



RESERVE BANK OF AUSTRALIA

Explaining and Teaching Economic Concepts in the Classroom

Trade & Tariffs

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Overview

Benefits of trade

Trends in global trade

Trends in Australia's trade

Where to next for trade?

- Case study: COVID pandemic

Tariffs

- Case study: US tariff policies

Implications of changing trade patterns for the Australian economy

Key takeaways

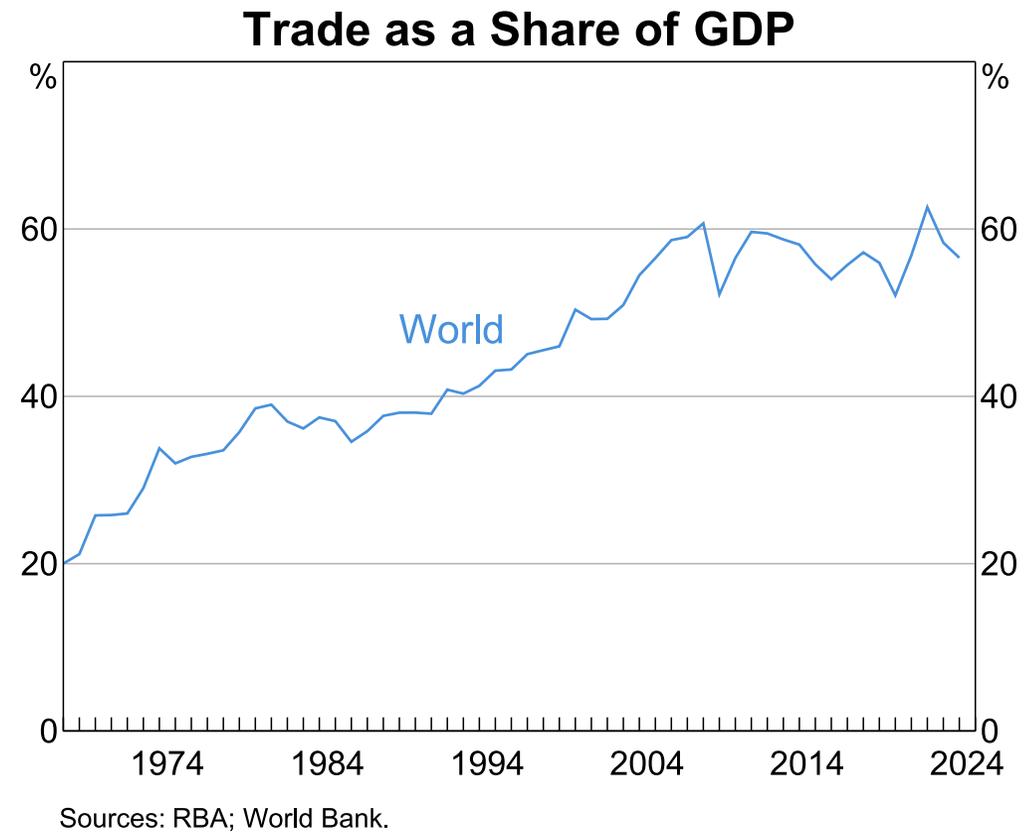
- Open trade supports economic growth and other global priorities.
- A range of structural factors have changed global trade patterns over time and these patterns will continue to change over the years ahead.
- Developments in China have been the key determinant of demand for Australian exports in recent decades, but other factors increasingly matter for economic outcomes in Australia, including geopolitics and supply chain disruptions.

Benefits of trade

- Open trade supports economic growth and has helped to improve living standards globally.
- Diversification through trade brings other benefits such as more choice and access to better quality or specialised products/inputs.
- Open trade can support cooperation on other global priorities such as climate change and food security.

