Free Trade and Globalisation

Volume | 368




Edited by Justin Healey

ISSUES IN SOCIETY

Free Trade and Globalisation

Volume | 368

ISSUES IN SOCIETY

Edited by Justin Healey

THE SPINNEY PRESS

First published by
THE SPINNEY PRESS
PO Box 438 Thirroul NSW 2515 Australia
www.spinneypress.com.au

National Library of Australia Cataloguing-in-Publication entry

Title:	Free trade and globalisation / edited by Justin Healey.
ISBN:	9781922084378 (ebook)
Series:	Issues in society (Balmain, N.S.W.) ; v. 368.
Notes:	Includes bibliographical references and index.
Subjects:	Free trade--Australia. Protectionism--Australia. Globalization--Economic aspects. International trade.

Other Authors/Contributors: Healey, Justin, editor.

Dewey Number: 382.710994

Cover images: Courtesy of iStockphoto.

CONTENTS

INTRODUCTION

Free Trade and Globalisation is Volume 368 in the 'Issues in Society' series of educational resource books. The aim of this series is to offer current, diverse information about important issues in our world, from an Australian perspective.

KEY ISSUES IN THIS TOPIC

Globalisation and trade liberalisation has significantly altered Australia's trading environment over the past thirty or so years. Historically, Australia used forms of protection such as tariffs and subsidies to raise the price of imports and keep domestic industries competitive, thereby adding to the cost of living as everyone paid extra to support these industries. However, since the 1980s Australia and many of the world's economies have implemented substantial reductions in trade barriers.

This book provides an overview of Australia's trade performance and free trade agreements. What are the effects of increased trade liberalisation and foreign investment on Australia, and on developing countries?

Free Trade and Globalisation also presents a range of opinions in the debate over Australia's free trade practices – do the benefits of globalisation outweigh its negative impacts? What are the advantages and disadvantages of free trade versus protectionism? Is free trade actually fair?

SOURCES OF INFORMATION

Titles in the 'Issues in Society' series are individual resource books which provide an overview on a specific subject comprised of facts and opinions.

The information in this resource book is not from any single author, publication or organisation. The unique value of the 'Issues in Society' series lies in its diversity of content and perspectives.

The content comes from a wide variety of sources and includes:

- Newspaper reports and opinion pieces
- Website fact sheets
- Magazine and journal articles
- Statistics and surveys
- Government reports
- Literature from special interest groups

CRITICAL EVALUATION

As the information reproduced in this book is from a number of different sources, readers should always be aware of the origin of the text and whether or not the source is likely to be expressing a particular bias or agenda.

It is hoped that, as you read about the many aspects of the issues explored in this book, you will critically evaluate the information presented. In some cases, it is important that you decide whether you are being presented with facts or opinions. Does the writer give a biased or an unbiased report? If an opinion is being expressed, do you agree with the writer?

FURTHER RESEARCH

This title offers a useful starting point for those who need convenient access to information about the issues involved. However, it is only a starting point. The 'Web links' section at the back of this book contains a list of useful websites which you can access for more reading on the topic.

AUSTRALIA'S TRADE POLICY AT A GLANCE

Following is an extract from an easy-to-follow summary report of Australia's trade performance, produced by the Department of Foreign Affairs and Trade

The Government's vision for the nation is of a prosperous, innovative and sustainable Australia, providing opportunity for all. International trade contributes to the fulfilment of that vision by increasing productivity and international competitiveness, creating a high-skill, high-wage workforce and building national prosperity.

With these objectives in mind, the Government's trade policy statement, *Trading our way to more jobs and prosperity*, released by then Minister for Trade and Competitiveness Dr Craig Emerson in April 2011, sets out five guiding principles:

- Unilateralism – a commitment to the pursuit of ongoing, trade-related economic reform without waiting for other countries to reform their own economies
- Non-discrimination – Australia will not seek exclusive or entrenched preferential access to other countries' markets
- Separation – foreign policy considerations will not override trade policy assessments in determining the choice of negotiating partners and consideration of proposed trade deals
- Transparency – the public will be kept well informed about the progress of trade negotiations and will have the opportunity to provide input, and
- The indivisibility of trade policy and wider economic reform – domestic economic reform, improved international competitiveness and increased market access work together to create jobs and prosperity.

Consistent with these principles the Government will continue to pursue improved market access for Australian exporters in global markets. The number one priority is to achieve multilateral trade outcomes through the World Trade Organization (WTO). At the regional level, the Government will continue to pursue trade liberalisation through APEC and other regional trade arrangements. The Government will also pursue high-quality, comprehensive bilateral free trade agreements, where these will benefit both Australia and our trading partners.

Australia and the WTO

As a founding member of both the WTO in 1995 and its predecessor, the General Agreement on Tariffs and Trade in 1947, Australia has a longstanding commitment to the multilateral trading system operated by the WTO. This system provides the framework governing world trade. Members agree on legally binding rules that provide important certainty for their exporters. Members can use the WTO's dispute settlement system to uphold these rules.

Australia also works actively to maintain these rules through participation in WTO committees. The committees provide the opportunity to discuss trade issues amongst WTO members. They also enhance transparency by requiring WTO members to notify them of measures they intend introducing that could affect trade.

Australia is deeply committed to opening markets through multilateral trade negotiations in the WTO. Through such negotiations – including the current Doha Round of trade negotiations – Australia seeks market access for Australian exports across various negotiating sectors, including agriculture, industrial goods and services.

Agricultural trade

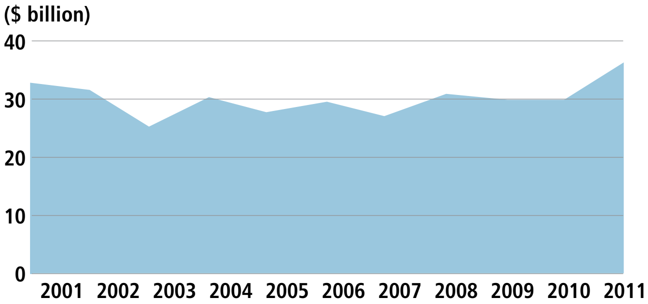
The Australian Government is committed to the WTO agriculture negotiations, as this sector remains one of the most highly protected. Positive outcomes in these negotiations will be of great benefit as Australia exports around 60 per cent of its agricultural production. In the WTO agriculture negotiations, Australia's key objectives are to achieve a substantial improvement in market access; deep cuts to trade-distorting farm subsidies; and the elimination of all forms of agricultural export subsidies. Our active engagement in the WTO committee process, together with our involvement in WTO disputes, helps ensure that other countries are abiding by the existing trade rules for agriculture.

Australia is chair of the WTO Cairns Group coalition of 19 agricultural exporting countries. The Cairns Group brings together a diverse range of developed and developing countries from Latin America, Africa and the Asia-Pacific region, and has been an influential voice in the agricultural reform debate since its formation in 1986.

