Choosing openness

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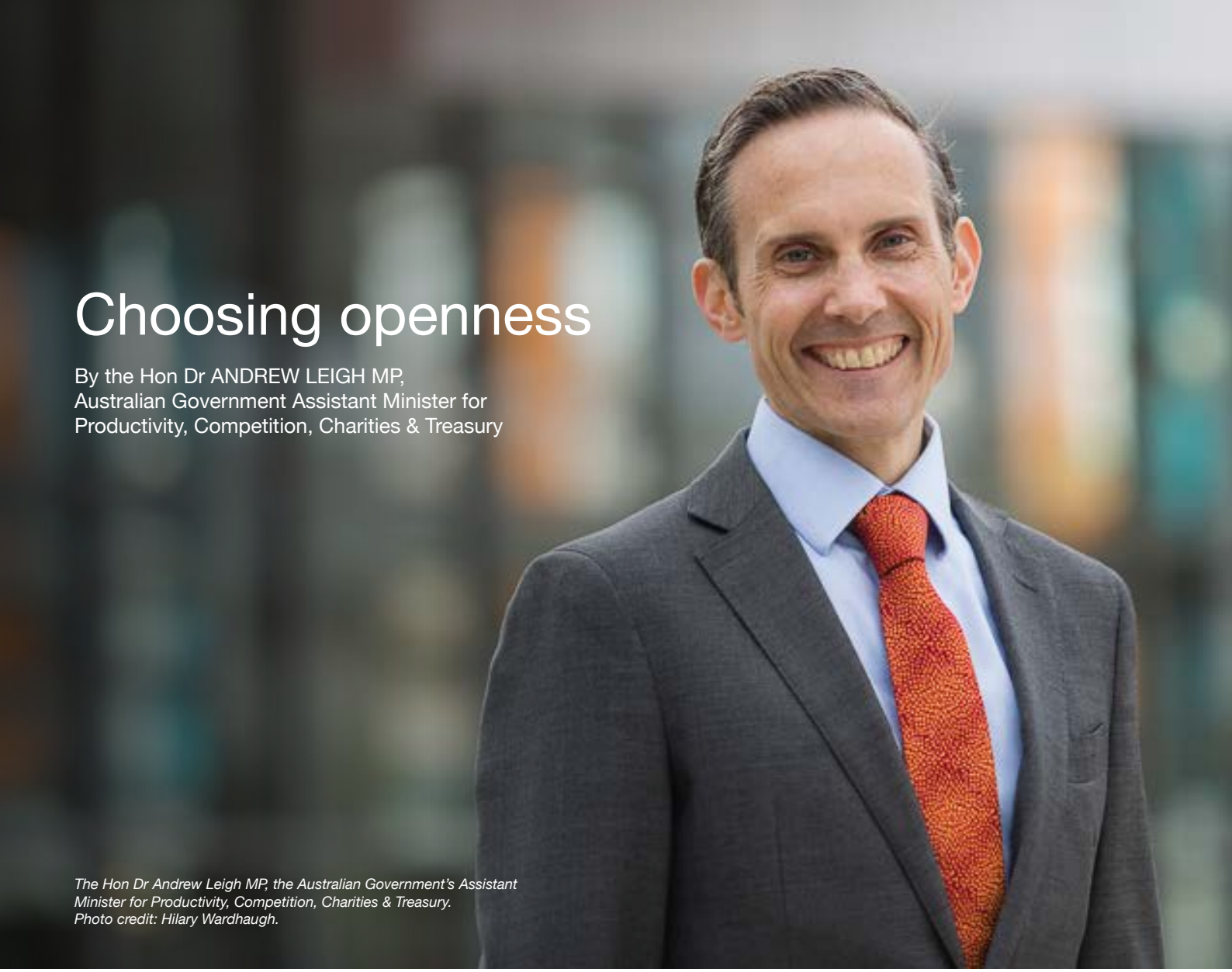

The Hon Dr Andrew Leigh MP, the Australian Government's Assistant Minister for Productivity, Competition, Charities & Treasury. Photo credit: Hilary Wardhaugh.

For more than half a century, open trade has helped make Australia more prosperous, dynamic and resilient. Yet around the world, support for openness is fraying. Tariffs are creeping back. Multilateral institutions are struggling to maintain the rules that once made the global system predictable.

At moments like this, it is worth reminding ourselves why Australia has done well by keeping our doors open, and why tariffs are not the answer.

The case for openness

The argument for open trade begins with a simple but powerful idea: comparative advantage. Few of us try to do everything ourselves. We do not grow our own wheat, weave our own clothes or forge our own tools. Instead, we specialise in what we do best and trade for the rest.

Nations are no different. When each country focuses on what it is relatively good at, everyone ends up better off. Australian miners export lithium to Korea, our farmers sell beef to Vietnam, and our universities educate students from across the Indo-Pacific. Our trading partners do the same in return, sending us the products and technologies that make our lives richer and our industries more efficient.

For a country that accounts for just 0.3 per cent of the world's population, trading with others is not optional. It is essential. Exports comprise around one quarter of GDP and trade supports around one in four Australian jobs. It keeps prices lower for households. It gives our businesses access to global ideas and innovations. It helps firms grow to a scale that simply would not be possible if they were limited to our domestic market alone.

A hard-won transformation

It was not always this way. In the late nineteenth century, Australia's colonies were deeply protectionist. Each slapped hefty tariffs on goods from other colonies as well as on imports from abroad. A farmer in Victoria might pay a duty to buy a plough from South Australia, or a merchant in Sydney might face an extra cost on a shipment of Tasmanian timber.