Trends in global trade

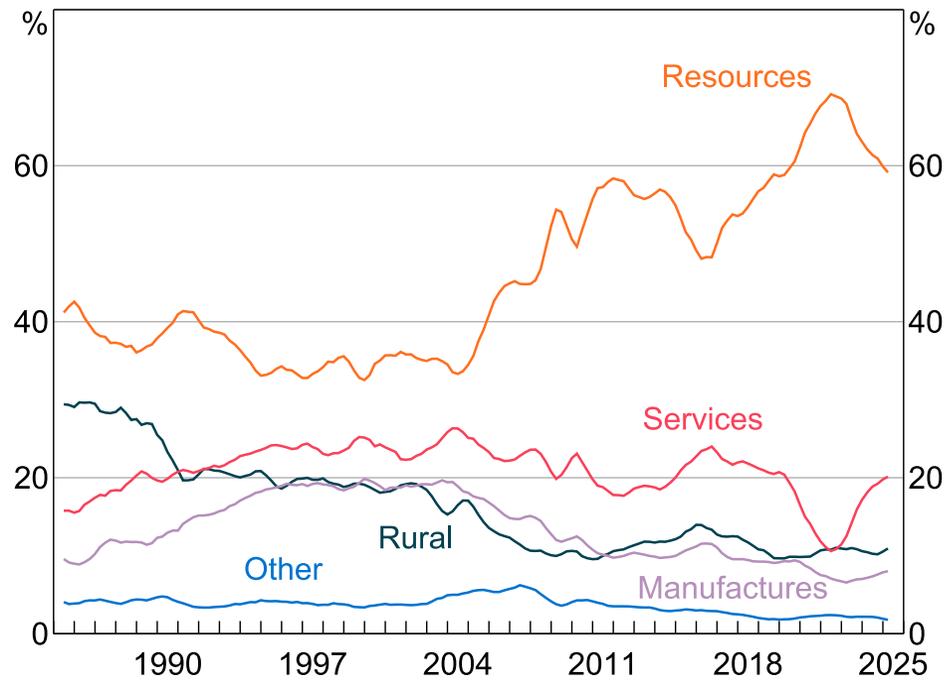
- Rapid growth: from the late 1980s, technological progress and trade liberalisation led to development of global value chains (GVCs).
- Stability: from around 2005 expansion of GVCs slowed.
- Post-GFC: rising trade restrictions and supply chain disruptions.



Trends in Australia's trade

Composition of Exports

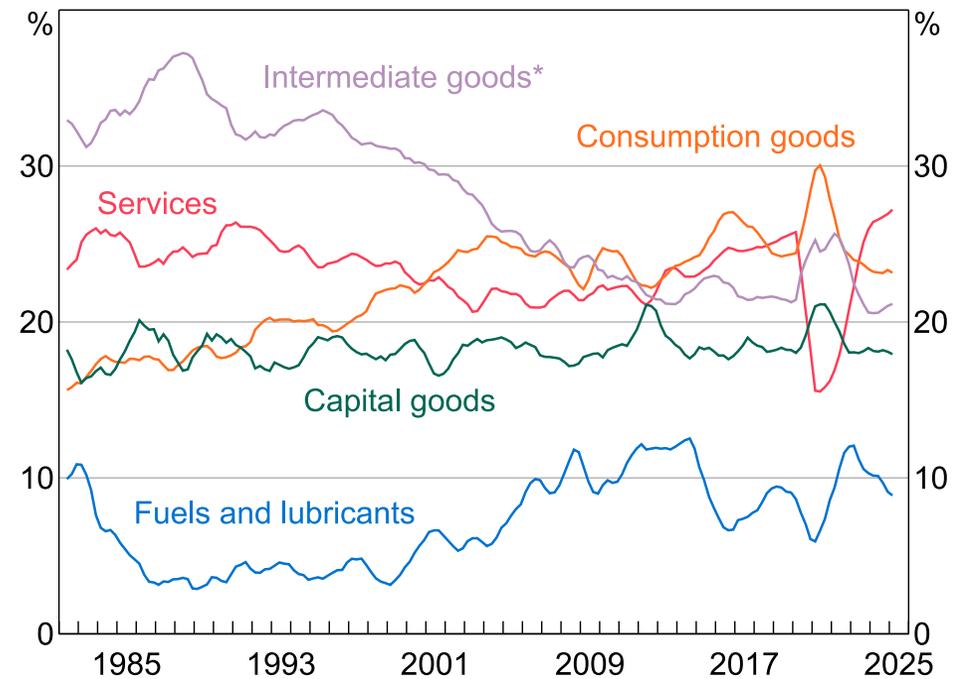
Share of total



Sources: ABS; RBA.

Composition of Imports

Share of total



* Excluding fuels and lubricants.

Sources: ABS; RBA.

Where to next for global and Australian trade?

