

# **Economic Issues**

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## **Australia's New Trade Agreements: Beneficial Liberalisation or Harmful Policy?**

**Author:  
Andrew Symon**

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## **Editor's Note**

Welcome to the sixteenth issue of *Economic Issues*, a series published by the South Australian Centre for Economic Studies as part of its Corporate Membership Program. The scope of *Economic Issues* is intended to be broad, limited only to topical, applied economic issues of relevance to South Australia and Australia. Within this scope, the intention is to focus on key economic issues — public policy issues, economic trends, economic events — and present an authoritative, expert analysis which contributes to both public understanding and public debate. Papers will be published on a continuing basis, as topics present themselves and as resources allow.

The author of this paper is Andrew Symon, Research Associate, SA Centre for Economic Studies.

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**Michael O'Neil**  
**Director**  
**SA Centre for Economic Studies**  
**November 2005**







*International trade negotiations take place in an environment of Orwellian New-Speak. So-called 'free trade' agreements give one country preferential access, ahead of cheaper potential suppliers. 'Most favoured nation' clauses have the opposite effect, ensuring that all countries are treated in the same way, with no country 'most favoured.' At a deeper level, the whole notion of horse-trading about access is perverse: what is being offered as a quid-pro-quo bargaining chip (called a 'concession') is something that we should do anyway, in our own self-interest. Trade bargaining is the equivalent of saying: 'we will remove the rocks from our harbours if you remove the rocks from your harbours.' Stephen Grenville, Australian Financial Review, 23 August, 2004, Golden Straitjackets can chafe*

*... departure from a  
multilateral approach ...*

*... scope of regional trade  
agreements (RTAs) ...*

precursors to more comprehensive agreements. Labels can also be misleading. What might be termed a “free trade agreement” might in fact be a preferential agreements limited to a small slice of trade between countries. On the other hand, a free trade agreement might be far more comprehensive and complex in its coverage than removal or lowering of simple obstacles to goods and services trade.

Trade policy and agreements can have an enormous bearing on the country’s welfare, not just in an aggregate sense, but also in terms of their impact on particular regions, industries and socio-economic groups within the country. The impact of contemporary trade agreements may be even deeper with the trade agenda going well beyond the traditional concerns over tariff and quota protection of manufactured and

*... agreements may impinge  
more than ever on ...*



## **2. Economic Theory and Free Trade**

The case for free trade is one of the cornerstones of mainstream economics. Yet free trade policies have rarely been put into place

*... perfect world and the  
real world*

*... trade, specialisation,  
absolute or relative  
advantage to maximise  
welfare ...*

unilaterally lowering and removing its own trade restrictions. Resources will shift to their most internationally competitive uses, consumers will benefit from lower prices, and producers, including exporters will benefit from lower cost inputs. As a result, free traders fear that today's approach to trade liberalisation, where the emphasis is on achieving reciprocal advantage through the bargaining of concessions between countries, is not the best approach. Rather governments should focus first of all on the domestic benefits of liberalising home markets. This is what Australia did in the 1980s – unilaterally reducing protection without it being tied to export market access elsewhere. The problem now, the purists argue, facing free trade is that in the current climate of reciprocal bargaining, there is a tendency towards mercantilist thinking: a government's focus is on achieving export access, a good thing, while import access, a bad thing, is only to be given away in exchange for export advantage.

*... trade and long-term  
economic development ...*

Champions of free trade argue that the benefits of free trade are manifold. Free trade not only provides more choice of goods and services at lower prices but also stimulates long-term economic development through economies of scale, encouragement of investment, and transfer of technology and skills. These dynamic gains, harder to measure at first, are the real bonanza from trade liberalisation. And not simply is it a matter of economic welfare. Open international commerce can bring better understanding between peoples and thereby encourage more peaceful international relations: “there is no more certain way of uniting people,” wrote one of free trade's mid 19<sup>th</sup> century English advocates, Richard Cobden. Finally, at the philosophical foundation of free trade, there are the values of individual freedom and choice. “Freedom, prosperity, security: this trinity lies at the heart of the case for free trade,” writes commentator and political economist, Razeen Sally, of the London School of Economics<sup>3</sup>

But in practice, international trade since the early nineteenth century has rarely been truly free and there have been and continue to be a host of arguments against or at least tempering free trade economic theory.<sup>4</sup> Governments at different times and places have put in place tariffs, import quotas, export subsidies and other measures to protect and encourage local industries. One basic reason for tariffs has been simply to gain revenue when other forms of taxation are inadequate. This continues to be important for governments in poorer developing countries where the income and corporate tax system is weak. If trade liberalisation is to succeed in the developing world then there is need for earmarked aid from the World Bank and others to compensate for this loss of revenue as well as to assist in the adjustment of industries and regions to new economic forces. Adjustment assistance may similarly be needed in developed countries but national and regional governments should have the will and capacity to do this.

