a large area filled with colorful shipping containers stacked in rows. The landscape is a mix of dry, brownish ground and some green vegetation.

...and merchandise trade?

The tariffs imposed on consumer goods by both China and the US will create adverse outcomes on both sides of the Pacific.

Australia is important as a supplier of inputs into textiles and garments. Australia's wool industry is highly trade-exposed. A decline in international trade will hurt Australian wool producers and any diversion of trade in the garment or textiles industries will require Australian suppliers to tailor their marketing efforts to new countries.

While clear winners are hard to pinpoint, there is a silver lining for certain countries. Rising costs of Chinese goods should see Vietnam, Bangladesh and other Southeast Asian countries become more prominent in the sourcing of lower cost goods, such as:

- garments
- shoes, and
- other consumer goods.²³

Influencing of sourcing decisions away from China and back to the US, or at least towards Southeast Asia, is evidently one of the US Administration's primary objectives of its USD200 billion round of tariffs.

“ The stepped increase from 10 per cent to 25 per cent threatened by the US administration will wipe out the gross margin of most products sourced in China for US importers.

While moves from China are, in part, due to rising labour costs and its push for more automation, the US tariffs will hasten this process.²⁴

We believe cost-conscious multinational companies will do what they need to maintain costs and margin to avoid passing on excessive cost to consumers.




What about trade in services...?

Trade in services accounts for roughly 21.9 per cent of Australia's total exports, or circa AUD81.6 billion in 2016/17.

Education and tourism together account for two of Australia's top five exports, with the others being iron ore (first), coal (second) and natural gas (fifth).²⁸ Naturally, the focus of the broader discourse of the trade war has been on the impact of tariffs on trade in goods. With the services sectors such an important component of Australia's current account, we have sought to consider and forecast the impact here too.





They came, they saw...

Tourism contributes 3.2 per cent to our GDP and 4.9 per cent of Australian employment.²⁹

Ensuring our tourism sector remains well insulated from the trade war is important.

Australia benefits handsomely from Chinese tourism. However, these benefits could be at risk, particularly if Chinese growth was to contract, or political issues, such as those between South Korea and China in 2017, were to arise between our two countries.³⁰

Australia is a beneficiary of a burgeoning middle class eager to spend money, and lots of it.

This offers huge benefits to Australian cities, airports, major entertainment venues and landmarks. Sydney airport receives 44 per cent of total Chinese arrivals, accounting for 7 per cent of the airport's total revenue.³³ Melbourne airport receives 37 per cent of Chinese visitors.³⁴

As such, any reduction in Chinese tourist numbers, due to falling economic growth or otherwise, could heavily impact Australia's economy.

“ Each tourist from China is worth AUD 8,000 to the Australian economy.³¹ This is 60 per cent higher than the average tourist spends in country.³²



The US tourism industry by contrast, is already suffering from the trade war. Chinese bookings to the US are already nearly 10 per cent behind last year's numbers, compared to an upwards trend of 5.5 per cent worldwide.³⁵

“ Furthermore, group travel (six or more visitors) to the US from China is down a whopping 34.4 percent for 2018, compared to 2017 levels.

This reduction is not only due to a falling Chinese yuan (CNY), but also from Chinese Government warnings about travel to the US.³⁷ This is not unusual for China, which also retaliated strongly by telling tourist agencies

to stop selling group packages to South Korea following the South's installation of the Terminal High Altitude Area Defense (THAAD) missile defense system, a move which also saw Korean cars lose market share in the Chinese market.³⁸

This tendency should give Australian policymakers cause to carefully consider any direct action or involvement in the trade war. A measured approach is likely to encourage further exploration of Australia by Chinese tourists eager to spend and experience our unique culture, environment and landmarks.

The passport to the future...

While there is optimism around the tourism sector, Australia is nonetheless at risk of a downturn in fortunes.

If the trade war causes the Chinese yuan to fall, it would weaken Chinese buying power.

This could affect the tourism industry, but also the important education sector.