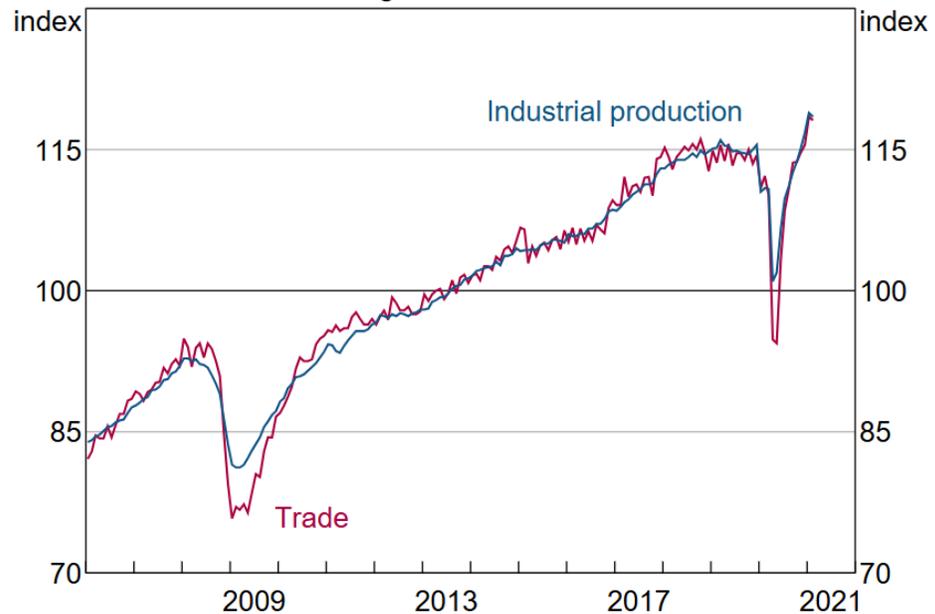
- Structural forces such as climate change and technological change are likely to reshape global trade.
- Increasing use of trade tools to achieve non-trade objectives (e.g. to address climate change and national security concerns).
- Rising geopolitical tensions increase the risk of trade fragmentation.