As far as government economic development policy is concerned, protection has been argued as necessary to encourage industries at early or infant stages of development. This was indeed the argument used in Australia for protection up until the 1970s. Once industries reach a bigger scale and become more economically efficient, the protection can be done away with. Both employment and wider long run economic development through the growth of significant industries are the goals of government.

Mainstream economic orthodoxy fears though that this “infant industry” protection rarely works as governments are not usually good at picking which industries can become internationally competitive. Industries enjoying protection do not have real incentive to become more efficient. As a result, infant industries never grow up.<sup>5</sup>

*... balancing the social cost  
against international  
competition ...*

Yet governments may not be able to lower and remove protection simply because the social cost of business closure and unemployment that may come from trade competition for a particular industry and region may be unacceptable. This is at the heart of European resistance to the lowering of protective barriers to its agriculture. “Any significant cutback in the Common Agricultural Policy would ... result in serious damage to the social and economic fabric of rural areas across Europe,” Ireland’s Prime Minister, Bertie Ahern says.<sup>6</sup> And new sources of international competition may promote further calls for protection of industries, as is the case in many countries today whose industries are being challenged by China’s manufacturing juggernaut.

Economists argue that the overall economic cost for a society will be greater by maintaining the protection. By removing protection a country’s overall economic welfare will be increased. There will be greater gain than loss. But, while this may be true over the longer term, in the real world there can still be significant human cost as a result of economic downturn and loss of jobs in particular towns and regions because of heavy reliance on formerly protected industries now unable to match competition from abroad. Production line workers do not become information technology or biomedical technicians and professionals or financiers overnight. And while capital may be able to move relatively easily from old protected industries to more internationally competitive industries, these may not be in the same region or the same country.

The question then is how can governments can best assist industries and regions adjust to change? If one believes in a compassionate, equitable society, government must provide appropriate welfare and unemployment benefit schemes and subsidise where necessary education and training, both to equip new entrants into the labour force for new industries as well as assist those already in the workforce to move to new jobs. But what else can governments do? Employment is one of the most important concerns of governments. Few governments survive for too long when unemployment is high. But if protectionist policy is argued to be costly and wrong, is there any industry policy that governments can pursue

beyond ensuring appropriate infrastructure, research and development and education and training? This is a problem that state governments, such as South Australia, have especially faced given their lack of taxing power and the limit of their policy instruments compared with the Commonwealth government.

### **3. International Trade, the World Trade Organisation and Multilateralism**

Until the recent proliferation of RTAs, international trade negotiation since World War II has been largely managed within the multilateral government framework of the General Agreement on Tariffs and Trade

*... interdependent  
international economy  
favouring multilateralism ...*

in force and measures adopted. Regular reports are made by the WTO secretariat of countries' trade policies.

As well as the General Agreement on Tariffs and Trade, other important agreements include a General Agreement of Trade in Services (GATS), and Agreement on Trade Related Aspects of Intellectual Property (TRIPS). The later is contentious with argument that protection of intellectual property can in fact stifle the spread of knowledge and creativity and may be used by software, pharmaceuticals and entertainment and media companies to unfairly prolong monopoly positions. Furthermore, stricter intellectual property protection may unfairly restrict access of poorer income people and countries to all sorts of products that have wide social benefits, from agricultural improvements to medicines and schoolbooks.

The GATT/WTO sets down a rule based trading system, dedicated, as the WTO describes it, "to open, fair and undistorted competition."<sup>7</sup> WTO agreements allow countries to introduce changes gradually. Developing countries are usually given longer to fulfil their obligations.

The key principle of thradces andubsequ1(ent)-2(.n-2(. Tc0 of7)Tj1T(n)-1.O {a8.1(re

*... non-discrimination  
between trading partners.*

s

country

*... limits and benefits  
arising to third parties from  
an RTA ...*

As far as RTAs are concerned, under WTO rules, a member country can establish preferential trade agreements that apply only to goods and services with another country or countries in a region that are not provided to others. The country or group of countries cannot though increase barriers others face. The RTA must remove barriers on substantially all trade and non-members of the RTA must not find that their trade with those party to the RTA more restrictive than before the RTA came into force. This exception to the MFN, included in the original GATT, was argued as consistent with the objectives of fostering more open global trade as freer trade between pairs of countries and groups of countries were considered important steps towards the greater goal. Up until the 1980s, the most important development under this exception was the formation of the European Community and then European Union.