Members of the Cairns Group

- Argentina
- Australia
- Bolivia
- Brazil
- Canada
- Chile
- Colombia
- Costa Rica
- Guatemala
- Indonesia
- Malaysia
- New Zealand
- Pakistan
- Paraguay
- Peru
- The Philippines
- South Africa
- Thailand
- Uraguay

AUSTRALIA'S AGRICULTURAL EXPORTS



Based on ABS trade data on DFAT STARS database; ABS Special Data Service.

Non-agricultural trade

Non-agricultural trade (which includes industrial, forestry and seafood products) accounts for around 90 per cent of global trade in goods.

The Australian Government is actively involved in relevant WTO committees, such as the Technical Barriers to Trade Committee and the Import Licensing Committee, to address non-tariff barriers to trade in non-agricultural goods.

Australia is committed to playing a leadership role in launching negotiations to expand the product coverage and membership of the WTO Information Technology Agreement, in order to build on the contribution this Agreement has made to promoting trade and investment and driving innovation.

AUSTRALIA'S TOP AGRICULTURAL EXPORTS[a] 2011

Rank	Commodity[b]	$ million	% share
1	Wheat	6,076	16.3
2	Beef	4,684	12.6
3	Wool & other animal hair (incl. tops)	2,837	7.6
4	Cotton	2,537	6.8
5	Meat (excl. beef)	2,375	6.4
6	Wine	1,922	5.2
7	Sugars, molasses & honey	1,428	3.8
8	Barley	1,378	3.7
9	Oil-seeds & oleaginous fruits, soft	1,287	3.4
10	Milk, cream, whey & yoghurt	1,210	3.2
11	Animal feed	1,074	2.9
12	Live animals (excl. seafood)	1,071	2.9
13	Vegetables	959	2.6
14	Hides & skins, raw (excl. furskins)	850	2.3
15	Edible products & preparations	788	2.1
16	Wood in chips or particles	775	2.1
17	Cheese & curd	754	2.0
18	Crustaceans	683	1.8
19	Cereal preparations	640	1.7
20	Fruit & nuts	534	1.4
Total agricultural exports		37,319	100.0

(a) Based on the WTO definition of agriculture, which includes alcoholic beverages.
(b) Recorded trade basis.

Based on ABS trade data on DFAT STARS database; ABS Special Data Service.

Trade facilitation

The Australian Government is working towards the early conclusion of an ambitious WTO trade facilitation agreement. Trade facilitation negotiations are directed at expediting the movement, release and clearance of goods, including goods in transit.

Studies by the OECD, World Bank and European Union have shown there would be significant gains to world trade from a trade facilitation agreement, with the majority of these benefits accruing to developing and least developed countries.

Intellectual property

Australia is a trading nation with a strong research tradition and a need for access to new technologies. Trade in royalties for intellectual property for Australia in 2011 was $1.1 billion (exports) and $5.2 billion (imports).

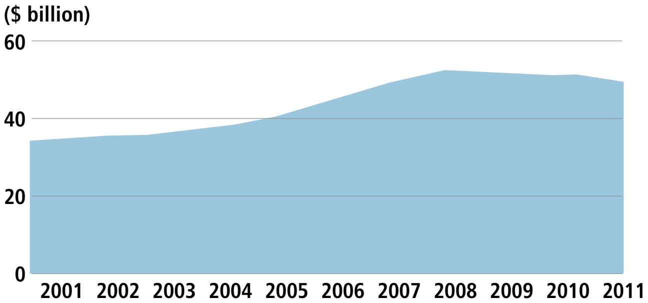
The Government supports Australia's innovative industries and exporters by negotiating balanced international arrangements for the protection and use of intellectual property.

Services trade

The Government is working hard to achieve better access for Australia's services exports. Australia is playing a leading role in promoting services trade through the WTO as well as by expanding market access for our services exports through comprehensive free trade agreements. The Government continues to look for ways to broaden existing liberalisation efforts and build on those efforts in a multilateral setting.

In particular, the Government is aiming to liberalise foreign equity caps on overseas investments, improve regulatory transparency, and make it easier for business people to pursue opportunities in foreign markets through improved business mobility.

AUSTRALIA'S SERVICES EXPORTS



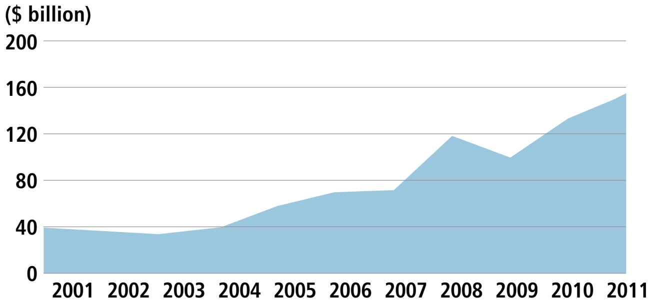
Based on ABS catalogue 5302.0

AUSTRALIA'S TOP MINERALS AND FUELS EXPORTS 2011

Rank	Commodity[(a)]	$ million	% share
1	Iron ores & concentrates	64,107	40.4
2	Coal	46,762	29.5
3	Crude petroleum	11,451	7.2
4	Natural gas	11,084	7.0
5	Aluminium ores & conc (incl. alumina)	5,443	3.4
6	Copper ores & concentrates	5,441	3.4
7	Other ores & concentrates	4,556	2.9
8	Refined petroleum	2,938	1.9
9	Confidential mineral ores	2,497	1.6
10	Nickel ores & concentrates	1,241	0.8
11	Precious metal ores & conc (excl. gold)	1,194	0.8
12	Liquefied propane & butane	962	0.6
13	Non-ferrous waste & scrap	926	0.6
14	Ferrous waste & scrap	867	0.5
15	Crude minerals	271	0.2
16	Coke & semi-coke	255	0.2
17	Stone, sand & gravel	102	0.1
18	Natural abrasives	38	0.0
19	Residual petroleum products	9	0.0
20	Crude fertilisers	4	0.0
Total minerals & fuels exports[(b)]		158,657	100.0

(a) Recorded trade basis.
(b) Total minerals and fuels exports on a balance of payments basis.
Based on ABS trade data on DFAT STARS database and ABS catalogue 5302.0.

