



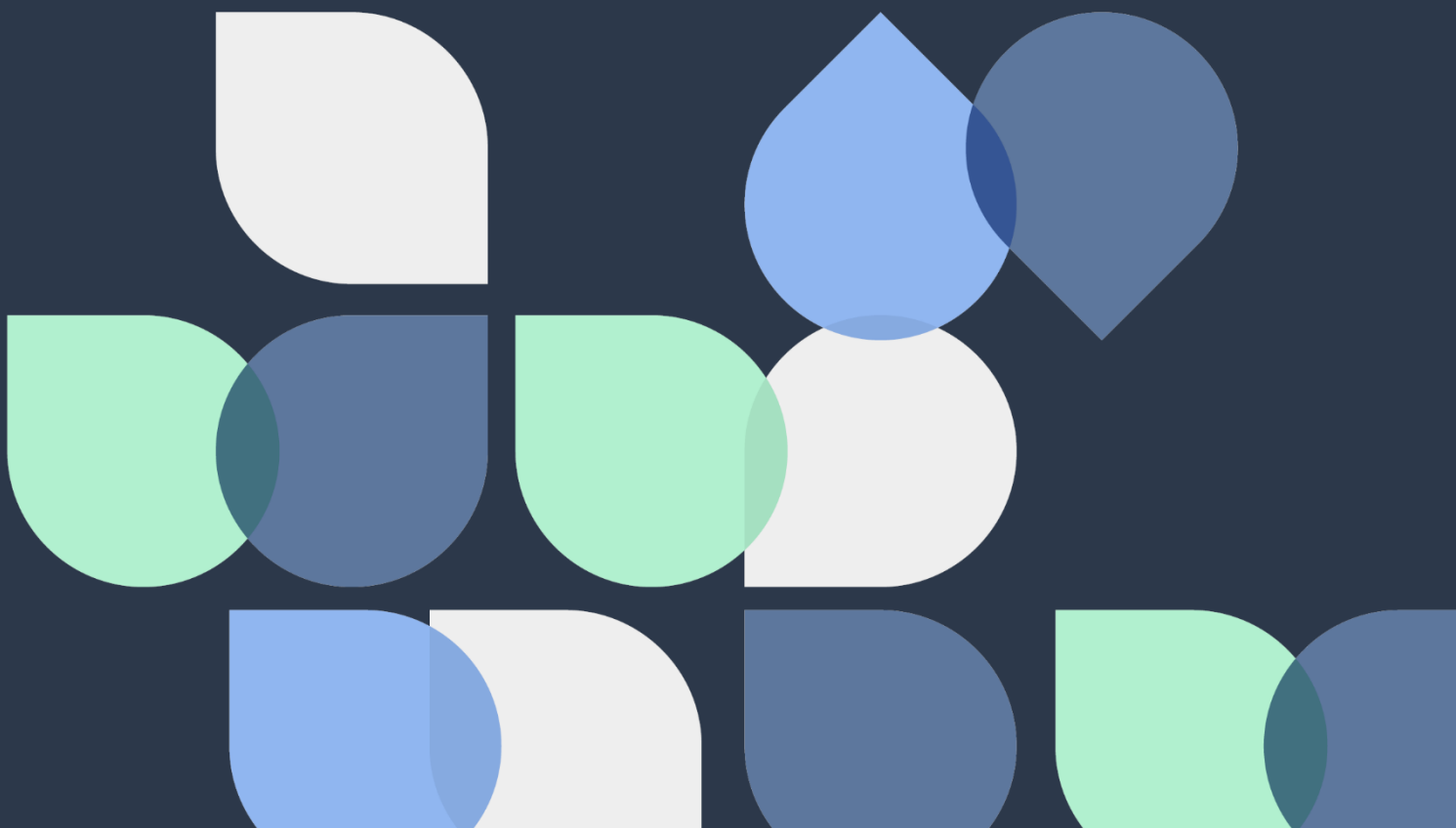
Australian Government



**Economic
Reform**
Roundtable

Economic Reform Roundtable

Economic resilience



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In the spirit of reconciliation, the Australian Government acknowledges the Traditional Custodians of country throughout Australia and their connections to land, sea and community. We pay our respect to their Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples.