Education-related travel services (which include tuition and living expenses) was Australia's third largest export in 2017 equating to circa AUD32.2 billion.³⁹

A fall in the purchasing power of the Chinese middle class would have dramatic consequences on the Australian education sector.⁴⁰ Chinese students accounted for nearly 30 per cent of Australia's international student enrolments in 2017.⁴¹ This is more than double the next biggest number of student enrolments in Australia (India – 11 per cent).⁴² If this is to occur, the Australian education industry would be impacted, particularly with institutions like the University of New South Wales and Sydney University gaining over 70 per cent of their international student income from China.⁴³ On top of this, Chinese students account for roughly 30 per cent of all university income, with RMIT, Melbourne University and Sydney University receiving the most income from enrolments.⁴⁴

Australian income up
USD \$75m ↑

China income down
USD \$6m ↓

US income down
USD \$90m¹² ↓



The trade war could also impact university joint ventures and research partnerships. Australian universities have made significant investments in China in an effort to diversify and drive growth.

Any foray into the trade war by Australia will put these collaborations at risk, to say nothing of other long standing Sino-Australian business relationships.

And US academic institutions are starting to feel the pinch. Beijing possesses the means to retaliate against the US by restricting international student flows to its institutions.⁴⁵ The US boasts a trade surplus in education with China and thus, the loss of Chinese students would be a damaging blow to the US economy.⁴⁶ In the 2016-17 academic year, more than 350,000 Chinese students contributed over USD12 billion to the US economy.⁴⁷ The University of Illinois has taken the drastic measure of paying out close to half a million dollars to protect against a large scale reduction in fees from Chinese students.⁴⁸

The reliance on Chinese students is a familiar story, with the University of Illinois making 20 per cent of its


total revenue from Chinese students.⁴⁹ In turn, much like Australia's reliance on the Chinese student intake, the US is vulnerable to Chinese Government action and changes in preferences of Chinese students.

On the other hand, this creates an opportunity for Australia's academic institutions if they are ready to seize it.

We have simulated Chinese preferences for education moving away from the US by 5 per cent and towards Australia by 8.5 per cent, resulting in a 25 per cent increase in education exports from Australia to China, a 4.8 per cent increase in exports of education overall, and a 0.03 per cent increase in exports overall.

The overall gain here for Australia is modest though, as the increased education exports crowd out other exports. So while there are opportunities for the education industry, along with up and downstream service providers (for example student accommodation providers), this doesn't always mean good news for Australia generally.

There are clear risks for our services sectors from the trade war. Australian services providers are therefore well advised to look at these trade skirmishes as presenting both opportunities and challenges. A nimble approach will be required, especially in the education sphere, to avoid an overreliance on Chinese university partnerships and student numbers whilst also maximising the changing preferences of the Chinese middle class from the US to other mature markets.



An investment in knowledge pays the best interest...

There is significant fear and uncertainty amongst investors due to the trade war.

A recent Bank of America Merrill Lynch survey has found that 38 per cent of investors regard a trade war as the biggest risk to market stability. This is an increase on the 30 per cent recorded in March 2018.⁵⁰ But what does this really mean?

Global investment flows...

The trade war could see a reduction in global and foreign direct investment, a move which would send shockwaves around the world. Already, a reduction in US foreign direct investment has been felt in India, which stems from the possibility of rising inflation, thereby prompting a reduction in foreign investment.⁵¹

The uncertainty caused by the trade war could also deter further investment and encourage precautionary savings measures across governments, companies and consumer segments around the world.⁵² Thus businesses are more likely to rethink major investments, a hesitancy that could see a short term slowdown in growth.⁵³ We view this situation as also adversely affecting specific sectors, including the automotive

and machinery and clothing industries in Mexico and China.⁵⁴

...to the land down under

In Australia, investor interest is concentrating more on domestic issues than the nascent trade war. Consumers and investors have been more preoccupied with local banks' exposure on the property market, as well as the ramifications of the royal commission into banking misconduct.⁵⁵ This is not to say that Australian investors have little to worry about. In fact, the opposite is true.



If the trade war continues to heat up and drag in other key economies and further industries it could significantly dent Australian investor confidence. We have simulated just a 5 per cent decrease in economy-wide investment due to diminished investor confidence from the trade war and its onflow impacts on unemployment.

“ This scenario would generate a massive AUD36 billion hit to the Australian economy.