Federation in 1901 swept away those internal tariffs, knitting together the national economy. But high external tariffs remained in place for decades. For the first half of the twentieth century, Australia protected its manufacturers behind high tariff walls. Those barriers made some local industries viable, but they also raised prices, dulled competition and slowed innovation.

It was only after World War II that Australia began to open up in earnest. Successive rounds of international trade negotiations, first under the GATT and later the World Trade Organization, encouraged tariff reductions around the world. Australia followed suit, sometimes reluctantly at first, but then with increasing confidence.

The real breakthrough came when we chose to cut tariffs on our own initiative. In 1973, the Whitlam government took

the bold step of reducing all tariffs by 25 per cent across the board. It was an act of economic self-belief, a recognition that openness would make us stronger rather than weaker. In the 1980s and early 1990s, the Hawke and Keating governments continued the process, dismantling protection sector by sector. They faced political heat, but history has vindicated them.

By the mid-1990s, Australia had transformed from a relatively closed economy to one of the more open. The results were unmistakable: more competitive industries, new export markets, rising living standards and closer integration with the fast-growing economies of Asia.

Why tariffs are the wrong choice

The case for openness still needs to be defended. Tariffs can be politically tempting, especially when industries feel under pressure. They sound decisive. They seem to promise protection and stability. But in practice they come with heavy costs that compound over time.

First, high tariffs cause disproportionate harm. Just as wind resistance rises with the square of speed, the economic drag rises with the square of the tariff rate. A small tariff may slow things down a little; a large one can stop activity in its tracks. Tariffs distort how resources are used. Firms divert effort into lobbying for protection rather than improving productivity. Consumers spend more for less.

Experience shows that once tariffs rise, they can be difficult to unwind because vested interests grow around them. The result is a less efficient, less adaptable economy, one that rewards influence instead of ingenuity. The lesson is clear: protectionism does not just shield old industries; it suffocates new ones.

Second, tariffs reduce choice. Even modest tariffs create paperwork, inspection costs and uncertainty that can deter importers from offering new products. Consumers pay more and have fewer options. Businesses lose access to the best machinery, technology and materials.

For smaller firms in particular, the administrative burden of tariffs can be prohibitive. A family-owned importer deciding whether to add a new product line may find that the paperwork and compliance costs outweigh the potential profits. That is why the Albanese government scrapped hundreds of nuisance tariffs on items ranging from walking sticks to crocheted fabrics. Those tariffs did not protect Australian industry; they just clogged the system. By removing them, we cut unnecessary paperwork, eased costs for small business and made trade simpler for everyone.

Choice is not a luxury. It is what drives innovation. When firms can access global suppliers and compete in global markets, they lift their game. When they cannot, they stagnate.

Third, retaliating with tariffs only makes things worse. Trade wars are easy to start and hard to end. Retaliatory tariffs disrupt long-standing supply chains, raise input costs and invite further retaliation.

Australia has shown a different path. When China restricted around $20 billion worth of our exports, we did not respond in kind. Instead, we worked through diplomacy and diversification. Our exporters found new markets in India, Indonesia and the Middle East. Many of the same products that once went to China, including barley, wine and seafood, continued to find their way to global consumers.

As the economist Joan Robinson quipped, just because your trading partner puts rocks in their harbour does not mean you should put rocks in yours. Retaliation is economically destructive. Openness is not naivety; it is strategic patience.

Fourth, trade is good for workers. Jobs linked to exports pay more on average than those in purely domestic industries. Exporters tend to invest more in training, adopt new technologies faster and create more secure jobs. When firms compete globally, they need skilled, adaptable workers, and they are willing to pay for them.

At the same time, virtually every Australian job depends in some way on imports. A builder relies on imported tools, an engineer on imported software, a farmer on imported fertiliser and machinery. Tariffs on those goods do not just raise prices; they undermine productivity.

Trade does not destroy jobs; it reshapes them. Australia's open economy has seen employment grow steadily even as industries evolve.

Fifth, tariffs hit low-income households hardest. Protectionism is often sold as a defence of the working class, but in practice it does the opposite. Tariffs raise the cost of everyday goods such as clothes, food and household appliances, precisely the items that make up a larger share of poorer households' spending. For a family living on a tight budget, even small price increases bite deeply.

Meanwhile, the benefits of tariffs are concentrated. A handful of protected firms gain while everyone else pays. The burden falls heaviest on consumers who have the least room to absorb it. Tariffs also shrink markets for our farmers and manufacturers, who lose export opportunities when other nations retaliate. Over time, protection erodes rather than safeguards opportunity.

The broader dividends of trade

Openness is not just about economics. Trade fosters trust and cooperation between nations. When we buy and sell from one another, we build habits of partnership that extend far beyond commerce. Those relationships make it easier to tackle shared challenges, from climate change to global tax avoidance to maintaining safe and open sea lanes.

For a maritime nation such as Australia, the oceans themselves are a reminder of the benefits of connection. Our prosperity has always depended on ships sailing in and out of our ports, from the wool clippers of the nineteenth century to the container vessels and bulk carriers of today. Each ship that leaves Fremantle, Darwin or Port Kembla carries not just goods, but the accumulated confidence of a country willing to engage with the world.

The enduring verdict

The world will continue to debate the merits of openness. But Australia's own history gives a clear answer. We have tried protection and we have tried openness. One shrank our horizons; the other expanded them.

For Australia, the verdict is in: trade expands opportunity. Closing ourselves off would shrink it. The more we connect with the world, the more we shape it, and the better prepared we are to prosper in it.

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