# REPORT: Trade Wars, Market Turmoil: Australia's Digital Imperative - and Opportunity

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# Trade Wars, Market Turmoil: Australia's Digital Opportunity

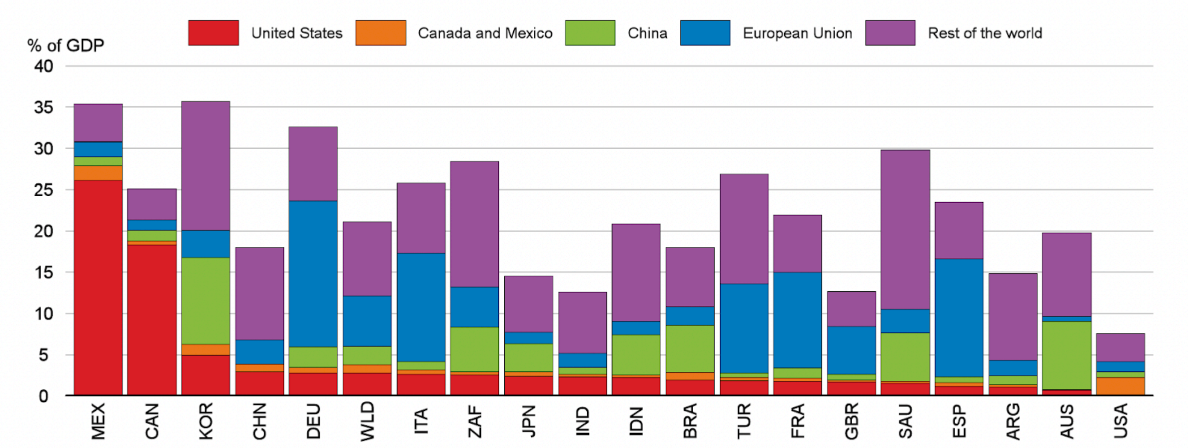
**Abstract:** The OECD has downgraded global GDP growth due to escalating trade tensions, primarily driven by U.S. tariffs on China, Canada, and Mexico. Financial markets have sharply declined, while the risk of a U.S. recession continues to rise. The real threat is its dependence on U.S. tech giants, which imposes substantial economic costs outside traditional trade figures (see our report "The tariff debate ignores Australia's digital dependence").

Australia will not escape the effects of the economic slowdown. What makes us see this as an opportunity? Australia's low trade exposure to the U.S. market gives it freedom to respond that other countries lack. With global uncertainty growing, Australia has the opportunity to adopt a more strategic trade and technology policy to safeguard its economic future.

## Trade turbulence hits growth forecasts

The **OECD has downgraded global GDP growth** as escalating trade tensions—driven primarily by **U.S. tariff hikes on China, Canada, and Mexico**—threaten to disrupt global supply chains. With the U.S. doubling down on its **"America First" economic stance**, key trading partners are **formulating counterstrategies**, increasing the risk of a prolonged economic standoff.

Figure 1. **2024 distribution of merchandise export volumes (% of GDP)**




Note: Merchandise export volumes as a share of GDP volumes based on 2024 data, except for Argentina, India, Mexico and Saudi Arabia where data are for 2023, and Türkiye where data are for 2021. Bilateral trade shares based on OECD estimates for 2021.
Source: OECD Interim Economic Outlook 117 database; OECD Balanced International Merchandise Trade Statistics; and OECD calculations.

Stock markets have reflected this **growing uncertainty**, with **sharp corrections across global indices** as investors brace for slower growth and potential policy missteps. The likelihood of a **U.S. recession is gaining traction**, with monetary policy constraints limiting the Fed's ability to cushion the downturn, especially as inflationary pressures persist.

### OECD Economic Outlook – Key Takeaways (March 2025)

- **Global Growth Slows Amid Rising Uncertainty**
  Global GDP growth is projected to moderate from **3.2% in 2024 to 3.0% in 2026**, with advanced economies experiencing slower expansion due to weaker investment and household spending. The U.S., Eurozone, and China face downward pressure from heightened geopolitical risks and trade tensions.

- **Inflation Eases but Remains Above Target**
  While headline inflation in G20 economies is expected to decline to **3.2% by 2026**, core inflation remains sticky in several countries. Rising trade costs and persistent wage pressures could delay monetary policy easing.