The multilateral government framework for achieving more open trade is an institutional response to political realities. Although economic theory argues that the best approach is for countries to unilaterally reduce and remove trade barriers even if other countries are protectionist, governments often find it difficult to convince their electorates of this unless they can argue there also are reciprocal opening for their countries' exports to others.

*“The political logic of the GATT/WTO is that because liberalisation harms certain interests that will inevitably oppose trade liberalisation, it is necessary to liberalise in a coordinated way with concession for*

environment and labour conditions. Barriers to agricultural trade remain though an unresolved problem preventing progress on other issues. The greatest obstacle is the protection and assistance given to agriculture by the EU and the US. This not only limits market access for cost efficient producers elsewhere, but through subsidies may lead to exports from the EU and the US which depress world prices.

The multilateral trade negotiation process is complex and advances usually slow. Agreements, usually in the form of a package of sub agreements covering a variety of subjects, require a consensus of all members. Countries cannot cherry pick. So what then, in fact, is the attraction of membership of the WTO, especially for new countries seeking membership, as the process is onerous and can take many years? Countries wanting to join must comply with WTO rules and also face additional requirements from individual existing members in return for support for their application. In China's case, its accession to the WTO took 14 years of negotiation and a raft of trade commitments.

*... benefits of WTO  
framework and membership*

...

The case for WTO membership is that it guarantees countries access to export markets on an unconditional and non-discriminatory MFN basis. WTO rules provide member countries with rights against protectionist efforts of more powerful countries. These rights are given legal force by dispute settlement mechanisms. Under the WTO, the dispute-settlement system has become both more potent and more legalistic than ever before. A judicial panel may be set up if necessary to rule on WTO law. No longer can a party to a dispute block the adoption of a panel finding. Penalties for non-compliance under the dispute settlement mechanism are still largely limited to the threat of trade sanctions, which disadvantages small countries, especially many developing countries. However developed countries have largely complied with dispute decisions that gone against them. Small countries can win over big countries. But it can be a slow, bureaucratic process.

Nevertheless, membership of the WTO allows members to work out conflicts in an orderly and containable manner. Through membership countries are able to pursue and protect their trade interests in WTO negotiations. Smaller countries can achieve arguably more in alliance with countries of similar size and interests in the WTO than they could individually. As trade and inward investment become more important for a country's economic growth and development so membership of the WTO becomes more important.

*... WTO: a victim of its own  
success? ...*

Yet the WTO now seems a victim of its own success.<sup>10</sup> The much greater scope of the WTO compared with the old GATT, combined with a much larger membership, almost universal, like the United Nations, has, though, made further progress to liberalise trade difficult. The complexity now of the trade liberalisation agenda, its implications for a











**Table 1 (continued)**  
**Recent Trade Agreements and Negotiations in the Asia-Pacific Region<sup>1</sup>**

Country	Partners	Nature of Agreement	Status
Thailand	<b>Australia</b> Bahrain China India Japan	FTA FTA PTA EPA EPA	Agreement signed Agreement signed Agreement signed PTA in force Under negotiation

hubs. Larger countries will not suffer greatly, but smaller countries in the developing world especially, without economic and political bargaining power, will be denied preferential access to major markets.

RTAs can result in a stronger partner extracting greater advantages than the smaller country in negotiation and that these gains for the stronger country impinge on the smaller country's sovereignty. This concern is magnified now because bilateral and regional trade deals usually feature agreements over subjects far beyond the traditional negotiations over tariffs on manufactured and agricultural goods. Services, investment, and intellectual property are commonly part of trade agreements. Other issues that have become part of trade discussions include domestic competition policy, government procurement, and standards, such as health and quarantine, labour conditions and environmental protection. As a result, trade negotiations and agreements impinge far more than ever before on domestic government policy and programmes. Liberalisation of tariffs and quotas at the border is relatively simple compared with trade related institutional reforms behind the border. Important social and cultural goals of government programmes may be affected by trade agreements. This concern featured in much of the debate in Australia over the Australia-US Free Trade Agreement, which came into effect on January 1, 2005.

countries not so politically favoured. Similarly, those countries not in line with the major countries foreign policies or offending in some way may be denied trade access.

### **5. Australia and International Trade**

*... Australia's average  
applied tariff is 3.5 per cent  
...*

Australia now has very low, if not zero, tariffs on almost all manufactured and agricultural goods, with the exception of motor vehicles and textiles, clothing and footwear as a result of policy change that began in the 1980s. This combined with investment and finance sector policies makes Australia one of the world's most open economies.