That said, there are potential opportunities for Australia if the trade war remains confined to the US and China. For example, the current US Administration has threatened to restrict Chinese investment in US firms.

If this were to pass there could be significant benefits for Australian businesses due to an influx of Chinese capital. We have simulated a 5 per cent increase in investment and a 20 per cent increase in manufacturing exports to replicate increased activity in the Australian advanced manufacturing sector.

“ Such an outcome would yield a AUD1.1billion increase to Australia’s GDP, rising to AUD1.7 billion over the next five years.



Playing and winning the Game of Trade

Internationally-engaged Australian businesses view Australia's trade agreements, and trade liberalisation, favourably.⁵⁶

The benefits we have achieved from trade liberalisation are clear, totalling AUD8,448 per household in increased real income over the past three decades.⁵⁷ Business adoption of Australia's free trade agreements is also high, ranging between 78 and 95 per cent.⁵⁸ Our continued pursuit of free trade (for example, the recent signing of the Indonesia-Australia Comprehensive Economic Partnership Agreement), illustrates the Australian Government's ongoing commitment to the benefits of open markets and trade liberalisation. We support maintaining this strategic direction in order to maintain Australia's unprecedented, sustained economic growth.

Navigating the murky trade waters that have arisen in the past year will be a significant challenge over the coming years. There are new and abundant challenges which government and business must carefully consider. There will also be winners and losers in the trade war, both in Australia and abroad, as this publication has illuminated.

The trade war has brought everyday issues of trade and commerce to the attention of policymakers and business leaders worldwide.

Beyond the tariff measures and their impacts on Australian businesses and global supply chains, now is a great time for businesses to address less 'overt' barriers that are creating a heavy drag on their business and to consider effective ways through which to overcome barriers hindering the free movement of goods.

The first step to demystify the trade war and its impacts, both positive and negative, is understanding the moves being made at a country versus country level and how they transcend from the strategic to operational.

The view that the 'trade war' could end through a permanent 'ceasefire' is a misnomer. Nation-states have always been, and will remain, in a state of competition.



PwC modelling predicts Australian businesses have the potential to survive and thrive in a trade war with careful planning and execution of their trade strategy.

The US administration has simply upped the ante by deploying a new piece in the multiplayer 3D chess game that is international politics.

Prevailing inefficiencies and roadblocks to trade will remain. This will require businesses to develop multi faceted responses encompassing contingency plans, a thorough examination of their trade portfolios and an assessment on how vulnerable these are to protectionist tariffs and NTBs. A preparedness for disruption will be needed moving forward, one that is all to often lacking among local businesses.

Australia is typically slow to respond, a fact reflected in 0 per cent of Australian CEOs surveyed adjusting their supply chain and sourcing strategy as a result of trade conflicts. This pales in comparison to the 45 per cent of global counterparts who are making adjustments and contingencies for the trade war.⁵⁹

This conservatism, whether by virtue of geographic isolation from the rest of the world or otherwise, must end. Business leaders can no longer pretend that Australia's strong economy is able to insulate business activity from market changes, especially those as seismic as the trade war and Brexit. Businesses must be more proactive as opposed to reactive. Planning and catering for disruption is no longer a nice to have. It is

a must have. Contingency measures and plans must now become key priorities. This rethink of business strategy goes hand in hand with a need to better understand NTBs.

Not every move being made in China and the US are as overt as tariffs, with non-tariff barriers presenting insidious threats to business operations and growth around the world. Charting safe passage through this global trade minefield can be achieved. But, a deep understanding of your global value chain and its relative strengths and weaknesses is required.

Are you ready to play the Game of Trade?

“ Instead, a ceasefire may simply signal the end of the beginning in a new ratcheted up Game of Trade between the global powers.

5 key activities you can be doing to survive and thrive in uncertain times:

Implement the tactical to execute your strategy

Define your long term strategy, identify how the trade war helps or hinders that strategy, treat these helpers or hindrances as tactical opportunities for testing, where it makes sense, execute on the opportunities to deliver on your strategy.

Intelligence-led and risk-based

Every decision, whether tactical or strategic, should be based on data derived insights and be risk managed. What are the strengths and weaknesses, where are the threats and how do we mitigate them.