- **Trade Barriers Threaten Economic Stability**
  Tariff increases, particularly between the **U.S., China, Canada, and Mexico**, are expected to weigh on global trade and push up inflation. Further fragmentation of the global economy could shave **0.3% off global GDP** in the next three years.

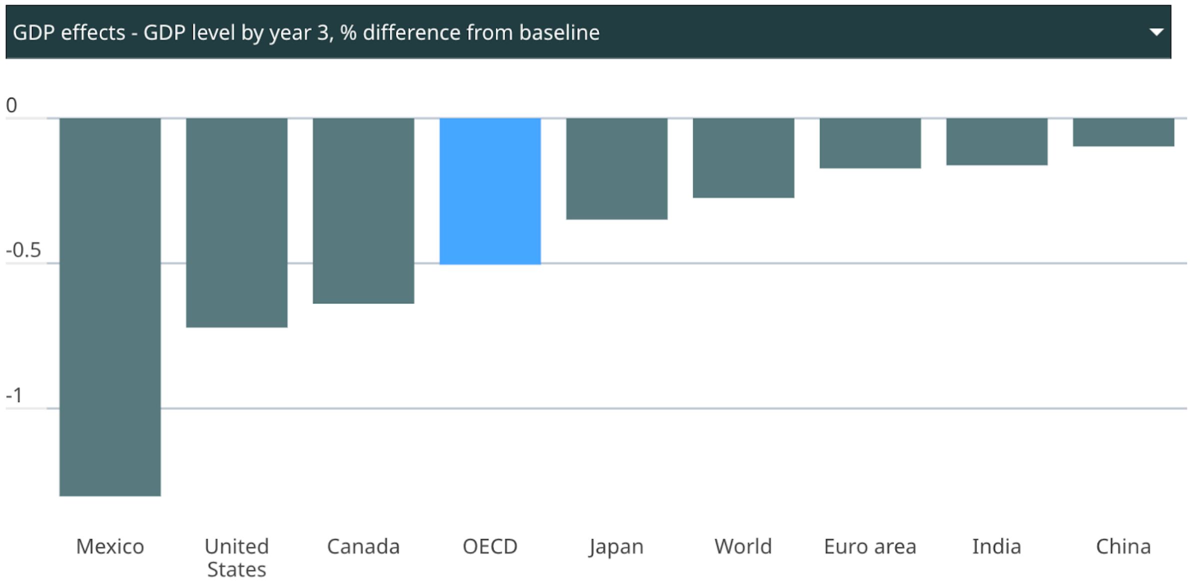
- **Financial Markets Face Growing Volatility**
  A sharper-than-expected slowdown could trigger **asset repricing and financial instability**, particularly in equity and debt markets. Rising interest rates in some economies and geopolitical tensions add to investor uncertainty.

- **Policy Action Needed to Ensure Stability**
  Central banks must balance inflation control with economic growth, while fiscal discipline is crucial to **ensure debt sustainability amid rising spending pressures**. Governments should focus on bilateral trade cooperation, regulatory reforms, and **AI-driven productivity enhancements** to sustain long-term growth.

## Who are the biggest losers from a trade war?

The OECD simulation highlights that a 10% tariff increase by the U.S. and reciprocal tariffs from other countries would be a major self-inflicted blow to the U.S. economy. As shown in the chart, the U.S. would face a GDP decline of around 0.8% by year three, with Mexico (-1.2%) and Canada (-0.7%) also among the biggest losers due to their deep trade ties with the U.S. This policy mainly harms America's own economy and its closest trading partners, while the global impact is milder.

**Figure 2. OECD modelling of tariff-related GDP impacts**




Note: The simulation assumes bilateral tariffs are raised permanently by 10% on all non-commodity imports into the United States with corresponding increases on tariffs applied to non-commodity imports from the United States in all other countries.
Source: OECD calculations using the NiGEM global macroeconomic model and the OECD METRO model.

## Why is the U.S. Targeting China, Mexico, and Canada?

The U.S. has imposed higher tariffs on **China, Mexico, and Canada** due to their **significant roles in its trade ecosystem** and ongoing economic and geopolitical concerns. These three countries collectively **account for over 40% of total U.S. trade**, making them pivotal in both supply chains and domestic economic policy:

- **China – A Geopolitical and Economic Rival**
  The U.S. sees China as its **primary competitor in global trade and technology**, leading to ongoing tensions over industrial policy, intellectual property, and trade imbalances. The **20 percentage point tariff increase on Chinese goods** aims to reduce dependence on Chinese imports and counter what the U.S. views as **unfair trade practices and industrial subsidies**.