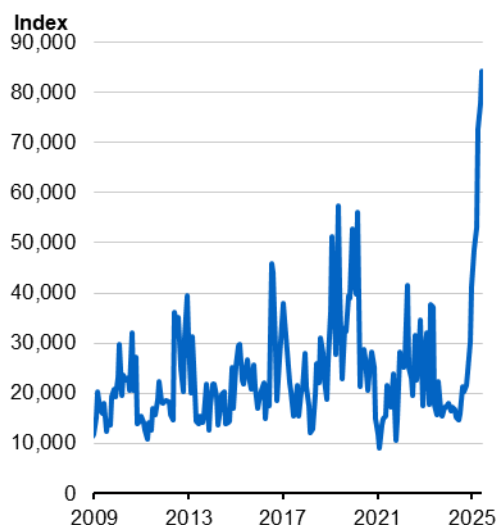
Economic resilience

Economic resilience helps us weather and respond to disruptions including economic, geopolitical, technology and climate shocks, so we can prosper in an uncertain world.

Recent trends

- The global economy is facing a period of remarkable change, driving measures of uncertainty to record highs (Chart 1).
 - Over the past five years the COVID-19 pandemic, conflicts in Europe and the Middle East, and natural disasters – have disrupted global supply chains (Chart 2), increased the cost of living and created headwinds for economic growth.
 - Global industries are transforming, as advances in decarbonisation and artificial intelligence technologies have changed the value of countries' natural endowments, disrupted business models and created new markets and partnerships.
- The global order is facing disruption not seen since the end of World War II – shifting from a stable world based on rules and interdependence towards greater contests of power and global competition. The use of tariffs and other industrial policy measures is accelerating.
 - Globally, the number of new discriminatory trade policies each year has almost tripled since 2019 (Chart 3).
 - Financial market volatility has also increased (Chart 4), with commodity prices demonstrating heightened demand for safe assets like gold that are resilient to inflation and geopolitical risks.

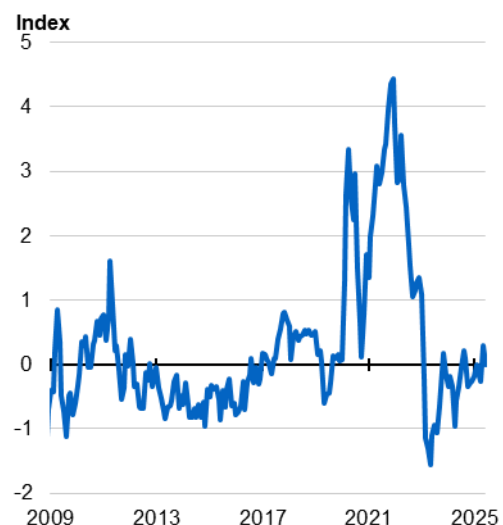
Chart 1: World Uncertainty Index



Note: Data to June 2025.

Source: World Uncertainty Index.

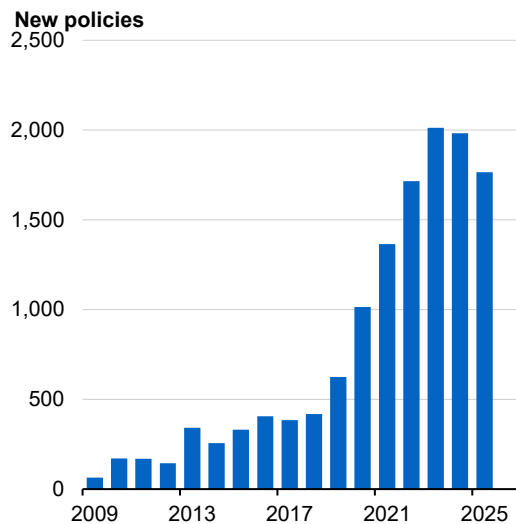
Chart 2: Global Supply Chain Pressure Index



Note: Data to June 2025.

Source: Federal Reserve Bank of New York.

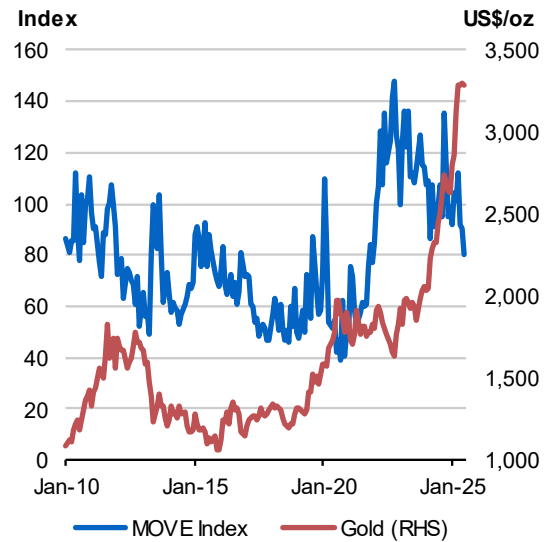
Chart 3: New discriminatory trade policies



Note: Annual totals refer to numbers reported by 4 August in each year.