**Table 3**  
**Australia's Declining Industry Protection, 1968-2001**  
**Average Effective Rates of Assistance (per cent)<sup>1</sup>**

Year	Manufacturing	Agriculture
1968-69	36	n.a.
1969-70	36	n.a.
1970-71	36	28
1971-72	35	21
1972-73	35	14
1973-74	27	13
1974-75	28	8
1975-76	28	9
1976-77	27	9
1977-78	26	13
1978-79	24	10
1979-80	23	7
1980-81	23	8
1981-82	25	9
1982-83	25	17
1983-84	22	11
1984-85	22	10
1985-86	20	12
1986-87	19	19
1987-88	19	11
1988-89	17	8
1989-90	16	7
1990-91	15	13
1991-92	13	11
1992-93	12	10
1993-94	10	11
1994-95	9	11
1995-96	8	n.a.
1996-97	6	n.a.
1997-98	6	n.a.
1998-99	6	n.a.
1999-2000	5	n.a.
2000-01	5	n.a.

Note:

*... on-going, institutional  
change, decline in  
protectionism ...*





against agricultural protectionism. Australia also sought to foster complementary open multilateral trade regime in the Asia-Pacific region through the formation of the Asia-Pacific Economic Co-operation (APEC) forum, which it encouraged, in 1989. The aim of APEC has been to ensure that bilateral and regional trade deals in the Asia-Pacific were not discriminatory. How effective APEC can now be as RTAs proliferate remains to be seen.

The impact on South Australia of the national government's shift from protection to a much more open trade policy has been marked. After World War II, the State was very successful in attracting manufacturing industries, especially motor vehicles and white goods. Given that national protection made manufacturing attractive or attractive than otherwise, the State government was then successful in luring investment to South Australia by providing various additional incentives in competition with other States. This in turn helped provide jobs in South Australia to migrants in the 1950s and 60s.

*... on-going globalisation of industries and markets ...*

But with the sustained lowering of protection from the 1980s, older manufacturing in South Australia was seriously challenged. Many firms, no longer as shielded from international competition, were forced to close or contract. This has taken place at a time when competition with producers elsewhere in the world has grown as a result of advances in communications and transport technologies. No longer are firms in Australia as naturally protected by distance and the transport costs from overseas producers. This "globalisation" of more industries and markets does though provide opportunities for local producers to find new markets and/or new lower cost suppliers to make their own products more competitive. As a result, some manufacturing firms in the State have been able to adjust to a more competitive environment without protection selling into domestic and expanding into foreign markets. A good example is the motor vehicle and parts industry in South Australia.<sup>14</sup>

## **6. Australia's Regional Trade Agreements**

As noted earlier, Australia has signed bilateral free trade agreements with Singapore (2003), Thailand (2005), and the United States (2005) and is currently negotiating free trade agreements (FTAs) with China, Malaysia, the Association of Southeast Asian Nations (ASEAN), and the United Arab Emirates. The feasibility of an FTA with Japan is also being investigated.

Canberra argues that its efforts to fashion RTAs are not contrary to a commitment to the WTO and multilateral negotiation to lower and remove trade barriers. Advances through bilateral and regional trade agreements can contribute to multilateral liberalisation, the government argues.



... evidence of  
discrimination from  
Australia-USA RTA ...

*“... it will be important to make sure that the content and structure of any RTAs such that ultimately it contributes towards regional (and ultimately global) trade liberalisation and integration, rather than becoming an obstacle to the same... One problem derives from Australia, through the FTA with the US, placing itself in an unusual position in world trade – a position that history demonstrates to be unsustainable. It introduced systematic discrimination in Australian import policy in favour of one country that is a major trading partner and against others of comparable importance. An associated problem is that several of Australia's major trading partners have recently begun to discriminate against Australia in their import policies, most important so far in the ASEAN-China FTA. Recognition of the potential for problems in these developments has helped to give impetus to Australian efforts to secure new FTAs in Asia.”<sup>18</sup>*

The following outlines Australia's present RTAs and those under negotiation or proposed, provides data on the relative sizes of merchandise trade between Australia and the countries or regions where agreements are in place or under discussion. More detail of the Australia US Free Trade Agreement and the proposed Australia China trade agreement are in the next sections.