AUSTRALIA'S MINERALS AND FUELS EXPORTS



Based on ABS catalogue 5302.0

AUSTRALIA'S TOP MANUFACTURES EXPORTS 2011

Rank	Commodity[(a)]	$ million	% share
1	Aluminium	4,656	11.2
2	Copper	3,853	9.2
3	Medicaments (incl. veterinary)	3,278	7.9
4	Passenger motor vehicles	1,352	3.2
5	Aircraft, spacecraft & parts	1,099	2.6
6	Measuring & analysing instruments	993	2.4
7	Zinc	968	2.3
8	Lead	929	2.2
9	Medical instruments (incl. veterinary)	908	2.2
10	Telecom equipment & parts	892	2.1
11	Civil engineering equipment & parts	858	2.1
12	Specialised machinery & parts	812	1.9
13	Uncoated flat-rolled iron & steel	775	1.9
14	Pigments, paints & varnishes	757	1.8
15	Vehicle parts & accessories	732	1.8
16	Paper & paperboard	685	1.6
17	Nickel	647	1.6
18	Jewellery	615	1.5
19	Misc manufactured articles	613	1.5
20	Computer parts & accessories	608	1.5
Total manufactures exports[(b)]		41,663	100.0

(a) Recorded trade basis.
(b) Total manufactures exports on a balance of payments basis.
Based on ABS trade data on DFAT STARS database and ABS catalogue 5302.0.

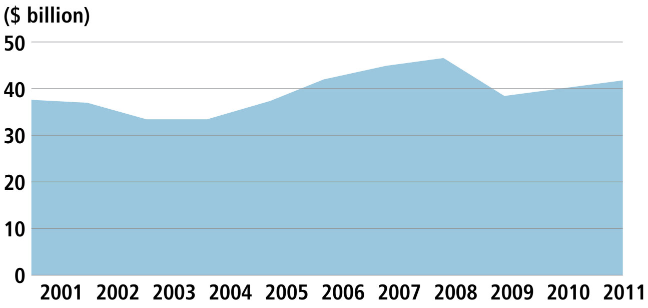
Priority sectors include financial services, telecommunications, professional services, education, mining-related services and environmental services.

Australia is also active in promoting regulatory reform and services market access through APEC. In 2011 Australia led efforts to facilitate services trade through the APEC Accounting Services Initiative. Australia also sponsored the APEC Services Trade Access Requirements (STAR) Database. This business-friendly online resource has become a vital tool for services exporters in Australia and across the APEC region.

FREE TRADE AGREEMENTS

The Government is pursuing WTO-consistent,

AUSTRALIA'S MANUFACTURES EXPORTS



Based on ABS catalogue 5302.0

high-quality, comprehensive free trade agreements (FTAs) with key trading partners, where they offer net benefits to Australia and are supportive of global trade liberalisation.

Australia has concluded seven FTAs ...

- Malaysia-Australia Free Trade Agreement (MAFTA) 2012 (subject to domestic approval processes)
- ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) 2010
- Australia-Chile Free Trade Agreement (AClFTA) 2009
- Australia-United States Free Trade Agreement (AUSFTA) 2005
- Thailand-Australia Free Trade Agreement (TAFTA) 2005
- Singapore-Australia Free Trade Agreement (SAFTA) 2003
- Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) 1983

Australia is undertaking FTA negotiations with ...

- China
- The Gulf Cooperation Council (Saudi Arabia, Qatar, Bahrain, Oman, Kuwait, United Arab Emirates)
- India
- Indonesia
- Japan
- Republic of Korea (*Editor's note: concluded Dec 2013*)
- Trans-Pacific Partnership members (Brunei Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, USA, Vietnam).

Australia's Free Trade Agreements should ...

- Be fully consistent with WTO principles and rule-plus outcomes and reinforce the multilateral trading system
- Be comprehensive and genuinely liberalising, eliminating or substantially reducing barriers to goods and services trade and investment
- Deliver a substantial net economic benefit to Australia
- Be negotiated in a way that ensures the public is well informed about trade negotiations and has an opportunity for input
- Avoid entrenching preferential market access, while ensuring that Australian exporters and investors have an opportunity to compete on terms as favourable as anyone else's, and
- Not delay domestic economic reform.

For more information on Australia's FTAs visit: www.fta.gov.au

AUSTRALIA AND THE G20

Australia is a founding member of the Group of Twenty (G20), the premier forum for international economic cooperation. The G20 consists of 19 countries and the European Union.

The G20 played a key role in responding to the global financial crisis of 2008-2009, helping to avert a global depression. The decisive and coordinated actions of the G20 boosted consumer and business confidence and supported the first signs of economic recovery.

Recently, the focus of the G20 has shifted towards addressing new vulnerabilities to the global economy arising from the Eurozone sovereign debt crisis. Mexico is the current chair of the G20, and hosted the G20 Leaders' Summit in Los Cabos in June 2012.

Following Russia's host year in 2013, Australia will host the G20 in 2014. This will give Australia the opportunity to continue to pursue its agenda of restoring global economic growth and jobs, pressing for further trade liberalisation and achieving global sustainable development. Australia is committed to consulting non-G20 members so that their views are considered and G20 decisions can benefit all economies.

G20 members

- Argentina
- Australia
- Brazil
- Canada
- China
- European Union
- France
- Germany
- India
- Indonesia
- Italy
- Japan
- Mexico
- Republic of Korea
- Saudi Arabia
- Russian Federation
- South Africa
- Turkey
- United Kingdom
- United States

G20 countries make-up

- 87 per cent of global GDP
- 65 per cent of world population
- 77 per cent of world trade

TRADE WITH OUR REGION: APEC

As the leading economic forum in the Asia-Pacific, APEC has delivered substantial gains for businesses and consumers alike both in Australia and throughout the region. APEC is pursuing an ambitious agenda of trade liberalisation, business facilitation, and economic cooperation and technical assistance. The private sector engages closely with the APEC process, particularly through the APEC Business Advisory Council.

The Russian Federation is the current APEC host, with Indonesia to take over the role in 2013 and China in 2014.

- APEC's goal is to achieve free and open trade and investment in the region by 2020
- Since 1989, average applied tariffs in the APEC region have fallen from 16.9 to 5.8 per cent
- Eight of Australia's 10 largest export markets are within APEC, including our top three export markets – China, Japan and the Republic of Korea
- APEC has 21 member economies which account for 44 per cent of world trade and 71 per cent of Australia's total trade
- Most recent APEC achievements include an agreement on a list of environmental goods for tariff reduction by 2015, as well as a new program of work on higher education cooperation.

Members of APEC

- Australia
- Brunei Darussalam
- Canada
- Chile
- People's Republic of China
- Hong Kong China
- Indonesia
- Japan
- Republic of Korea
- Malaysia
- Mexico
- New Zealand
- Papua New Guinea
- Peru
- The Philippines
- Russian Federation
- Singapore
- Chinese Taipei
- Thailand
- United States
- Vietnam

For more information on APEC: www.apec.org

THE BENEFITS OF FOREIGN INVESTMENT

Foreign investment has allowed Australians to enjoy higher rates of economic growth, employment and living standards than could have been achieved from domestic savings alone.