Source: Global Trade Alert.

Chart 4: MOVE index and spot gold price



Note: Data to August 2025. Month-end daily values are presented.

Source: Bloomberg.

- In response, governments around the world are taking steps to de-risk key supply chains and enhance security, including by supporting strategic sectors through trade and industry policy and competing to attract foreign direct investment and skilled labour, including through migration.
 - Since 2021 ‘friendshoring’ of trade has risen by around 2 percent (UNCTAD, 2025).
 - Evidence also points to an increase in friendshoring in patterns of foreign direct investment (CEPR, 2025).
- As a medium-sized open economy, these global dynamics have the potential to shape Australia’s domestic economic conditions, increase costs for consumers, weigh on business confidence and suppress economic activity.
 - Since the end of COVID-related lockdowns, the Australian economy has consistently expanded and non-mining business investment has reached record levels, while most OECD countries have experienced at least one quarter of negative growth.
 - Australia has been able to reduce inflation while preserving the gains we have made in the labour market. Australia has created more than one million jobs since June 2022, the unemployment rate has remained low and the participation rate has remained around record highs.
- This economic resilience has been underpinned by the strength of our economic fundamentals. Australia will need to continue to invest in these foundations to maintain this resilience through the uncertain period ahead.

Structural shifts

- The 2023 Intergenerational Report established that five major forces are reshaping Australia's economy: global fragmentation, population ageing, shifts in industrial composition, rapid changes in technology and the transition to renewable energy.
- These dynamics are already changing Australia's workforce, industrial mix and trade partnerships.
- Engaging proactively with these shifts is essential to modernise Australia's economy, and to position Australia to be more responsive to external shocks and unexpected opportunities. In particular, we should expect to see greater flows of:
 - Investment that deepens Australia's productive capacity, helping Australia capitalise on new opportunities, and reinforcing sovereign capability in areas of strategic importance.
 - Skills and human capital that enable the take-up of new technologies and enable adjustment in the face of shocks. In some cases, attracting key skilled workers can also complement efforts to accelerate investment.
 - Capital and trade, leveraging dynamic and open markets to build competitiveness and ensure capital and workers flow to their most productive uses.

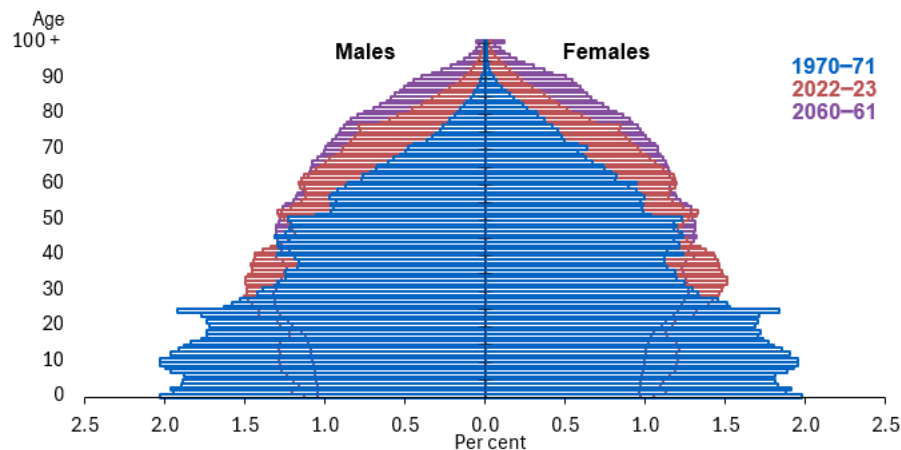
Global fragmentation and geo-political tensions

- Australia has been able to take advantage of our natural endowments through flexible markets, high quality trade partnerships and our human capital and industrial base.
- Despite the geopolitical fractures, trade has continued to grow. In nominal terms, Australia's exports of goods and services outpaced the rate of economic growth during the five years to 2024.
- Our strategic position and geography present both opportunities and risks.
 - Over two thirds of our exports go to the Asia-Pacific, where strategic tensions are rising. One third of our exports go to China, by far our largest customer.
 - Our proximity to our customers makes us a reliable supplier of energy and our critical minerals resources can support the global clean energy and industrial transition.
 - As risks mount in other markets, there may be a premium for markets such as Australia's with stable policy settings.

Australia's population is changing

- Like in many advanced economies, Australia's population is ageing (Chart 5). This has wide-ranging economic and social implications.
 - Over the next 40 years, the number of people aged 65 and over will double and the number aged over 85 will triple.
 - Population ageing will put increasing pressure on government services, particularly health and aged care. It will also mean there is a shrinking proportion of working age Australians, putting pressure on government revenues.

