Global trade and investment megatrends

Exploring opportunities and risks for the Australian economy during and after the COVID-19 crisis with strategic foresight

Summary report
**FAST FACTS**

Trade and investment during the pandemic

1. **The world economy** is forecast to contract by 4.4% this year and grow by 5.2% next year.

2. **Global foreign direct investment** is forecast to drop by 40% to under $1 trillion (2005 levels) this year with further drops of 5–10% next year.

3. **Global merchandise trade** has contracted by 14.3% in the second quarter of 2020.

4. **Overseas education** is our fourth-largest export – earning $37.6 billion/year. It is estimated that COVID-19 will cause losses of $18 billion by 2024. Universities are finding ways to rebuild the sector.

5. **On R&D**, the world spent US$2.19 trillion in 2019, up from US$1.75 trillion in 2013 with a big increase after the 2008–09 GFC. Signs of renewed R&D spending are emerging with Singapore, UK, USA and New Zealand announcing large R&D stimulus packages.

Today, exports comprise 22% of Australia’s GDP up from 7% in the 1960s. Exports will be an important way of escaping the COVID-19 economic slump.

Australians spent $58.3 billion in 2018–19 visiting other countries, while visitors spent $39.1 billion in Australia. Global tourism contracted by 57% in March 2020. Future tourists want safe holidays.

Food and agricultural exports from Australia to our eight largest markets in Asia increased 86% to $33 billion/year over the 20 years to 2019. Demand in Asia is expected to double by the year 2050.

Telework, telehealth, online retail, online education and digital services exploded during COVID-19. According to LinkedIn data, the Australian information technology sector saw a 17.3% year-on-year increase in jobs recruitment during COVID-19 in March.

Digitally enabled service exports from Australia amounted to $23 billion in 2018, up from $17 billion a decade ago.
Informing trade and investment strategy for economic recovery – the purpose of this report

The purpose of this report is to help secure Australia’s future and catalyse new trade and investment by identifying global megatrends emerging in the post-COVID-19 world.

This report presents the results of a CSIRO and Australian Trade and Investment Commission (Austrade) strategic foresight study exploring changes in the global trade and investment landscape likely to occur over the coming months and years.

The report also presents a set of strategic actions for Australian governments and industries to capitalise on significant shifts in the global trade and investment landscape.

Trade and investment strategies responding to the new normal of the mid/post-COVID-19 world will boost jobs and growth plus speed up Australia’s economic recovery.

A transformed trade and investment landscape

Due to COVID-19, world merchandise trade fell by 14.3% in the second quarter of 2020 [3]. Global foreign direct investment is forecast to decrease by 40% from $1.54 trillion in 2019 to under $1 trillion, which is lower than 2005 levels. Further drops of 5–10% are forecast for 2021 with a rebound expected for 2022 [2]. These conditions are associated with a forecast −4.4% contraction of the global economy this year [1].

However, there are signs of recovery. The International Monetary Fund forecasts global growth of 5.2% in 2021 [1]. The World Trade Organization [13] observed that since May, air cargo transport has been rising along with a rise in new export orders. Shipping container port throughput has also shown signs of a partial recovery and automobile sales have been rising in China, the United States (USA) and Western Europe.

The characteristics of the new trade and investment landscape are highly uncertain. The general view is that what remerges post COVID-19 will be markedly different. The world is unlikely to return to business as usual. We can expect longer-term structural shifts. Digital technology will play a critical role. The World Economic Forum refers to the COVID-19 economic shock as ‘The Great Reset’.

Regardless of how the new landscape takes shape, trade and investment will remain critical for jobs and GDP growth. The share of Australia’s GDP coming from exports has risen from 12.5% in early 1990 to 22% today [4]. Australia’s exports amounted to $493 billion in 2019 [14]. Foreign investment is also critical, with net inflows accounting for 2.8% of Australia’s GDP. The total stock of foreign investment in 2019 was $3.9 trillion [7].