This is because it:

- Supplements scarce domestic savings – due to Australia's relatively small population, foreign investment has provided access to needed capital;
- Allows access to new technologies – foreign companies often transfer technology to Australia when they invest, making us more internationally competitive;
- Creates new businesses and employment – foreign companies setting up subsidiaries in Australia create jobs, leading to economic growth,
- Provides revenue to the government – profits of foreign-owned companies are taxed, spreading the benefits of these investments to all Australians, and
- Helps to drive productivity growth – it provides access to new technologies and increases the level of competition in the market.

A number of studies have examined the impact of foreign investment. In 2010 a study by Access Economics found that a 10 per cent increase in foreign investment in Australia would lead to a more than one per cent increase in GDP by 2020. An OECD study found that increasing foreign investment as a share of GDP is significantly and positively associated with productivity growth.

TRADE LIBERALISATION AND JOBS

Trade liberalisation has been at the heart of Australian Government policy for the past 30 years. Australia now has limited tariff and import restrictions on most of our traded goods sectors and low barriers to most services trade – initiatives that have bolstered the strength of our economy.

This process has opened the economy to greater volumes of trade, increasing productivity, accelerating economic growth and making the economy more flexible and dynamic. Australia's economic strength and resilience during the recent global economic turbulence was in part a result of Australia's trade liberalisation reforms.

The OECD's International Collaborative Initiative on Trade and Employment (ICITE) recently published a report on the relationship between trade and jobs. It found that trade creates jobs, increases real incomes and enhances productivity.

The ICITE determined that more liberalised economies most notably out-performed closed economies in terms of pay. Workers in the manufacturing sector of liberal economies benefitted from pay rates that were between three and nine times greater (depending on the region) than in closed economies. Besides driving wages up, trade also positively affects incomes by lowering prices of goods and services because of increased competitive pressures.

These benefits of liberalisation have occurred in Australia. A Centre for International Economics study determined that there has been an increase in real income of up to $3,900 per year for the average Australian family due to the trade liberalisation agenda since 1988. The study also found that, in Australia alone, over 2 million jobs in today's workforce are related to trade, further illustrating the importance of trade liberalisation for Australia.

Department of Foreign Affairs and Trade (2012). *Trade at a Glance 2012* (PDF), pp. 24-39. Retrieved from www.dfat.gov.au on 14 May 2013.

Why does Australia trade?

This extract from the federal government's trade policy statement explains, courtesy of the Department of Foreign Affairs and Trade

The Government's vision for the nation is a prosperous, sustainable Australia providing opportunity for all. International trade contributes to the fulfilment of that vision by increasing national prosperity and creating high-skill, high-wage jobs. Following the opening up of the Australian economy to greater competition and trade from the early 1980s, our country has enjoyed almost two decades of strong and sustained growth. Among the advanced economies of the world, only Australia has achieved such strong, recession-free growth over this period.

Even during the deepest global recession since the Great Depression, Australia was unique among the major advanced countries in avoiding recession and job losses. While more than 11 million jobs were lost in North America and Europe during the global recession 413,000 new jobs were created in Australia. In addition to the Government's fiscal stimulus and the continuing growth of China, an Australian recession was averted as a direct consequence of the resilience of Australian businesses, large and small. This resilience was born of their exposure to international competition through gradual reductions in industry protection.

The benefits of reductions in industry protection have flowed through to everyday Australians. Opening up the Australian economy to more trade has made Australian households better off on average by an estimated $3,900 per annum (Centre for International Economics 2009, p. 20). These gains have come in the form of greater income from exports and reductions in the cost of imported and import-competing goods and services.

More trade is a pathway to a high-skill, high-wage future for working Australians. Australians working in export industries on average are paid 60 per cent more than other working Australians (Pink and Jamieson 2000, p. 27).

Since the opening-up of the Australian economy initiated by the Hawke Government in the early 1980s, Australia has lifted its trade intensity (exports plus imports as a share of total economic output) from 28 per cent to 40 per cent. Given the small size of the Australian market and the massive size of the global market, the more we trade in the future the greater will be the prospective benefits for everyday Australians. Australia is already a great trading nation; with the right policies we can be even greater.

Department of Foreign Affairs and Trade (2011). Gillard Government Trade Policy Statement: *Trading our way to more jobs and prosperity,* April 2011, p. 1. Retrieved from www.dfat.gov.au in May 2013.

TRADE LIBERALISATION IN AUSTRALIA

A brief trade policy history, courtesy of the Department of Foreign Affairs and Trade

Well before Federation, the various Australian colonies imposed tariffs on imports. At Federation the major political parties were split into two camps: protectionists and free traders. For almost three-quarters of the 20th Century the protectionists held the upper hand, as tariffs were applied and, when imports became competitive against domestically-produced goods despite high and rising tariffs, quotas were added to tariffs.

The first Australian government to seek to wind back these seemingly inexorable increases in protection was the Whitlam Government in 1973, which cut tariffs by 25 per cent across the board. Some of the tariff reductions stuck, but not all. The Fraser Government tightened restrictive quotas to the extent that by the time the Hawke Government was elected in early 1983, protection for the most highly protected industries was higher than before the Whitlam tariff cut. By the time of the 1983 change of government, Australian manufacturing was on its knees, unable to compete against imports despite ever-higher protective trade barriers. The tariff on imports of automobiles that were within the designated quota limits reached 57.5 per cent and for automobile imports above the quota restriction the tariff hit 100 per cent. Tariffs on clothing and some textile items soared to 180 per cent.

The Hawke Government set about opening up the Australian economy to competition, refashioning it from supplying a small, domestic market protected by high tariff walls to an open, competitive economy supplying global markets. In this great market-opening endeavour the Hawke Government applied competitive forces to the exchange rate, financial markets, product markets and government business enterprises. Trade policy and microeconomic reform were integral components of the overall economic reform program, intertwined and bound by the open, competitive philosophy. Reducing tariffs and eliminating quotas were tools of trade in fashioning the open, competitive economy, essential in exposing Australian business to international competition.

It is for these reasons that Prime Minister Hawke and Treasurer Keating pressed ahead with scheduled tariff cuts through the teeth of the deep recession of 1991 and why, in that year, they legislated even greater tariff reductions. These policies required enormous political courage and the understanding of a visionary trade union movement. But, as an essential part of the overall economic reform program, they helped lay the platform for almost 20 years of sustained economic growth and job creation.

The Keating Government maintained the tariff reduction program, introduced enterprise bargaining into the labour market and boosted competition at home through National Competition Policy. By subjecting public utilities to competition the Keating Government compelled them to be more efficient, and so reduced input costs for Australian businesses, enabling them to be more internationally competitive.

As a result of these market-opening policies, continued by the Howard Government after an early freeze, average effective tariffs on manufactures fell from more than 22 per cent to below 5 per cent, the tariff rate on automobiles fell from a maximum of 100 per cent to 5 per cent and tariffs on clothing and some textiles fell from rates as high as 180 per cent to 10 per cent with a further reduction to 5 per cent scheduled for 2015. Tariffs on footwear and some other textiles have already fallen to 5 per cent.