COVID pandemic

Rapid changes in trade patterns

Global Goods Trade and Production

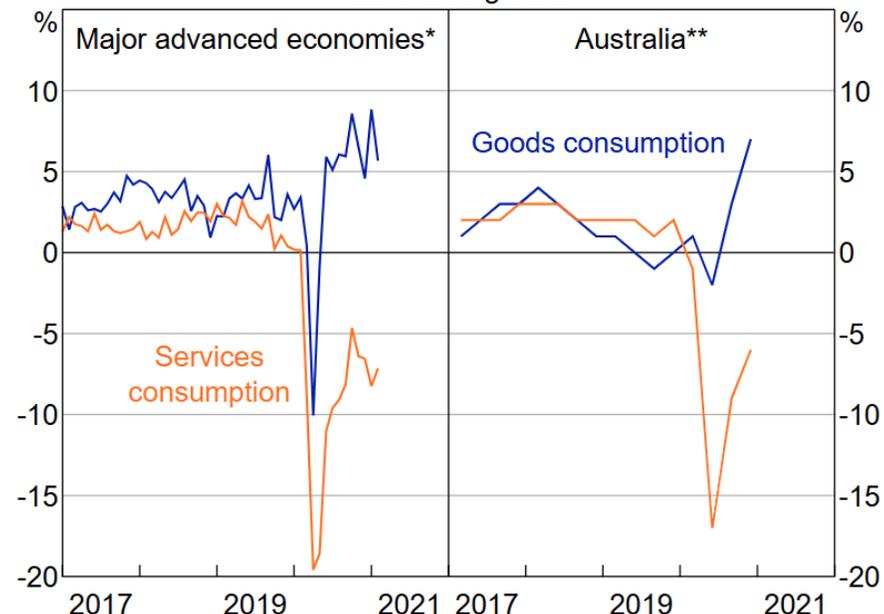
Average since 2006 = 100



Sources: RBA; Refinitiv

Goods and Services Consumption

Year-ended growth



* Includes United States, United Kingdom and Japan; monthly

** Quarterly

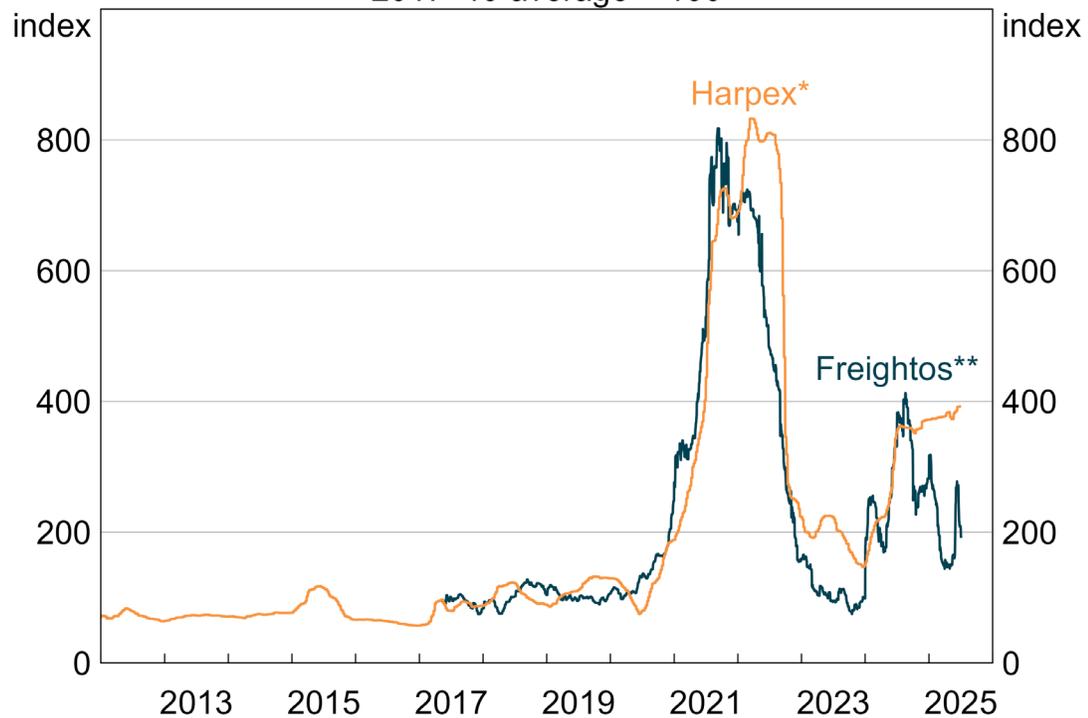
Sources: ABS; RBA; Refinitiv

COVID pandemic

Supply chain disruptions

Global Shipping Costs

2017–19 average = 100



* Global index of actual prices paid for container shipments, including those on longer-term contracts.

** Global index of spot prices for container shipments. .

Source: RBA.

Tariffs

- Open trade is beneficial for economic growth in aggregate, but not all industries, firms and workers benefit.
- Increased competition from overseas competitors can disrupt firms and workers in some parts of the economy.
- Tariffs and other trade barriers may be used to protect domestic industries, but they reduce efficiency and can weigh on aggregate economic activity.