#### **Agreements in effect:**

- **Australia New Zealand Closer Economic Relations Agreement (CER), 1983** – This is a revision of earlier arrangements. The WTO describes the CER as one of the world's most comprehensive, effective and multilaterally compatible free-trade agreement. By 1990, five years ahead of schedule, all tariffs and quantitative restrictions had been removed from trans-Tasman goods trade.
- **Singapore-Australia Free Trade Agreement, 2003** – The agreement entered into force in July 2003. Singapore already had few if any tariff barriers. The agreement guarantees increased market access for Australian exporters of services, particularly education, environmental, telecommunications, and professional services. It provides a more open and predictable business environment across a range of areas, including competition policy, government procurement, intellectual property, electronic commerce, customs procedures and business travel. Singapore is in the forefront of the new RTA wave, having signed or concluded agreements with countries from the US to South America and the Middle East as well as in Asia.
- **Thailand-Australia Free Trade Agreement, 2005:** The agreement entered into force in January 2005. The agreement is reasonably comprehensive on trade in goods, but has much less implication for other areas such as investment and services trade. It is Thailand's first FTA with a developed country. Thailand has eliminated tariffs on 78 per cent of imports from Australia with tariffs on a further 17 per cent to nte en any

remaining tariffs will come down to zero by 2015 or 2020. Some agricultural products such as beef, pork, butter cheese, milk powder, sugar and potatoes, have until 2020 before tariffs disappear. Skimmed milk powder and liquid milk and cream have a transition period under 2025, with expanding tariff rate quotas (with lower in quota tariffs) in the interim. Australia has already eliminated tariffs covering 83 per cent of its imports from Thailand with the rest to be phased out by 2010 and 2015. In investment, Thailand has relaxed the 49.9 per cent foreign ownership limited in some sectors, offering full ownership to Australian investors in distribution, construction and management consultancy services and majority ownership (up to 60 per cent) in major hotels and restaurants, tertiary education, maritime-cargo services and mining. Australia has not liberalised its services market to Thai suppliers beyond its

especially through liberalisation of investment and expansion of tourism and education exchanges.

- **Australia-Japan** – In April 2005, the two governments announced an FTA feasibility study would be undertaken. Japan has been

*... debating the benefits and  
implications ... the need for  
more RTAs ...*

**Table 4**  
**Australian Goods and Services Trade**  
**(12 months to August 2005)**

Goods by Region/ Country	Exports 2004-05 Value	Total (Per cent)	Percentage Change August 2004-05	Imports 2004-05 Value	Total (Per cent)	Percentage Change August 2004-05
<b>Africa</b>	<b>2,834</b>	<b>2.2</b>	<b>46.5</b>	<b>1,699</b>	<b>1.1</b>	<b>70.5</b>
<b>Americas</b>	<b>13,240</b>	<b>10.4</b>	<b>-5.9</b>	<b>25,369</b>	<b>17.0</b>	<b>2.6</b>
Canada	1,895	1.5	-41.6	1,904	1.3	-14.4
US	9,460	7.5	-9.5	21,271	14.2	2.7
Latin America	1,796	1.4	61.9	1,902	1.3	43.5
<b>East Asia</b>	<b>70,251</b>	<b>55.4</b>	<b>22.0</b>	<b>71,999</b>	<b>48.2</b>	<b>16.4</b>
China	12,996	10.2	49.3	19,812	13.3	20.7
Hong Kong SAR	2,708	2.1	-18.2	1,210	0.8	6.9
Japan	24,931	19.7	20.7	17,158	11.5	6.5
S. Korea	9,717	7.7	3.3	5,004	3.3	2.9
Taiwan	4,884	3.9	38.9	3,612	2.4	7.5
<b>ASEAN</b>	<b>14,965</b>	<b>11.8</b>	<b>19.4</b>	<b>25,183</b>	<b>16.8</b>	<b>24.4</b>
Indonesia	3,406	2.7	0.9	3,318	2.2	19.0
Malaysia	2,582	2.0	-8.1	5,920	4.0	4.1
Philippines	869	0.7	-23.8	699	0.5	4.7



**Pharmaceuticals:** One of the most contentious aspects of the agreement is its possible impact on Australia's Pharmaceutical Benefits Scheme (PBS), a 50 year old system which provides Australians with lower prices for key prescription drugs than otherwise. The Commonwealth government's Pharmaceutical Benefits Advisory Committee (PBAC), an independent committee of experts, recommends which drugs should be listed under the scheme on the basis of its cost and medical value weighted against other therapies. The government then negotiates directly with pharmaceutical companies to achieve lower prices than otherwise. Overall, the scheme is a cost to the Commonwealth treasury and therefore taxpayers, but the result is that consumers pay lower prices for medicines and the total cost of medicines is lower because of the Commonwealth's role which in effect is as if it were a wholesale purchaser. The Commonwealth subsidises 80 per cent of all prescription drugs in Australia. Non-listed drugs may still be prescribed and sold at whatever price the suppliers determine. State governments also benefit from the scheme as they are major purchasers of drugs for public hospitals.

