

# **SEGRA 2016**

**What are the real regional  
benefits from FTAs?**

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# What the government says

Australia's FTAs - both with individual countries and groups of countries - provide:

- \* better Australian access to important markets
- \* an improved competitive position for Australian exports
- \* more prospects for increased two-way investment, and
- \* reduced import costs for Australian businesses and consumers alike

# What the government says

Trade Minister Andrew Robb has claimed that FTAs with China, Japan and South Korea represent:

- \* “[A] landmark set of agreements [that] will see literally billions of dollars, thousands, many hundreds of thousands of jobs and will underpin a lot of our prosperity in the years ahead” (Grudnoff, 2015)

# What the government says (about TPP)

Our farmers will benefit from gains above and beyond our existing FTAs. In 2014, around 40 per cent, or \$14 billion, of Australia's agricultural exports were to TPP countries. Improving on the outstanding results from the Japan-Australia Economic Partnership Agreement, the TPP will reduce tariffs on our beef even further – down to 9 per cent. Significant new access into all TPP parties for dairy, including some of the most heavily protected markets in the world, will foster growth in our dairy exports to TPP countries, which are already \$1 billion annually.

# What the government says (ChAFTA)

Australia's agriculture sector will be able to capitalise on its well-deserved reputation as a clean, green producer of premium food and beverage products (from the ChAFTA). Tariffs will be progressively abolished for Australia's \$13 billion dairy industry. Australia's beef and sheep farmers will also gain from the phased abolition of tariffs ranging from 12-25 per cent and all tariffs on Australian horticulture will be eliminated.

# What the government says (ChAFTA)

Tariffs will be removed on almost all Australian resources and energy products, including the 8 per cent tariff on aluminium oxide on the first day of the Agreement, benefitting our exports worth around \$1.3 billion a year. The tariffs on coking coal will be removed on day one, with the tariff on thermal coal being phased out over two years.

# Despite the proposed benefits

- \* continues to be a certain uneasiness about the ramifications of the agreements and the supposed benefits
- \* illustrated in part by the Brexit and the push by Donald Trump to reduce free trade in America
- \* in Australia criticism of free trade including by some prominent politicians such as Nick Xenophon, Bob Katter and Pauline Hansen.

What is the real story?

Very difficult to determine the  
exact impacts



# What we know

- \* FTAs are seen as playing an important role in supporting global trade liberalisation
- \* a key component of Globalisation
- \* the Australian Government & opposition are very supportive of FTAs
- \* an intricate web of cross-cutting FTAs forms the basis of Australia's trade and investment partnerships throughout the Asia-Pacific region (Davison, 2014)

# Productivity Commission (2010)

- \* criticised of the failure of governments to submit FTAs to rigorous scrutiny
- \* unable to determine whether the aspirational goals of government are commensurate with potential real-world impacts
- \* highlight the need for thorough evaluation of the negotiated agreement FTAs prior to their signing

# Productivity Commission (2010)

- \* most of the benefits from reducing import barriers accrue to the countries reducing the barriers
- \* economic gains from freer trade come from the increased access to cheaper imports - NOT from increased exports
  - \* cheaper consumer goods and industry inputs boost the real incomes of households and the competitiveness of local industries
  - \* in the longer run, they also allow the reforming economy to specialise more in the production of the goods and services that it can produce most efficiently

# Productivity Commission (2010)

- \* predictions of growth and jobs from FTAs have rarely been delivered because the economic models exaggerate benefits & ignore many of the costs and assume away unemployment effects
- \* the government's own economic modelling estimates that by 2035 three FTAs (Japan, South Korea and China) will have produced a total of only 5400 additional jobs - less than 300 jobs a year.

# More negatives

“The balance of trade positions of Australian agriculture and food manufacturing have deteriorated since FTAs with NZ, the US and Thailand have come into play ... Clearly, these three FTAs have failed to deliver. There has been no improvement evident in the agriculture and food trade position under any of the three agreements. Rather, deterioration has been evident in each case”. (Mark McGovern, 2015)

# More negatives

“Australian trade performance has been better with non-agreement partners” (Mark McGovern, 2015)

# More negatives

Modelling commissioned by the Department of Foreign Affairs and Trade (DFAT) analysis estimates these agreements will:

- \* Increase GDP by 0.05 per cent in 2035, or an additional \$780 million per year in today's dollars.
- \* Increase employment in 2035 by just 5,434 jobs.
- \* Increase the value of Australia's trade by about three per cent:
  - \* Increase imports by 2.5 per cent.
  - \* Increase exports by 0.5 per cent (Grudnoff, 2015)

# ChAFTA

## **POTENTIAL BENEFITS FOR REGIONAL AUSTRALIA:**

- \* Tariffs of between 3-10% on various Australian commodities (including coal and alumina) eliminated either immediately or within 2-4 years
- \* Tariffs of up to 30% for beef, dairy, sheep, pork, live animals, hides, skins and leather, horticulture, wine and seafood to be eliminated within 2-9 years
- \* Tariff reductions or elimination for some processed foods including canned fruit, orange juice, and natural honey
- \* Australian businesses allowed to take a majority stake in joint ventures which provide services in agriculture, forestry, hunting and fishing in China



# ChAFTA: However

- \* no changes to tariffs or market access for Australian rice, wheat, cotton, sugar, and wool which make up more than (40% of Australian ag. Xs to China) not likely to see any great benefits from the ChAFTA deal
- \* Dairy - a major hyped beneficiary - remains to be seen whether ChAFTA will spur any increased Australian dairy production and export
- \* concern that China will use technical barriers other than tariffs, to reduce any benefits to Australia under ChAFTA – “*technical barriers to trade are becoming a greater and greater issue*” (Grain Growers, 2015; aslo NFF),

# TPP

- \* analysis by the US Department of Agriculture does not anticipate any increase in Australia's national income by 2025 as a result of the parts of the agreement that relate to agriculture
- \* Aus already has low barriers to trade and agreements with most of our major trading partners
- \* after the TPP has been in place for 10 years it is expected to increase Australia's real GDP by 0.00 per cent

# Some other negatives

- \* Economist [Dani Rodrik](#): “Less skilled workers in advanced countries haven’t done very well out of globalisation.”

# Globalisation

- \* has produced winners and losers
- \* winners are likely to be the “larger” players
- \* regional Aust. already experiences more disadvantage
- \* regional economies more dependent on “smaller” players
- \* therefore not unreasonable to assume that regions more negatively impacted by globalisation

# What does this mean?

“This is why the enhanced and sound competition we want to promote through trade liberalization can only be beneficial if accompanied by appropriate social policies at home and credible instruments of multilateral solidarity” (Michel Camdessus, Director of IMF, 1996).

# In summary

- \* the practical impacts of agreements being entered into by Australia remain unclear
- \* concern at the gap between the hype & reality of FTAs.
- \* current assessment processes in Australia fall well short of what is needed to adequately assess the impacts of prospective agreements (Westmore, 2015)