Department of Foreign Affairs and Trade (2011). *Gillard Government Trade Policy Statement: Trading our way to more jobs and prosperity,* April 2011, p. 5. Retrieved from www.dfat.gov.au in May 2013.

MULTILATERAL AGREEMENTS OFFER THE LARGEST BENEFITS

The Australian government argues its case for the continued promotion of trade liberalisation. Information sourced from the Department of Foreign Affairs and Trade

The Doha Round

A multilateral trade deal offers the greatest prospective benefits. Successful completion of the Doha Round would create a new wave of global trade liberalisation and strengthen the integrity of the global trading rules to achieve greater gains from trade.

Global prosperity is maximised in a global market observing global trading rules. Multilateral trade liberalisation allows countries to specialise according to their comparative advantage, creating more jobs and prosperity instead of simply redistributing a fixed number of jobs and a fixed amount of prosperity among the countries of the world.

By avoiding discrimination, multilateral trade liberalisation avoids potentially costly trade diversion to countries that are not the best at producing particular goods and services. As Peter Corish, former President of the National Farmers Federation observed:

> *"There is only one way we will get any meaningful reform, and that is through results at the World Trade Organization. If you do a deal in the World Trade Organization then you effectively get 144 FTAs all at once."*

Mr Corish made that statement in 2002. Today, the figure would be 153 trade agreements all at once, since there are now 153 members of the World Trade Organization. In fact, it would be even better than this, because Australia's trade with each of the 153 countries would not be tied up with restrictive rules of origin that are deployed in discriminatory trade deals.

The federal Government will continue to press for an ambitious, comprehensive outcome of the Doha Round that liberalises trade in agriculture, manufacturing and services.

ASIA PACIFIC ECONOMIC COOPERATION (APEC)

The Government will continue to champion the Asia Pacific Economic Cooperation (APEC) forum, which was established in 1989 at the initiative of the Hawke Government. Though not a trade negotiating forum, APEC has proven to be an effective grouping for trade liberalisation in the Asia-Pacific region. Following the adoption in 1994 of the so-called Bogor Goals for free and open trade and investment in the Asia-Pacific (by 2010 for industrialised economies and by 2020 for developing economies), countries of the region have gradually lowered their tariffs, confident that other countries were lowering theirs too. By 2009, APEC economies had reduced their tariffs to an average of just over 6 per cent, down from around 16 per cent in 1988.

Longer term, Australia and other APEC members aspire to the formation of a Free Trade Area of the Asia-Pacific (FTAAP) spanning all APEC economies. FTAAP is a logical extension of APEC's Bogor Goals but there are no prescribed paths for achieving it. The Trans-Pacific Partnership Agreement (TPP) is one possible pathway to FTAAP. It is the most advanced one, with negotiations currently taking place towards a binding regional agreement which could be expanded over time to other APEC members.

The Comprehensive Economic Partnership for East Asia (CEPEA), involving the 10 ASEAN members plus Australia, China, India, Japan, New Zealand and the Republic of Korea, and other ASEAN-centred processes aimed at closer economic cooperation and liberalisation in the region, could also lead towards an East Asia-wide free trade agreement.

Comprehensive regional and bilateral agreements

World Trade Organization rules explicitly acknowledge the desirability of increasing freedom of trade through high-quality and comprehensive trade agreements. The Government will not enter into any trade agreement that falls short of the benchmarks set by the World Trade Organization or the benchmarks we set ourselves of high-quality, truly liberalising trade deals that support global trade liberalisation.

Trans-Pacific Partnership (TPP)

The Government's highest regional trade negotiation priority is the conclusion of the Trans-Pacific Partnership Agreement (TPP). The Australian Government will pursue a TPP outcome that eliminates or at least substantially reduces barriers to trade and investment. The TPP is more than a traditional trade agreement; it will also deal with behind-the-border impediments to trade and investment.

It is intended that the TPP be a living agreement that remains relevant to emerging issues and allows for membership expansion. While expanded membership of the TPP is desirable, those seeking membership would need to demonstrate commitment to early and comprehensive liberalisation so as to maintain the momentum that has been generated by existing TPP parties.

Australia-Korea Free Trade Agreement*

The Republic of Korea is Australia's fourth largest trading partner. The Government is seeking to complete negotiations on a Korea-Australia Free Trade Agreement in 2011. Our objective in the negotiations is to put Australian exporters on an equal footing with US and EU competitors which have obtained improved access to the Korean market. The agreement would also include strong liberalising commitments by Korea in services while Australia would eliminate its remaining tariffs on auto imports from Korea and would liberalise its foreign investment requirements.

Japan-Australia Free Trade Agreement

Japan is Australia's second-largest trading partner and a significant source of direct foreign investment. Negotiations on a Free Trade Agreement between Japan and Australia commenced in 2007. Japan released a new Basic Policy on Comprehensive Economic Partnerships in November 2010 which makes clear that the Japanese Government is seeking greater engagement and economic integration within the region as a means of revitalising its economy. The Basic Policy suggests a major commitment to fundamental reform of Japan's agricultural sector.

Implementation of the Basic Policy should create new opportunities for agricultural producers, like Australia, wanting to export to Japan. The Japanese Government has proposed to the Australian Government that negotiations for the Free Trade Agreement be re-started and, if possible, completed in 2011. Based on this new approach to agriculture, the Government has agreed to new and accelerated negotiations, which would offer benefits across goods, services and investment.

China-Australia Free Trade Agreement

China is Australia's largest trading partner and the Government is committed to negotiating a high-quality China-Australia Free Trade Agreement. The negotiations, which began in 2005, are complex, covering an array of sensitive products and issues, including agricultural tariffs and quotas in China, manufactured goods, services, temporary entry of people and foreign investment. In discussions in Beijing in October 2010 between the Australian and Chinese Trade Ministers it was agreed that fresh efforts would be made to find ways of overcoming the present impasse. It is anticipated that proposals to unlock the negotiations will be discussed when the two Trade Ministers meet for the annual Joint Ministerial Economic Commission in mid-April 2011.

Other trade negotiations

Malaysia-Australia Free Trade Agreement (MAFTA)

Malaysia is Australia's 13th largest trading partner. Australia is seeking commitments from Malaysia that go further than AANZFTA and result in a commercially meaningful package between the two countries. The Australian and Malaysian Prime Ministers have recently jointly committed to press for the finalisation of MAFTA by March 2012.

Indonesia-Australia Comprehensive Economic Partnership Agreement

Indonesia is Australia's 11th biggest trading partner. Its economy, with 234 million people, has been growing rapidly and in 2009 was the 18th largest economy in the world. The Indonesian Government is pointing to strong recent growth as evidence that its GDP can be in the top 10 globally by 2025. The Australian and Indonesian Governments agreed in November 2010 to launch negotiations for a Comprehensive Economic Partnership Agreement to build on the liberalisation provided for in the AANZFTA.