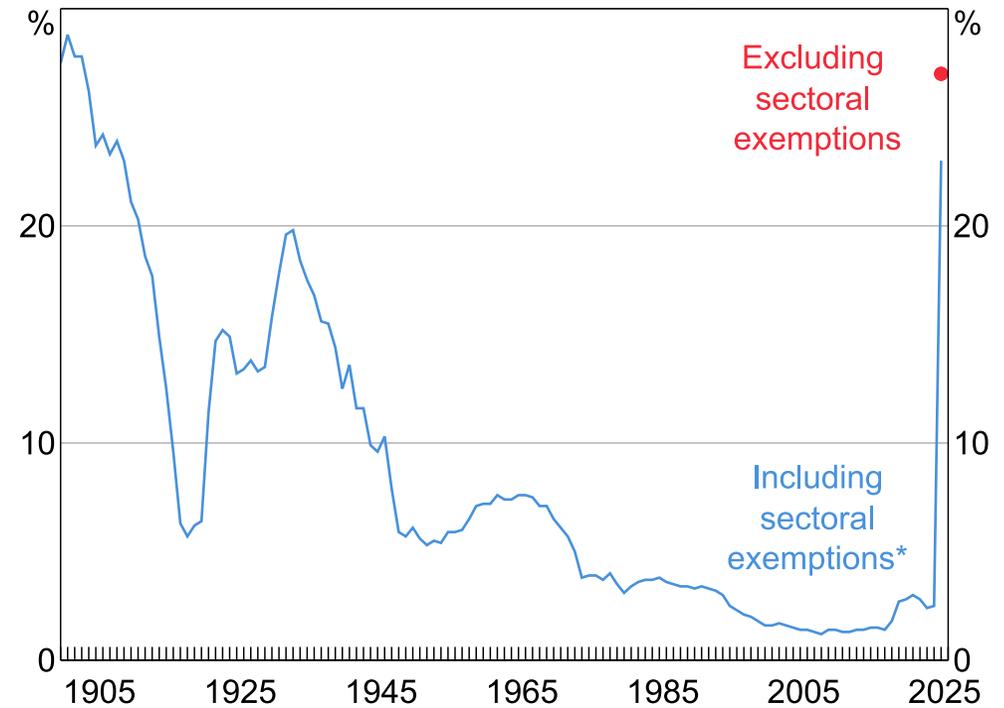
US tariff policies

Direct impact

- Significant increase in tariffs and trade barriers to highest level since the 1930s.
- Expected to weigh on global economic activity.

US – Average Effective Tariff Rate on Imports

JP Morgan estimates as of 1 May 2025



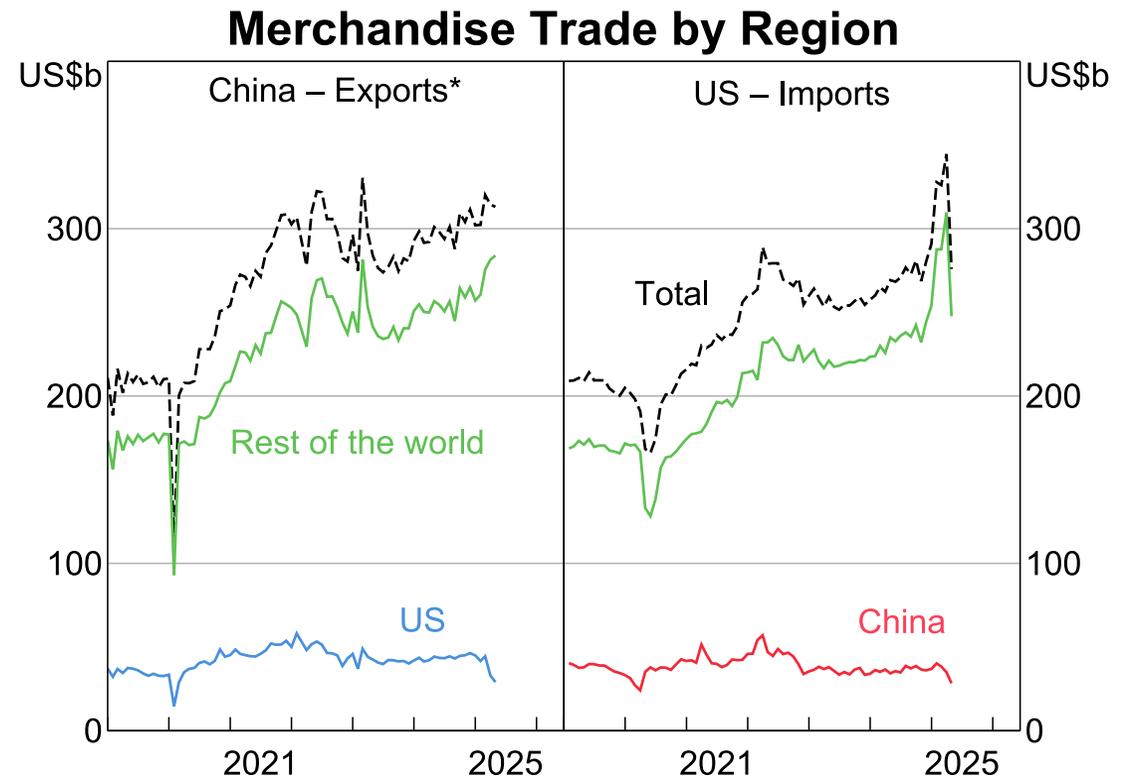
* Exemptions for Chinese exports of selected tech and electronics, and autos and auto parts.

Sources: RBA; Tax Foundation.

US tariff policies

Adjusting global trade flows

- Global trade flows can adjust to reduce the direct impact of tariffs.
- Trade diversion – substituting imports from a high tariff country for imports from a low tariff country.