Strategic cost transformation

Identify the known and unknown costs in your value chain, treat spending as an investment with a focus on capability building and continuous improvement. Being match fit for unpredictability makes you fit for growth when opportunities present.

Be deliberate, be bold

Dont be spooked by trepidation or unpredictability at the political level, if it makes sense to redesign, restructure, merge or acquire, make a plan, gather the data, make a call and act.

Know your global value chain

Know your key sources of supply, who are your key customers, where is your supply chain weakest and strongest. Visibility drives your ability to see what's around the corner (short term) and what's over the horizon (long term); and enables you to respond intelligently to unpredictability.



End notes

1. PwC 22nd Annual Global CEO Survey <<https://www.pwc.com/gx/en/ceo-survey/2019/report/pwc-22nd-annual-global-ceo-survey.pdf>>
2. Stephen A. Altman, 'Five myths about globalization', *Washington Post* https://www.washingtonpost.com/outlook/five-myths/five-myths-about-globalization/2019/01/25/9e0d36e8-1f94-11e9-9145-3f74070bbdb9_story.html?noredirect=on&utm_term=.337653068aca published January 25 2019.
3. Erdal Yalcin et al, 'Hidden Protectionism: Non-Tariff Barriers and Implications for International Trade', *ifo Institute*, published December 2017.
4. Michael Smith, 'China launches anti-dumping probe into Australian barley imports', *AFR*, 19 November 2018.
5. Parliament of Australia – Parliamentary Investigation, 'Barriers and impediments to trade and investment with the UK', 2017-2018.
6. Trade and Investment Queensland, 'Mangoes to Korea', *TIQ*.
7. Australian Government, 'Export markets – Japan', *Austrade*, 2019.
8. John Ballingall and Daniel Pambudi, 'Quantifying the costs of non-tariff measures in the Asia-Pacific region', *New Zealand Institute for Economic Research*, published November 2016.
9. Ibid.
10. Lex Hall, 'Trump, trade wars and what it means for Australian investors', *Morning Star*, published June 2018.
11. Sam Jacobs, 'Here's what a US-China trade war would mean for the Australian economy', *Business Insider*, published 18 July 2018.
12. PwC Economic Analysis, 2018.
13. Sam Jacobs, 'Here's what a US-China trade war would mean for the Australian economy', *Business Insider*, published 18 July 2018.
14. John Kehoe and Michael Smith, 'US-China trade truce: Australian farmers, energy exporters 'collateral damage'', *AFR*, published 3 December 2018.
15. Ibid
16. Phillip Coorey, 'China-US spat now a global threat: Scott Morrison', *AFR*, 29 November 2018.
17. Sue Neales, 'Nervous farmers bracing for a trade war', *The Australian*, published 22 June 2018.
18. Ibid.
19. Ibid.
20. Gregor Heard, 'US/China Trade war could benefit Australia', *farmonline*, published 23 September 2018.
21. 'Australia 'piggy in the middle' of trade war between US and China', *Ibisworld*, published 11 April 2018.
22. PwC Economic Analysis, 2018
23. 'These Could Be The Beneficiaries Of the Trade War', *Seeking Alpha*, published 16 August 2018.
24. Kenneth Rapoza, 'Trade War Casualties: Factories Shifting Out Of China', *Forbes*, 30 July 2018.
25. John Kehoe, 'Trump trade war backfires as Harley-Davidson moves offshore', *AFR*, published 26 June 2018.
26. Ibid
27. Ibid
28. 'Trade and Investment at a glance 2017', *Department of Foreign Affairs and Trade (DFAT)*, published 2017.
29. Australian Government, 'Economic Research and Industry Reports', *Tourism Research Australia*, published 2018.
30. Echo Huang, 'China inflicted a world of pain on South Korea in 2017', *Quartz*, published 21 December 2017.