Gulf Cooperation Council Free Trade Agreement

Achieving a trade agreement with the Gulf Cooperation Council is commercially significant for Australia, with two-way merchandise trade of almost $9 billion in 2010. Automotive exports are a key opportunity, and agriculture, mineral commodities, services (particularly education, engineering and construction) and investment are all important. The Gulf Cooperation Council has paused its trade negotiations with all partners pending a review of its trade agreement policy.

* **Editor's note:** On 5 December 2013 Australia concluded negotiations for a Free Trade Agreement with the Republic of Korea.

Department of Foreign Affairs and Trade (2011). Gillard Government Trade Policy Statement: *Trading our way to more jobs and prosperity,* April 2011, pp. 10-12. Retrieved from www.dfat.gov.au in April 2013.

Bilateral and regional trade agreements

AN OVERVIEW ON FREE TRADE AGREEMENTS FROM THE PRODUCTIVITY COMMISSION

What are bilateral and regional trade agreements?

For the purposes of this study, the Commission has interpreted the term 'bilateral and regional trade agreements' broadly to cover:

- Agreements concluded between two parties in which at least one of the parties, whilst maintaining their own tariffs, obtain concessional entry to the market of the partner, such as in the Australia-New Zealand Closer Economic Relations Trade Agreement – such agreements are variously referred to as preferential or free trade agreements,
- Similar agreements between multiple parties, such as Australia's recent regional agreement with ASEAN and New Zealand and the North American Free Trade Agreement – also referred to as preferential or free trade agreements,
- Agreements (termed 'customs unions') between two or more countries in which members adopt a common external tariff while allowing concessional trade between partners, such as the customs union of the European Union, and
- Agreements between trading partners to lower their own trade barriers with respect to all parties (including those outside the agreement) either according to arrangements bound under the agreement or on a voluntary basis, such as the APEC Bogor Declaration.

Australia's agreements

Australia has a range of relatively long-standing BRTAs. Apart from its agreements with New Zealand, which have been extended in scope over time, these older preferential agreements are confined to duty concessions on merchandise trade. Australia has had a non-reciprocal agreement with the South Pacific Islands Forum since 1981, and a specific agreement with Papua New Guinea since 1977. It also has a long standing reciprocal PTA with Canada, although most of its provisions have been superseded by reductions in the partners' MFN tariffs. In addition, Australia is a party to the Bogor Declaration, under which APEC members agreed to progressively lower trade barriers to all trading partners.

Key points: bilateral and regional trade agreements

- In line with global trends, Australia has recently entered a number of new bilateral and regional trade agreements (BRTAs) and is negotiating several more.
- The Australian Government's approach has been to negotiate comprehensive agreements that seek substantial reductions in trade barriers.
  - For merchandise trade, recent BRTAs have resulted in some significant bilateral tariff reductions both in Australia and in partner countries.
  - For services and investment trade, BRTAs typically limit discrimination between suppliers.
  - Australia's agreements have often also included provisions on matters such as intellectual property, competition policy and trade facilitation.
- Theoretical and quantitative analysis suggests that tariff preferences in BRTAs, if fully utilised, can significantly increase trade flows between partner countries, although some of this increase is typically offset by trade diversion from other countries.
  - The increase in national income from preferential agreements is likely to be modest.
- The Commission has received little evidence from business to indicate that bilateral agreements to date have provided substantial commercial benefits.
  - This may be because the main factors that influence decisions to do business in other countries lie outside the scope of BRTAs.
- Domestic economic reform offers relatively large economic benefits and should not be delayed to retain 'bargaining coin'.
- In the international arena, the Australian Government should continue to pursue progress in the Doha Round. Building the case for substantive reductions in trade barriers internationally requires improvements in domestic transparency and policy analysis *within* each country.
- While BRTAs can reduce trade barriers and help meet other objectives, their potential impact is limited and other options often may be more cost-effective.
- Current processes for assessing and prioritising BRTAs lack transparency and tend to oversell the likely benefits.
- To help ensure that any further BRTAs entered into are in Australia's interests:
  - Pre-negotiation modelling should include realistic scenarios and be overseen by an independent body. Alternative liberalisation options should also be considered.
  - A full and public assessment of a proposed agreement should be made after negotiations have concluded – covering all of the actual negotiated provisions.
- The Government should also develop and publish an overarching trade policy strategy, to better coordinate and track the progress of trade policy initiatives, and to ensure that efforts are devoted to areas of greatest likely return.

Productivity Commission 2010, *Bilateral and Regional Trade Agreements*, Research Report, Canberra, Overview p. XX Retrieved from www.pc.gov.au in April 2013.

More recently, Australia has entered into five new preferential trade agreements:

- Singapore-Australia FTA (commenced 28 July 2003)
- Thailand-Australia FTA (commenced 1 January 2005)
- Australia-United States FTA (commenced 1 January 2005)
- Australia-Chile FTA (commenced 6 March 2009), and
- ASEAN-Australia-New Zealand FTA (commenced 1 January 2010).

Australia is also negotiating bilateral PTAs with China, Malaysia, Japan and Korea*. And it is negotiating three regional deals: with the Gulf Cooperation Council; the PACER Plus agreement with Pacific Island Forum countries; and the Trans-Pacific Partnership with Brunei Darussalam, Chile, New Zealand, Singapore, Peru, Vietnam and the United States.

Australia has also completed feasibility studies recently with Indonesia and India, and has now agreed to negotiate an economic partnership agreement with the former.

* **Editor's note:** On 5 December 2013 Australia concluded negotiations for a Free Trade Agreement with the Republic of Korea.

Productivity Commission 2010, *Bilateral and Regional Trade Agreements*, Research Report, Canberra, Overview p. XXII. Retrieved from www.pc.gov.au in April 2013.

About Australia's free trade agreements

Across the globe, there is an expanding network of free trade agreements (FTAs). High-quality, comprehensive free trade agreements can play an important role in supporting global trade liberalisation and are explicitly allowed for under the World Trade Organization (WTO) rules.

FTAs can cover entire regions with multiple participants or link just two economies. Under these agreements, parties enter into legally binding commitments to liberalise access to each others' markets for goods and services, and investment. FTAs also typically address a range of other issues such as intellectual property rights, government procurement and competition policy.

The government will not enter into any trade agreement that falls short of the benchmarks set by the WTO or the benchmarks we set ourselves of high-quality, truly liberalising trade deals that support global trade liberalisation.

Australia has seven FTAs currently in force with New Zealand, Singapore, Thailand, US, Chile, the Association of South East Asian Nations (ASEAN) (with New Zealand) and Malaysia. The countries covered by these FTAs account for 27 per cent of Australia's total trade.