Chart 5: The proportional age structure of Australia's population



Source: ABS, *National, state and territory population*, March 2024; and Centre for Population.

Shifts in Australia's industrial composition

- The services sector is becoming a greater share of the economy.
 - Increased consumption of services is occurring globally as incomes and demand for leisure increases. This is being reinforced by the decline in the cost of manufacturing goods, and higher demand for care services.
- Significant shifts in industry composition place greater demands on our workforce.
 - Manufacturing output will continue to shift towards higher value-add production and a more highly skilled labour force.
 - More jobs will need greater investment in skills requiring more post-school training.
 - There is a need for increased adaptability, and greater coordination to match skills with business needs, including the ability to retrain the labour force as the skill needs of the economy evolve.

Rapid changes in technology

- New technologies are evolving quickly and will have a transformational effect on the global economy and broader society.
- In particular, the development and adoption of Artificial Intelligence (AI) technologies is progressing rapidly and will reshape industrial opportunities and the nature of work.
 - AI could help improve service delivery and overcome skills shortages.
 - It could also bring Australia closer to global markets: AI-powered translation services have been shown to lower barriers to trade for US online retail platforms, equivalent to decreasing physical distance by 26 per cent (NBER, 2018).
 - Research suggests 8 out of 10 workers could use large language models for at least 10 per cent of their work in the future (Elondou et al, 2023) and that in most cases, workers are interacting iteratively with AI, augmenting their skills (Anthropic, 2025).

- Planning for this shift and ensuring access to the necessary skills and infrastructure will be key to enabling adoption, and ensuring benefits are widely shared.
- Similarly rapid progress is being made in other critical technologies, such as quantum technologies, autonomous systems and robotics, and advanced manufacturing. Effective commercialisation will be key to maintaining competitiveness and unlocking new industrial opportunities.

Transition to renewable energy

- Australia's coal-fired electricity generators are becoming unreliable and require replacement, with around 90 per cent of the coal-fired generation capacity expected to retire within the next 10 years (AEMO, 2024).
- At the same time, the cost of renewable energy generation has been declining, driving increased investment in solar and wind generation, firmed by batteries and gas.
 - For example, battery prices fell by 20 per cent in 2024–25 (CSIRO, 2025).
 - Renewable energy as a share of Australia's electricity system over the last decade has tripled and reached 46 per cent of electricity generation in the last quarter of 2024 (AEMO, 2025).
- The decarbonisation and expansion of Australia's electricity grid creates opportunities for many other industries to decarbonise through electrification.
 - Significant capital upgrades are underway or under consideration in many of Australia's heavy industries to take advantage of Australia's renewable energy potential and decarbonisation technologies as drivers of long-term competitiveness.
 - By one estimate, decarbonisation of industrial assets and transitioning the energy system over the next 25 years is expected to require a similar level of private investment per year to the establishment of Australia's LNG industry in the 2010s (Climateworks, 2023).

Work done or underway

- There is more to do, but the Government has taken important steps to improve Australia's resilience, helping our industries to withstand economic shocks and take advantage of international uncertainty.
 - Responsible economic management, which has contributed to the moderation of inflation while the economy continues to grow and jobs have been preserved.
 - Responsible budget management, with two consecutive budget surpluses delivered for the first time in two decades and lower debt and lower deficits compared to the 2022 Pre-election Economic and Fiscal Outlook.
 - Abolishing around 500 nuisance tariffs, including those relating to household necessities (toothbrushes, tools, fridges, dishwashers and clothing).
 - Working with international partners, including through our Southeast Asia Economic Strategy.
 - Modernising our energy system, including through investing \$20 billion through the Rewiring the Nation scheme to upgrade Australia's transmission infrastructure and crowding-in over

\$70 billion of investment into renewable generation and storage through the Capacity Investment Scheme.

- Building a Future Made in Australia to maximise the economic benefits from the net zero transition and to secure Australia's place in a changing global economic and strategic landscape.
- Investing in supply chain resilience to address vulnerabilities and secure access to essential goods, especially in critical sectors like medical products, clean energy technology, and critical minerals.
- Investing in a highly skilled and more adaptable workforce. This includes the National Skills Agreement, the Universities Accord response, Free TAFE and the implementation of the Government's Migration Strategy to re-orientate the program to address our national challenges.
- Investing in new technology and capabilities that will underpin future innovation. This includes signature investments in quantum computing, supporting the modernisation and digitisation of industries, ensuring a robust and sustainable research and development system and implementation of AI Adopt Centres.

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