* Seasonally adjusted by the RBA.

Sources: CEIC Data; LSEG; RBA.

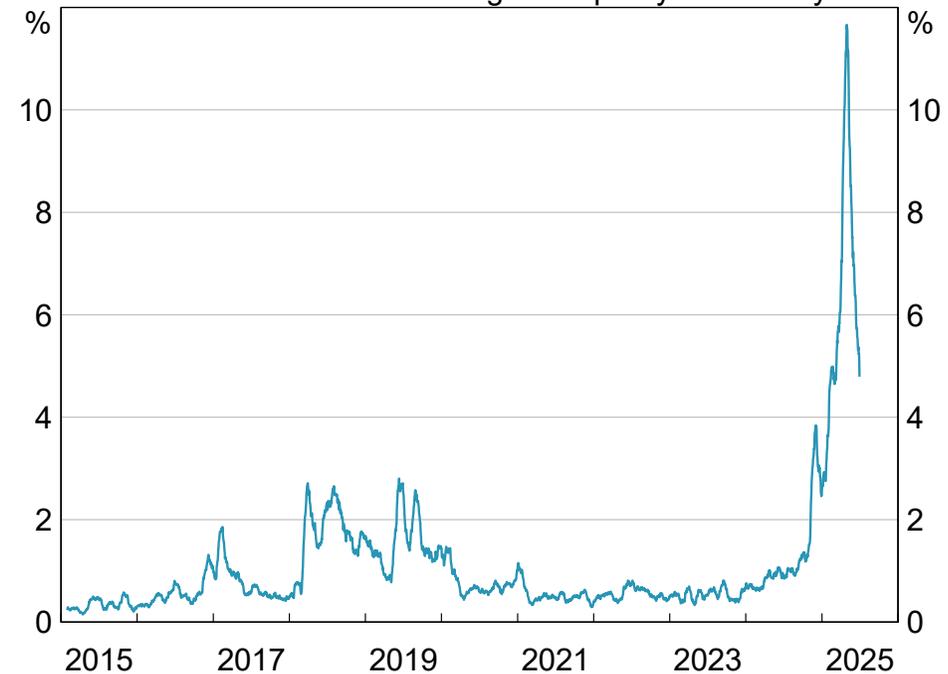
US tariff policies

Indirect impact (uncertainty)

- Trade tensions contribute to higher uncertainty.
- Can cause households to be more cautious with spending decisions and businesses to delay or reduce investment.

US Trade Policy Uncertainty*

Share of articles discussing trade policy uncertainty



* Daily 30-day moving average of the share of articles mentioning trade policy uncertainty in automated text searches of mostly US newspapers: Boston Globe, Chicago Tribune, Guardian, Los Angeles Times, New York Times, Wall Street Journal, and Washington Post.

Sources: Caldara et al (2019); RBA.