- **Mexico & Canada – North American Trade Dynamics**
  As the U.S.'s **top two trading partners**, Mexico and Canada are **deeply integrated into U.S. supply chains** under the USMCA. The **new 25 percentage point tariff hike** on their merchandise exports is likely aimed at **renegotiating trade terms, reshoring manufacturing, and addressing concerns over trade imbalances and rules of origin compliance**.

- **Steel, Aluminium, and Energy – Protecting U.S. Industry**
  The U.S. has long sought to **protect its domestic steel and aluminium industries**

from global oversupply, particularly from Canada, which is a major exporter. The **tariffs on energy products and potash** suggest a broader push to **strengthen U.S. energy security and reduce reliance on key raw materials of its neighbours**.

- **Strategic Leverage for Trade Negotiations**
  By imposing tariffs**, the U.S. gains bargaining power ahead of potential trade renegotiations.** The timing aligns with upcoming U.S. policy reviews and a mid-term election year, where protectionist policies often gain political traction.

Overall, these tariffs reflect **both economic and political calculations**, aiming to **reshape supply chains, support domestic industries, and reinforce U.S. strategic interests** in global trade.

## Australia's response

Importantly, Australia has a relatively low exposure to the U.S. market. **Our merchandise trade is small, and services trade is also highly unbalanced in favour of the U.S.**. This highlights the gratuitousness of the U.S. move to impose tariffs on Australia exports. But it also gives Australia a degree of freedom in its response to U.S. aggression that countries like China, Canada, and Mexico lack.

For Australia, the **real challenge goes beyond merchandise trade disputes** - its economic vulnerability lies in its **dependence on U.S.-based digital platform giants**. The full costs of this dependence are not captured in traditional trade figures. Treasurer Jim Chalmers has **warned of a multibillion-dollar dent in Australia's economy by 2030** due to rising trade tensions, reinforcing the urgency for **a more deliberate, sovereign approach to global economic shifts**. The current disruption brings an opportunity to rewrite Australia's relationship with U.S.-based digital platforms.

With a **weaker budget outlook and a turbulent global economy**, Australia must **redefine its trade and tech strategy**, balancing economic resilience with geopolitical realities. The message for Canberra is clear: **the world is rewriting the rules of economic engagement, and Australia must adapt - or risk falling behind.** This means:

- Adjusting regulatory and tax treatment of U.S.-based digital platforms to combat their extractive practices.
- Bolstering sovereign technological, cultural, economic and military capabilities.
- A more transactional approach to sharing those capabilities.

Venture Insights will be developing potential scenarios and options for such a strategy in the coming weeks.

**Figure 3. Five Key Implications for Australia's TMT Sector**

| | |
|---|---|
| **Heightened Tech Supply Chain Risks** | Australia's reliance on U.S. technology giants means any disruptions from trade wars or U.S. protectionist policies could impact software costs, cloud services, and hardware availability. With the OECD forecasting weaker global growth and rising inflationary pressures, Australian enterprises may face higher costs and reduced access to critical digital infrastructure. |
| **Stock Market Volatility and Investment Hesitation** | The sharp correction in global markets and growing recession fears in the U.S. could dampen venture capital and private equity flows into Australia's tech sector. Startups and high-growth firms dependent on foreign capital, and IPO activity may struggle to secure funding as investors adopt a risk-off approach. |
| **Regulatory Pressures on Digital Trade and Services** | While U.S. tariffs target merchandise goods, Australia's real exposure lies in digital services and intellectual property costs. Potential new U.S. regulations on data sovereignty, AI, and cybersecurity could increase compliance burdens and operational costs for Australian tech firms relying on U.S. platforms. |
| **Slower Expansion into Global Markets** | Rising protectionism may block opportunities for Australian TMT firms in North America and Europe, with increased trade barriers disrupting global partnerships and supply chains. Companies will need to diversify market strategies, focusing on Asia-Pacific growth and domestic innovation ecosystems. |
| **Government Must Take a More Strategic Approach** | Treasurer Jim Chalmers has flagged concerns about Australia's exposure to trade tensions, with Treasury warning of a multi-billion-dollar economic hit by 2030. Australia's TMT policy must evolve, prioritising sovereign digital capabilities, competitive innovation incentives, and a strategic response to U.S.-China tech rivalry. |