Trade and investment are a powerful way to escape an economic slump. Australia’s economy is both export-exposed and export-benefiting. If we read the signals of change early and strike fast, we can harness opportunities, mitigate risks and speed up Australia’s economic recovery.
## Trade and investment megatrends – the coming months and years

A megatrend is a deep-set trajectory of change occurring at the intersection of numerous trends and drivers with implications for present-day decision making. Megatrends analysis is used with the field of strategic foresight to explore and characterise the future. The CSIRO Data61 Insights team has pioneered techniques of megatrends analysis over the past ten years. These techniques have been applied in this study to identify five megatrends reshaping the global trade and investment landscape over the coming months and years:

<table>
<thead>
<tr>
<th>Megatrend</th>
<th>Description</th>
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<td><strong>Digital transformation</strong></td>
<td>A vast amount of economic activity has shifted from the physical to the virtual world. And it may not all go back. Telework, telehealth, online retail, online education, and online entertainment are booming. Ten years of digital transformation has happened in a few months.</td>
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<td><strong>Investing in supply chain resilience</strong></td>
<td>The global trade freeze saw many companies and countries worldwide unable to source the critical goods and services they needed; this included manufacturers, food suppliers and medicine suppliers. As supply chains are rebuilt, buyers will be looking for new, secure, and reliable options.</td>
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<td><strong>Localisation and staying closer to home</strong></td>
<td>The COVID-19 shock has been associated with a substantial slow-down in global and domestic travel due to border restrictions and safety concerns. People are taking fewer and shorter flights. People's living and buying patterns are coming closer to home.</td>
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<td><strong>A changing economic landscape</strong></td>
<td>In terms of debt-to-GDP ratios, interest rates, unemployment, and productivity, the global economic landscape has changed. Governments worldwide face unprecedented challenges. The next ten years will be about rebuilding and recovery.</td>
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<td><strong>Stepping into the new normal</strong></td>
<td>The COVID-19 shock follows Australia's worst drought and bushfire season. It is also happening amidst the emergence of a complex geopolitical landscape. Australia is facing new forms of escalated cybersecurity risk. However, we also have access to greater technological capability than ever before.</td>
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### Strategic actions