*... further work to be undertaken on market access and PBS ...*

The US argued though that the PBS might unfairly restrict market access for US pharmaceutical companies, which include most of the largest pharmaceutical companies in the world. As a result, Australia and the US are setting up a joint Medicines Working Group of government officials for ongoing discussion of this and other issues. Australia also undertook to establish what is described as an independent process to consider companies' request to review decisions by the PBAC not to list new drugs. The government has responded to fears that this will erode the PBS and lead to higher prices by affirming that the price of medicines will not be affected and that decisions as to which drugs are listed will remain the prerogative of the PBAC and the Minister for Health.

*... an example of restrictions in an RTA not present under MFN clause*

...



For Australian exporters, sugar restrictions remain with Australia's current quota access as agreed under the GATT/WTO Uruguay Round. Other major agricultural exports benefit to varying degrees through phased in tariff and quota reductions.

For beef, the tariff rate within the quota is removed and the quota in turn increased, beginning within three years, and then expanding over an 18-year period from the start of the agreement. From years 9-18 the above quota tariff will be gradually removed. After the transition period, a price-based safeguard is available to US producers should they face sharply dropping import prices of high-quality beef as a result of Australian imports. Tariffs on most lamb and sheep meat are removed.

For dairy, a number of products are subject to quotas, some of which already entered the US under a quota regime as under WTO agreement. Under the AUSFTA there is an increase in the quota volumes over 18 years for a variety of dairy products with the in quota tariff removed immediately. Tariffs on all non-quota dairy products will be gradually removed over the 18 years.

For fresh horticultural exports, most tariffs are removed immediately. This includes oranges. Tariffs on remaining fresh horticultural products are removed over a transition period of four, 10 or 18 years. For some products, US producers during the transition period will be able to call a safeguard mechanism in the event of low priced Australian imports. Wine tariffs are reduced over 11 years.

For seafood, tariffs on all fish and fish products are removed, including a 35 per cent tariff on canned tuna.

**Sanitary and phytosanitary (quarantine) barriers:** The agreement incorporates WTO rules, including dispute settlement procedures, governing the quarantine systems of Australia and the US, which aim to protect human, animal, and plant life and health. In addition, two joint Australia US government committees are to be set up to facilitate resolution of trade quarantine issues. In Australia, whether a product may be imported is determined after a scientific and import risk analysis of the

still remain, however, where different jurisdictions and industries do not recognise the standards and qualifications of foreign service providers. A professional services working group is set up to report within two years how there can be greater harmony in the mutual recognition of standards and other criteria.

**Film and television:** The question of Australian local content was at issue with the US seeking greater market access for US films and television programmes. Under the agreement, Australia maintains the existing 55 per cent local transmission content on free-to-air television and 80 per cent local content in television advertising. For subscription television Australia maintains a 10 per cent expenditure requirement on Australian drama. Having set down regulatory levels, under the agreement Australia is unable to increase them further. The US does not have tariff or local content barriers to film and television.

**Investment:** Significant foreign direct investment in Australia, both new investment and acquisitions is examined by the Foreign Investment Review Board (FIRB) to determine whether it is in the national interest. The FIRB prior to the agreement, must review all proposals by foreign investors for substantial interests in Australian companies valued at more than A\$50 million and all proposals by foreign interests to establish new businesses in Australia valued at A\$10 million or more. The FIRB may recommend to the Treasurer to block the proposal, a power rarely used. Under the agreement, all US investment in new businesses is exempted from screening, while thresholds for acquisitions by US investors are raised from A\$50 million to \$800 million. More broadly, the agreement provides investors from both countries with national treatment, (that is the same treatment afforded domestic investors) or most-favoured nation treatment, if this is more advantageous.

*... investment thresholds increased substantially ...*

Both Australian and US governments are also not allowed under the agreement to require companies investing and operating in each others' country to meet performance requirements, such as import or export content, local content, preference for local inputs, and transfer of intellectual property, or require senior managers or board members to be of Australian or American nationality. There are some exceptions to the agreement coverage, such as the preservation in Australia of existing non conforming measures by state and territory governments and limits on US investment and other foreign investment in media, Telstra, Qantas, airports and urban land.