Australia is currently engaged in nine FTA negotiations – five bilateral FTA negotiations: China, Japan, Korea*, India and Indonesia; and four plurilateral FTA negotiations: the Trans-Pacific Partnership Agreement (TPP), the Gulf Cooperation Council (GCC), the Pacific Trade and Economic Agreement (PACER Plus), and the Regional Comprehensive Economic Partnership Agreement (RCEP).

The countries covered by these negotiations account for a further 45 per cent of Australia's trade.

FTAs are helping Australian exporters access new markets and expand trade in existing markets.

* **Editor's note:** On 5 December 2013 Australia concluded negotiations for a Free Trade Agreement with the Republic of Korea.

Department of Foreign Affairs and Trade. *Australia's Trade Agreements* – About free trade agreements. Retrieved from www.dfat.gov.au on 9 April 2013.

Frequently asked questions about Australia's trade agreements

SOME ANSWERS FROM THE DEPARTMENT OF FOREIGN AFFAIRS AND TRADE

What is a free trade agreement?

A Free Trade Agreement (FTA) is an international treaty which removes barriers to trade and facilitates stronger trade and commercial ties, and increased economic integration between participating countries. FTAs open up opportunities for Australian exporters and investors to expand their business into key overseas markets. FTAs can improve market access across all areas of trade – goods, services and investment – and help to maintain and stimulate the competitiveness of Australian firms both internationally and domestically. This also benefits Australian consumers through access to an increased range of better value goods and services.

As a member of the World Trade Organisation (WTO), Australia is required to meet certain legal disciplines in relation to FTA design. The Australian government considers these as positive standards which provide useful guidance to all potential FTA participants.

Under WTO rules FTAs must:

- Eliminate tariffs and other restrictions on 'substantially all the trade' in goods between its member countries, and
- Eliminate substantially all discrimination against service suppliers from member countries (helping to increase trade in services).

An aspect of Australia's FTA negotiations which is becoming more of a focus are the so-called 'behind the border' issues. A range of factors such as standards, professional qualifications, intellectual property rights and competition policies in trading partner countries may impact heavily on Australian companies exporting to those markets. Such barriers are often more of a problem for businesses than 'border measures' such as tariffs and quota restrictions which have been the focus of trade negotiations traditionally but which have become relatively less important over time as their average level has fallen.

How many free trade agreements does Australia have?

Australia has six FTAs currently in force (covering 29 per cent of Australia's trade) and nine more (for a further 36 per cent of Australia's trade) under negotiation.

What guides Australia's FTA policy?

The Government's FTA policy aims primarily at maximising the economic benefits flowing to Australia from the negotiation of these agreements. The *Gillard Government Trade Policy Statement* provides a framework for all trade negotiations, including FTAs. This incorporates principles, disciplines and objectives which provide explicit guidance to negotiators and policy-makers. The Trade Policy Statement makes clear that Australia's FTAs must, for example:

- Pass a net benefit test; and demonstrably be in the national interest
- Be comprehensive, high-quality, truly liberalising trade deals which eliminate or substantially reduce barriers to trade
- Support global trade liberalisation, and
- Be negotiated in a way that keeps the public well informed and that provides opportunities for public input.

The Government's Trade Policy Statement makes clear that the right of Australian governments to make laws in relation to public policy will be preserved. Our FTAs contain the same general exceptions as in the core WTO agreements, so that Australian governments are able to take reasonable trade restrictions if this is required to:

- Enact strict quarantine measures
- Protect human health
- Preserve the environment
- Set food safety standards to reflect community values, and
- Defend our security interests.

What are the benefits of free trade agreements?

- FTAs foster freer trade flows and create stronger ties with our trading partners
- FTAs don't just eliminate tariffs, they also address behind-the-border barriers that impede the flow of goods and services between parties, help to encourage investment, enhance cooperation, and address other issues, such as intellectual property, e-commerce and government procurement
- FTAs increase Australia's productivity and contribute to higher GDP growth by allowing domestic businesses access to cheaper inputs, introducing new technologies, and fostering competition and innovation
- FTAs promote regional economic integration and build shared approaches to trade and investment, including through the adoption of common Rules of Origin and through broader acceptance of product standards
- FTAs can deliver enhanced trading opportunities that contribute to the sustainable economic growth of less-developed economies.

How can I take advantage of Australia's free trade agreements?

Australian businesses can take advantage of FTAs – find out more from the Australian Trade Commission, Austrade (www.austrade.gov.au).

Department of Foreign Affairs and Trade.
Australia's Trade Agreements – Frequently asked questions.
Retrieved from www.dfat.gov.au on 9 April 2013.

AUSTRALIA'S FREE TRADE AGREEMENTS

A brief compilation of Australia's FTA arrangements sourced from the Department of Foreign Affairs and Trade

FTAS IN FORCE

ASEAN-AUSTRALIA-NEW ZEALAND FREE TRADE AREA

The Agreement establishing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) is Australia's most ambitious trade deal to date. The countries of ASEAN constitute one of the most dynamic economic regions in the world: Brunei, Myanmar, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam. FTA negotiations cover all sectors including goods, services, investment and intellectual property simultaneously.

AUSTRALIA-CHILE FREE TRADE AGREEMENT

The Australia-Chile Free Trade Agreement entered into force on 6 March 2009. It was Australia's fifth FTA and the first with a Latin American country. The FTA covers goods, services and investment. By 2015, all tariffs will be eliminated except sugar, which retains a tariff of 6% for Australian exports to Chile.

AUSTRALIA-NEW ZEALAND CLOSER ECONOMIC RELATIONS TRADE AGREEMENT

ANZCERTA is one of the most comprehensive bilateral free trade agreements in existence. It covers substantially all trans-Tasman trade in goods, including agricultural products, and was the first to include free trade in services. The Agreement's central provision is the creation of a World Trade Organization (WTO)-consistent Free Trade Area encompassing Australia and New Zealand. Since ANZCERTA entered into force in 1983, the two-way trade in goods between the two countries has expanded at an average annual growth rate of 8%. ANZCERTA was the first of Australia's bilateral agreements and it has continued to grow and improve with new amendments added over the years.

AUSTRALIA-REPUBLIC OF KOREA FREE TRADE AGREEMENT

Australia concluded negotiations for a free trade agreement with the Republic of Korea in December 2013. The Republic of Korea (South Korea) is Australia's third largest goods export market and fourth largest trading partner. As a result of the Agreement, tariffs will be eliminated on Australia's major exports to Korea and there will be significant new market openings in services and investment. Independent modelling shows the Agreement would be worth $5 billion between 2015 and 2030 and boost the economy by around $650 million annually after 15 years. The FTA secures Australia's position in a major market where competitors like the United States, European Union and ASEAN countries are already benefitting from preferential access.