#### How to harness opportunities and mitigate risk

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<th>STRATEGY</th>
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<td>1. Developing data-driven trade and investment</td>
<td>There is an opportunity to further develop Australia’s data-science capability applied to trade strategy and investment attraction. Given the huge forecast drop in foreign direct investment, attracting funds is likely to become much more competitive. Increasingly, trade and investment attracting organisations worldwide are leveraging artificial intelligence, machine learning and data science to identify the most prospective companies. This allows them to target business development resources where success is most likely.</td>
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<td>2. Boosting digital exports</td>
<td>The Australian Government ‘Services Export Action Plan’ [15, 16] captures digitally enabled services exports and involves industry consultation and a detailed government response to the action plan was published before COVID-19. The post-COVID-19 environment further heightens the extent of the opportunity to boost digitally enabled service exports and the importance of the action plan.</td>
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<td>3. Developing a refreshed and expanded R&amp;D investment attraction program</td>
<td>Following the global financial crisis, global corporations ramped-up research and development (R&amp;D) investment. This helped them survive the crisis by developing new products and services. Today, global R&amp;D spending is worth $3.08 trillion per year worldwide. We’ve also seen advanced economies such as the USA, the United Kingdom (UK), Singapore and New Zealand announce large R&amp;D fiscal stimulus programs. This points towards an opportunity for Australia to attract investment and supply R&amp;D services to the world. The action would involve collaboration across universities, research organisations, industry, and government for a new, refreshed, and targeted R&amp;D foreign direct investment program.</td>
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<td>4. Delivering on the perception and reality of the world’s safest holidays</td>
<td>Safety always mattered for global and domestic tourist destination decisions. In the turbulent COVID-19 world, it’s become a whole lot more important. Australia consistently tops the charts for tourist safety. We are also well placed to develop and implement industry-wide COVID (and disease) safe holidays. This would involve industry-wide adoption of all relevant hygiene, distancing, and other disease-mitigation measures.</td>
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<td>5. Building a pandemic-proof international education sector</td>
<td>Before COVID-19, education-related travel services generated $37.6 billion per year and 8% of all export earnings. It is in fourth position after iron ore, coal, and natural gas. Education exports have risen sharply over the past decade, with 15.2% growth over the past five years [7]. The demand for education will remain in the post-COVID-19 world. There is an opportunity to rethink and rebuild this sector in the post-COVID-19 landscape so that it is resilient to pandemics and other global disruptions. This could include a range of digital and offshore education services along with a host of other innovations.</td>
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<td>6. Boosting Australia’s critical minerals exports</td>
<td>At the global level, the COVID-19 shock and trade disruptions have accelerated concerns about secure, stable, ethical, and reliable supply chains for critical minerals [17]. Into the future, buyers will be increasingly focused on secure and reliable supply chains. Australia has achieved this during the COVID-19 period and is well placed to respond to future demand. A 2019 Australian Government report titled ‘Australia’s Critical Minerals Strategy’ [18] describes how Australia can capitalise on this trend, now elevated in the post-COVID-19 world.</td>
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<td>7. Expanding food, agricultural and agri-tech exports</td>
<td>The COVID-19 shock has seen decreased trade in a range of food and agricultural products with notable impacts on meat, seafood and dairy foods. Decreased sea and air freight capacity is creating supply chain problems. There is opportunity for the Australian agri-tech sector to help solve these supply chain issues and sell the solutions globally.</td>
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<td>8. Developing an export-earning disaster-resilience technology industry</td>
<td>Global demand for trusted technologies for the management of wildfires, droughts, heatwaves, floods, pandemics, and cybercrime is set to escalate. As we develop solutions to these challenges in Australia there’s an opportunity to identify, and supply into, global export markets.</td>
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<td>9. Developing trade and investment foresight capability</td>
<td>Strategic foresight involves the systematic exploration of plausible future events to inform current-day decision making. Megatrends analyses, risk analyses, scenario planning, and weak-signals analysis can help Australia gain first-mover advantage in what is about to become a highly competitive global trade and investment landscape. This capability would complement the data-driven trade and investment capability identified above, which uses quantitative techniques leveraging data science and artificial intelligence.</td>
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Conclusion – an era of rapid repositioning

This report has described mid/post-COVID-19 shifts in the global trade and investment landscape through the lens of megatrends. Together the megatrends describe a markedly different business and economic context to what existed six months ago. Stemming from the megatrends are a set of strategic actions designed to mitigate risk and harness opportunity.

The phrase ‘turbulent, uncertain, novel, and ambiguous (TUNA)’ was proposed by strategic foresight experts at the University of Oxford Said Business School to describe today’s business landscape. The TUNA concept is useful as we look towards a global future with elevated infectious disease, climate change risks, and geopolitical shifts.

Harnessing these opportunities and avoiding a return to the ‘old normal’ will be key in determining Australia’s recovery over the next several years in the new TUNA reality.

The COVID-19 impact on global trade and investment is unprecedented. It is associated with ripple-effects that have the potential to reshape the trade and investment landscape creating risk and opportunity. Succeeding in global trade and investment markets of the future is a critical component of Australia’s economic recovery. Early actions will help Australia achieve first-mover advantage, so we mitigate risk and harness opportunity.

Digital technology will play a critical role in the rebuild. Telework, telehealth, online retail, online education, and online entertainment are all booming. A vast swathe of economic activity has transferred from the physical world to the virtual world. Much will not go back. There is an opportunity to grow digital exports. There is also an opportunity to use digital technologies to grow all export categories. The world has seen ten years’ worth of digital transformation in the space of a few months.

While there is much change in the landscape for trade and investment, both remain important to our economy. Trade and investment are effective ways of boosting economic growth and escaping a slump. While the global trade and investment marketplace will become more competitive, Australia has significant sources of comparative advantage. There’s likely to be a flight from risky to safe assets and supply chains. The safe-haven effect is likely to favour Australia. We have maintained reliable supply chains and a stable economy throughout the crisis.
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