Source: Venture Insights

# Appendix

## OECD Global GDP Outlook

| | 2024 | 2025 | 2026 | | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|
| World | 3.2 | 3.1 | 3.0 | G20 | 3.3 | 3.1 | 2.9 |
| | | | | | | | |
| Australia | 1.1 | 1.9 | 1.8 | Argentina | -1.8 | 5.7 | 4.8 |
| Canada | 1.5 | 0.7 | 0.7 | Brazil | 3.4 | 2.1 | 1.4 |
| Euro area | 0.7 | 1.0 | 1.2 | China | 5.0 | 4.8 | 4.4 |
| Germany | -0.2 | 0.4 | 1.1 | India | 6.3 | 6.4 | 6.6 |
| France | 1.1 | 0.8 | 1.0 | Indonesia | 5.0 | 4.9 | 5.0 |
| Italy | 0.7 | 0.7 | 0.9 | Mexico | 1.5 | -1.3 | -0.6 |
| Spain | 3.2 | 2.6 | 2.1 | Russia | 4.1 | 1.3 | 0.9 |
| Japan | 0.1 | 1.1 | 0.2 | Saudi Arabia | 1.2 | 3.8 | 3.6 |
| Korea | 2.1 | 1.5 | 2.2 | South Africa | 0.6 | 1.6 | 1.7 |
| United Kingdom | 0.9 | 1.4 | 1.2 | Türkiye | 3.2 | 3.1 | 3.9 |
| United States | 2.8 | 2.2 | 1.6 | | | | |

Note: India projections are based on fiscal years, starting in April. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right. Spain is a permanent invitee to the G20. World and G20 aggregates use moving nominal GDP weights at purchasing power parities.

Source: OECD Economic Outlook 117 databases; and OECD Economic Outlook 116 database.

## OECD Global Inflation Projections

| | 2024 | 2025 | 2026 | | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|
| G20 | 5.3 | 3.8 | 3.2 | | | | |
| | | | | | | | |
| Australia | 3.2 | 2.4 | 2.2 | Argentina | 117.8 | 28.4 | 24.8 |
| Canada | 2.4 | 3.1 | 2.9 | Brazil | 4.4 | 5.4 | 5.3 |
| Euro area | 2.3 | 2.2 | 2.0 | China | 0.2 | 0.6 | 1.4 |
| Germany | 2.5 | 2.4 | 2.0 | India | 5.0 | 4.5 | 4.1 |
| France | 2.3 | 1.5 | 1.8 | Indonesia | 2.2 | 1.8 | 2.8 |
| Italy | 1.1 | 1.7 | 1.9 | Mexico | 4.7 | 4.4 | 3.5 |
| Spain | 2.9 | 2.5 | 2.1 | Russia | 8.4 | 9.9 | 6.3 |
| Japan | 2.7 | 3.2 | 2.1 | Saudi Arabia | 1.7 | 1.9 | 2.0 |
| Korea | 2.3 | 1.9 | 2.1 | South Africa | 4.4 | 4.0 | 4.6 |
| United Kingdom | 2.5 | 2.7 | 2.3 | Türkiye | 58.5 | 31.4 | 17.3 |
| United States | 2.5 | 2.8 | 2.6 | | | | |

Note: Table shows the personal consumption expenditure price index for the United States, the harmonized index of consumer prices for the euro area and its member states and the United Kingdom, and the national consumer price index for all other countries. India projections are based on fiscal years, starting in April. Spain is a permanent invitee to the G20. The projection incorporates the announced tariffs between China and the United States and the broad-based 25% tariff on United States imports of steel and aluminium. All merchandise imports from Canada and Mexico to the United States are assumed to incur a 25% tariff, with equivalent retaliatory actions being taken by these countries on merchandise imports from the United States.

Source: OECD Interim Economic Outlook 117 database; and OECD calculations.

# About Venture Insights

Venture Insights is an independent company providing research services to companies across the media, telco and tech sectors in Australia, New Zealand, and Europe.

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