**Government procurement:** Australia gains non-discriminatory access to the procurement of most US federal agencies as well as certain





doing business in China now have less to do with formal border barriers and more with formal and informal non-border barriers.<sup>23</sup>

**Table 5**  
**Australia-China Trade**

	2001	2004
<b>Australia's major exports to China (\$US million)</b>		
Iron ore	945	3,346
Alumina	523	1,103
Wool	639	900
Crude oil	154	467
Coal	8	364
Wheat	8	364
Gases (LPG)	74	273
Aluminium	96	261
Barley	211	239
Manganese ores	46	227
<b>China's major exports to Australia (\$US million)</b>		
ADP machines	303	1,273
Video and digital cameras	67	501
Women's or girl's suits	191	324
Office machines	100	298
Toys	177	297
TV and videos	47	280
Footwear	141	265
Travel goods	144	252
Furniture	69	245
T-shirts	119	219

Source: Australia-China Free Trade Agreement, Joint Feasibility Study, Australian Department of Foreign Affairs and Trade, and the Chinese Department of International Trade and Economic Affairs, Ministry of Commerce, March 2005.

*... so why bother with a  
bilateral agreement ...*

than Australian exporters  $r_{sl} = 1.5(y)$   $31(,1( )th)4.8(r f4(a)4.8(lc4.8(lt-1.5(y ha)4.8(n$

*... industries most likely to  
benefit ... most likely to be  
disadvantaged ...*

*.. benefits and political  
implications for China ...*

*... investment and future*

*... investment and foreign*



## 9. South Australia and RTAs

The value of South Australia's international trade is the lowest of all the mainland states. But trade is playing a more important role in the South Australian economy with the highest average growth rate for goods exports in the five years to 2003-04. The growth of export services is also higher than the national average, although from a low base. South Australia's exports as a share of gross state product doubled between 1990 and 2002.

**Table 6**  
**Australian Goods and Service Trade by State and Territory, 2003-04**  
 (\$A million)

	Exports			Imports		
	Total	Share	5 Year Trend Growth	Total	Share	5 Year Trend Growth
<b>Goods</b>						

... South Australia's export  
 patterns ...

components internationally as well as from interstate. This is reflected in the State's import growth, which is also higher than the national average.

**Table 7**  
**South Australia's Top 10 Export Goods:**  
**1990-94 and 2000-04 (\$A million)**

Average Annual Export Value			
	1990-94		2000-04
Wheat	368	Wine	1,320
Petroleum	309	Road vehicles	1,296
Wool	296	Wheat	762
Meat	276	Copper	474
Road vehicles	239	Meat	293
Wine	178	Petroleum	255
Copper	135	Fish	247
Lead	131	Wool	221
Crustaceans and molluscs	119	Vegetables and fruit	185
Vegetables and fruit	103	Gas	107
Iron and steel	103		

Source: Australian Bureau of Statistics.

**Table 8**  
**South Australian Merchandise Exports to Major Regions**

	Annual Average Exports				Growth from 1990-94 to 2000-04 (%)	Contribution to Total Growth	
	\$m	%	\$m	%		\$m	%
United States	334	9.4	1,366	17.0	309	1,032	+29.1

... industries likely to benefit ...

*... a need to monitor trends  
in the automotive sector ...*

As far as the motor vehicle industry is concerned, the US has been one of its major export markets for both vehicles and parts. The US is also a major source of components. Overall, the US has a large trade surplus with Australia in the automobile sector and much of this consists of components. But it is not clear whether the agreement will benefit or harm the industry in South Australia. Some analysts felt it would present opportunities while others feared contraction and job loss. One earlier study carried out for the DFAT, projects expansion of US imports of vehicles and parts into Australia, which is not offset by expansion of Australian motor vehicle production as a result of cheaper components and also increased sales to the US. Another study undertaken for the South Australian government by the Allen Consulting Group suggested there likely would be job loss and contraction. It is also possible the agreement could particularly affect component supply, as there is a switch from formerly cheaper inputs imported from elsewhere in the world to US supply. This may also be felt locally and elsewhere in Australia with vehicle manufacturers purchasing more components from the US, now not subject to import tariffs. From the perspective of the US motor vehicle industry, the AUSFTA was welcomed as giving advantage to US producers over their Japanese, Korean and other competitors.<sup>31</sup>

Other non traditional and “beyond the border” provisions of RTAs concern South Australia in much the same way as other states. The State should benefit if RTAs stimulate demand for Australian education and training and professional services.

South Australia may also find RTAs having consequences that may not have been clearly identified at the time the agreements are first implemented. RTAs may have implications for state law, government policies and programmes. The State government therefore should monitor closely Australia's trade policy, study the impact of existing trade agreements and participate effectively during negotiations to ensure that agreements are consistent with state as well as national interests.