31. Lex Hall, 'Trump, trade wars and what it means for Australian investors', *Morning Star*, published June 2018.
32. Ibid.
33. Ibid.
34. Ibid.
35. TTG Asia, 'Trump's trade war with China hits US tourism', published 20 August 2018.
36. Ibid.
37. Ibid.
38. Echo Huang, 'China inflicted a world of pain on South Korea in 2017', *Quartz*, published 21 December 2017.
39. Bryan Borzykowski, '4 powerful weapons China has in its arsenal to win the US-China trade war', *CNBC*, published 20 July 2018.
40. Minister for Education and Training The Hon Simon Birmingham, 'International education continues record-breaking run', *Ministers for the Departments of Education and Training Media Centre*, published 18 April 2018.
41. Department of Education and Training, 'End of Year Summary of International Student Enrolment Data – Australia – 2017', published 2017.
42. Ibid.
43. Robert Bolton, 'State auditor-general warns unis against increasing reliance on Chinese students', *AFR*, published 17 June 2018.
44. Ibid.
45. Matt Sheehan, 'Trump's War on Trade Could Hurt America's Public Universities' *The Huffington Post*, published 23 November 2016.
46. Ibid.
47. International Trade Association, 'China – Education and Training', *Export.gov*, published 4 May 2018.
48. Robert Bolton, 'Australian Universities should be careful of over-reliance on Chinese students', *Australian*, published 2 December 2018.
49. Ibid.
50. Lex Hall, 'Trump, trade wars and what it means for Australian investors', *Morning Star*, published June 2018.
51. Dr Atiur Rahman, 'US-China trade war and Bangladesh', *The Asian Age*, published 15 July 2018.
52. Paul Mortimer-Lee, 'Big picture: Trade war drums beat louder', *BNP Paribas*, published 8 March 2018.
53. PwC, 'Business Impact of a more protectionist US', published 2017.
54. Ibid.
55. Ibid.
56. PwC Australia, *Free Trade Agreement Utilisation Study*, February 2018.
57. The Centre for International Economics, 'Australian trade liberalisation', *DFAT*, published October 2017.
58. PwC Australia, *Free Trade Agreement Utilisation Study*, published February 2018
59. PwC Global CEO survey.

A low-angle, upward-looking perspective of several modern skyscrapers with glass facades. The buildings converge towards the top of the frame, creating a strong sense of height and scale. The sky is a clear, vibrant blue with scattered white clouds. The sun is visible as a bright, glowing orb near the center of the frame, partially obscured by the buildings, casting a warm, golden light across the scene. The glass surfaces of the buildings reflect the sky and the sun, adding to the visual complexity and depth of the image.

Want to know more?



Authors



Ross Thorpe

Partner,
Perth, International Trade

+61 (8) 9238 3117
ross.thorpe@pwc.com



Jeremy Thorpe

Partner,
Sydney, Economics & Policy

+61 (2) 8266 4611
jeremy.thorpe@pwc.com



Ben Lannan

Partner,
Melbourne, International Trade

T: +61 (3) 8603 2067
E: ben.lannan@pwc.com



Luke Branson

Director,
Melbourne, International Trade

T: +61 (3) 8603 1993
E: luke.branson@pwc.com

Contact us



Tom Seymour

Partner,
Brisbane, Financial Advisory

T: +61 (7) 3257 5236
E: tom.seymour@pwc.com



Pete Calleja

Partner,
Sydney, Tax

T: +61 (2) 8266 8837
E: pete.calleja@pwc.com



Michelle Tremain

Partner
Perth, Indirect Tax

T: +61 (8) 9238 3403
E: michelle.tremain@pwc.com



Stephanie Males

Partner,
Canberra, International Trade

T: +61 (2) 6271 3414
E: stephanie.males@pwc.com



Gary Dutton

Partner,
Brisbane and Sydney, International Trade

T: +61 (7) 3257 8783
E: gary.dutton@pwc.com



Paul Cornick

Director,
Sydney, International Trade

T: +61 (2) 8266 2870
E: paul.cornick@pwc.com

© 2019 PricewaterhouseCoopers. All rights reserved.

PwC refers to the Australia member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors. Liability limited by a scheme approved under Professional Standards Legislation. At PwC Australia our purpose is to build trust in society and solve important problems. We're a network of firms in 158 countries with more than 236,000 people who are committed to delivering quality in assurance, advisory and tax services.

WLT127067549