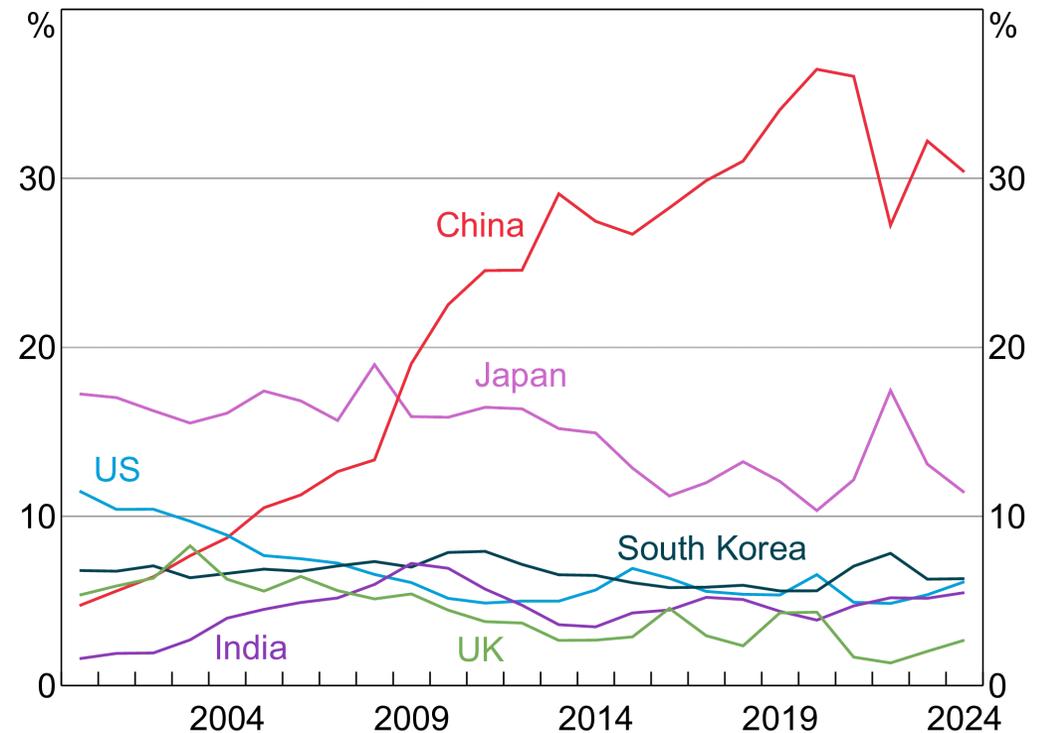
US tariff policies

Implications for Australia

- Small direct impact on Australian trade.
- Slower growth in Australia's major trading partners.
- Moderately disinflationary for Australia due to weaker aggregate demand.

Exports by Destination

Annual, share of total values



Sources: ABS; RBA.

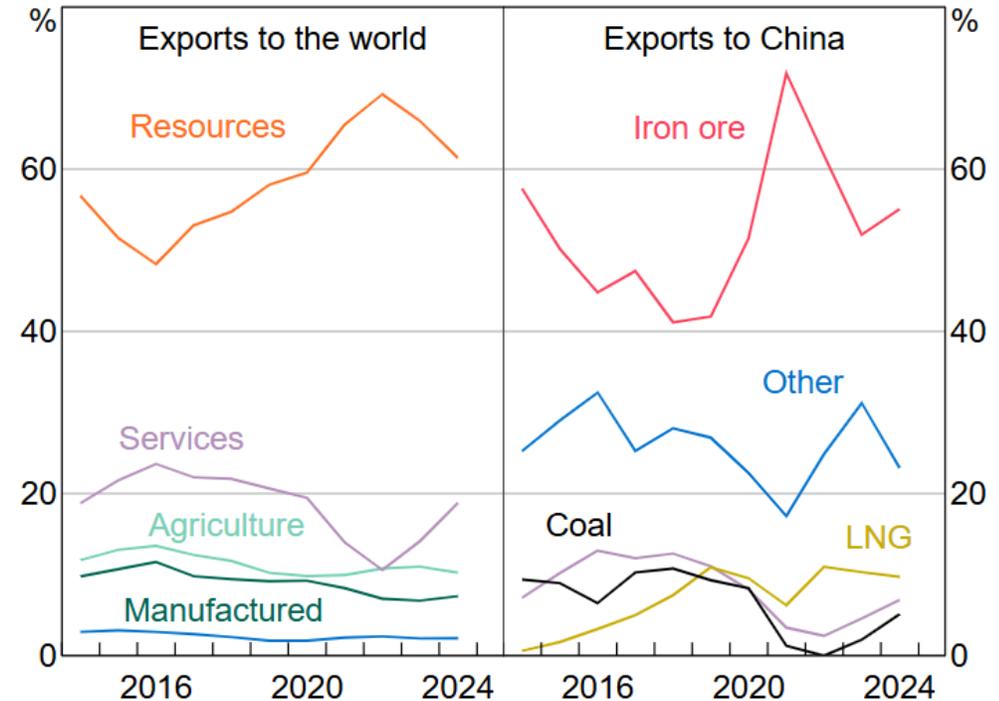
Conclusion

What does the changing world mean for Australia's trade?

- Australia is a relatively open and trade-exposed economy.
- Developments in China have been the most important sources of demand for Australia's exports in recent decades.
- Other developments in global trading system (e.g. supply chain disruptions and tariffs) increasingly matter for the Australian economy.

Composition of Australia's Exports

Share of total value, annual



Sources: ABS; DFAT; RBA.

Key topics covered

- Factors that have shaped global and Australian trade over recent decades.
- Factors that will be increasingly important for understanding trade over the years ahead.
- The rising use of trade barriers (such as tariffs) and their economic implications.
- Economic implications of global events (COVID pandemic and US tariff policies)