#### **10. Shaping Australia's trade agreements: what roles for parliament and the states?<sup>32</sup>**

*... there is currently  
insufficient formal scrutiny  
of FTAs ...*

One outcome of the debate over the AUSFTA is concern as to whether there is appropriate participation by the national parliament and state and territory governments in the initiating, negotiation and approval of Australia's trade agreements. A major criticism of the AUSFTA is that Australia entered into a complex agreement with impact on a wide range of economic sectors and policy areas and one cutting into the jurisdictions of different levels of government with insufficient formal scrutiny and approval required of parliament and state and territory governments and, by extension, the wider community.

*... politicisation of the*

AUSFTA said that Australia should consider emulating the US approach whereby the Congress gave the Administration a general Trade Promotion Authority under which it states specific negotiations to be pursued, what objectives it would like achieved, and how it should be briefed as negotiations proceed. Once a trade negotiation is completed, the proposed agreement and necessary legislation is presented to Congress. Congress can then vote for or against the agreement but it is not able to amend specific sections.

At the State and Territory level, Premiers and Chief Ministers can put their views formally about treaties to the Prime Minister though the

*... protecting the interests of  
States and Territories ...*

cannot be considered as independent judgements. They are seen as “hired” guns of the government likely to produce reports supporting government biases. Rather, the correct approach, the critics say, would be for the government to refer assessment to the Productivity Commission. The Commission, the former Industry Assistance Commission, has the technical capacity, the experience a reputation for independence and so able to give the community, parliament and the States and Territories confidence that there is sound basis of fact and analysis for rational debate.<sup>34</sup>

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## End Notes

- <sup>1</sup> The Australia-US Free Trade Agreement (AUSFTA) is 1,000 pages long. This pales in comparison though to the 22,000 page long agreement that concluded the eight year long Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade in 1994.
- <sup>2</sup> Adam Smith: “by means of glasses, hotbeds and hot walls, very good grapes can be raised in Scotland, and very good wine too can be made of them at about thirty times the expense for which at least equally good can be bought from foreign countries. Would it be a reasonable law to prohibit the importation of all foreign wines, merely to encourage the making of claret and burgundy in Scotland.” Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Oxford, Clarendon Press, 1976 quoted in *Why Globalisation Works*, Martin Wolf.
- <sup>3</sup> Razeen Sally, “Free Trade: the Next 50 Years”, in *Towards a Liberal Utopia*, ed Phillip Booth Institute of Economic Affairs London, 2005
- <sup>4</sup> For an overview of various theoretical positions see Robert Gilpin, *Global Political Economy: Understanding the International Economic Order*, Princeton University Press, Princeton and Oxford, 2001 p198-217 and passim.
- <sup>5</sup> A classic mainstream economic critique of protectionism is by Max Corden, *Trade Policy and Economic Welfare*, Oxford, 1974
- <sup>6</sup> Bertie Ahern, “We must stand by the Common Agricultural Policy,” *Financial*

- <sup>17</sup> Bryan Mercurio, Should Australia Continue Negotiating Bilateral Free Trade Agreements: A Practical Analysis, *University of New South Wales Law Journal*, Vol 27, 3, 2004.
- <sup>18</sup> Garnaut, op cit
- <sup>19</sup> Senate select committee, op cit, Garnaut, op cit, Weiss et al op cit.
- <sup>20</sup> Andrew Stoler, "AUSFTA as a 'Third Wave' Trade Agreement: Beyond the Envelope," paper given to the 26<sup>th</sup> International Trade Law Conference, Canberra, 23 September 2004.
- <sup>21</sup> See footnotes 15 and 16 and list of references.
- <sup>22</sup> Razeen Sally, "China's Trade Policies in a Wider Asian Perspective," paper presented for the London School of Economics/China Center for Economic Research conference, Beijing, August 22-23 2005
- <sup>23</sup> *ibid.*
- <sup>24</sup> ASEAN opposed Australian attendance until Australia agreed to sign the group's Treaty of Amity and Co-operation, under which signatories promise not to invade each other's territory. At first Canberra was not prepared to sign the treaty but in July 2005 shifted its position and signed a declaration of intent to commit to the treaty at an ASEAN meeting in Vientiane in Laos.
- <sup>25</sup> *The Age*, "EU holding back WTO talks; Howard," October 14, 2005
- <sup>26</sup> Australia-China Free Trade Agreement, Joint Feasibility Study, Australian Department of Foreign Affairs and Trade, and the Chinese Department of International Trade and Economic Affairs, Ministry of Commerce, March 2005; Modelling the Potential Benefits of an Australia-China Free Trade Agreement, [www.dfat.gov.au/geo/china/fta](http://www.dfat.gov.au/geo/china/fta)
- <sup>27</sup> Andrew Stoler, "Priorities for Australian Trade Initiatives in 2005," Paper given at