AUSTRALIA-UNITED STATES FREE TRADE AGREEMENT

AUSFTA is a long-term commitment and framework to strengthen trade relations and economic integration with the United States across all sectors of the economic relationship. Two thirds of all agricultural tariffs, including lamb, sheep meat and horticultural products, were eliminated immediately, with a further 9% of tariffs cut to zero in 2008; almost all agricultural tariffs will be removed on full implementation in 2022 (all but sugar and out-of-quota dairy). Duties on more than 97% of US non-agricultural tariff lines became duty-free from day one of the Agreement, with all trade in goods free of duty by 2015. Access to US markets has been locked in for Australian service suppliers such as providers of professional, business, education, environmental, financial and transport services and a framework to promote mutual recognition of professional services has been developed. The US federal government procurement market, worth at least US$535 billion annually (2011), and that of 31 state governments are now open to Australia.

MALAYSIA-AUSTRALIA FREE TRADE AGREEMENT

MAFTA entered into force on 1 January 2013 and is a comprehensive agreement that further integrates the Australian economy into the fast-growing Asian region. The Agreement builds on benefits already flowing to the Australian economy from the ASEAN-Australia-New Zealand Free Trade Agreement, which started for Australia and Malaysia in 2010.

SINGAPORE-AUSTRALIA FREE TRADE AGREEMENT

SAFTA entered into force on 28 July 2003 and is a central pillar of the economic relationship with Singapore, Australia's largest trade and investment partner in South-East Asia. In addition to tariff elimination, the Agreement improves increased market access for Australian exporters of services, particularly education, environmental, telecommunications, and professional services. It also provides a more open and predictable business environment across a range of areas, including competition policy, government procurement, intellectual property, e-commerce, customs procedures and business travel.

THAILAND-AUSTRALIA FREE TRADE AGREEMENT

TAFTA entered into force on 1 January 2005 and was Australia's third free trade agreement. It has eliminated the majority of Thai tariffs on goods imported from Australia. The reduction of Thailand's previously high tariff barriers (for some goods, up to 200 per cent) is a significant win for Australian businesses, opening up a range of export opportunities in Southeast Asia's second-largest economy. TAFTA also improves the environment for bilateral services trade and investment. Total two-way trade between Australia and Thailand has more than doubled since TAFTA entered into force.

FTAS UNDER NEGOTIATION

AUSTRALIA-CHINA FREE TRADE AGREEMENT NEGOTIATIONS

In April 2005, Australia and China commenced complex negotiations which cover an array of issues, including agricultural tariffs and quotas, manufactured goods, services, temporary entry of people and foreign investment. In the past two decades, China has rapidly become Australia's largest two-way trading partner and is vital to Australia's future economic prosperity.

AUSTRALIA-GULF COOPERATION COUNCIL FREE TRADE AGREEMENT

Free Trade Agreement negotiations with the Gulf Cooperation Council (GCC), comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, commenced in July 2007. Australia and the GCC share a significant economic relationship, encompassing trade and investment across a broad range of goods and services. The GCC is an important market for exports of passenger motor vehicles; and there are further opportunities in agriculture, mineral commodities, and services such as engineering, construction and education.

AUSTRALIA-INDIA COMPREHENSIVE ECONOMIC COOPERATION AGREEMENT NEGOTIATIONS

Australia is currently seeking a comprehensive free trade agreement with India which would cover investment and trade in goods and services. A comprehensive agreement would assist in broadening the base of merchandise trade by addressing tariff barriers and behind the border restrictions on trade in goods. India is the world's largest democracy and is a market of 1.2 billion people. Its young population, diversified economy and growth trajectory present significant opportunity for Australian business, especially in the agriculture, energy, manufacturing, mining and services sectors.

AUSTRALIA-JAPAN FREE TRADE AGREEMENT NEGOTIATIONS

Negotiations on the Australia-Japan Free Trade Agreement commenced in April 2007. A bilateral agreement would liberalise trade in goods with a view to increasing economic growth, trade, investment and employment in both countries. Japan is a vital and long-standing export market for Australian business, a reliable supplier of high-quality finished goods, and a key source of investment to the Australian economy.

INDONESIA-AUSTRALIA COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT NEGOTIATIONS

Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) negotiations commenced in Jakarta in September 2012 with the aim of strengthening and expanding the trade, investment and economic cooperation relationship between Australia and Indonesia. It will help bring the region's two largest economies closer together and will form a key part of Australia's regional economic integration as part of the Asian Century.

PACIFIC AGREEMENT ON CLOSER ECONOMIC RELATIONS

The PACER Plus negotiations, launched in 2009, offer an opportunity to help Pacific Islands Forum countries benefit from enhanced regional trade and economic integration. Participants in the PACER Plus negotiations are: Australia, Cook Islands, Federated States of Micronesia, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu.

REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP NEGOTIATIONS

The RCEP negotiations were launched by leaders from ASEAN and ASEAN's FTA partners in November 2012. The negotiations will be based on the Guiding Principles and Objectives for Negotiating the RCEP endorsed by the leaders. The objective of launching RCEP negotiations is to achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement that will cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues. RCEP is an ASEAN-centred proposal for a regional free trade area, which would initially include the ten ASEAN member states and those countries which have existing FTAs with ASEAN – Australia, China, India, Japan, Republic of Korea and New Zealand. The RCEP will build on and expand Australia's existing FTA with ASEAN and New Zealand, AANZFTA. It will complement Australia's participation in bilateral trade negotiations and in Trans-Pacific Partnership Agreement (TPP) negotiations.

TRANS-PACIFIC PARTNERSHIP AGREEMENT NEGOTIATIONS

The TPP aims to create a free trade area for the Asia-Pacific. This agreement will build on the Trans-Pacific Strategic Economic Partnership Agreement (P4) between Brunei Darussalam, Chile, New Zealand and Singapore, which entered into force in 2006. The TPP includes the P4 Parties as well as Australia, Canada, Japan, Malaysia, Mexico, Peru, the USA and Vietnam. Since 2008, the Australian Government has pursued a TPP outcome that eliminates or at least substantially reduces barriers to trade and investment.

MORE INFORMATION

Visit the DFAT homepage, *Australia's Trade Agreements*, at www.dfat.gov.au/fta

Source: Department of Foreign Affairs and Trade.
Edited content. Retrieved from www.dfat.gov.au/fta on 11 October 2013.

WHY EMBRACING FREE TRADE MAY BE MORE COMPLICATED THAN IT LOOKS

The new government faces sorting out a complex mess of stalled talks on various free trade agreements, observes Jeffrey Wilson

If headlines are to be believed, the new Coalition government is set to "embrace free trade" in its first term in office. In announcing his new Ministry last week, Tony Abbott has made significant changes to the Trade portfolio. Trade responsibilities have now been combined with foreign investment, for the first time uniting the two major branches of foreign economic policy.

In an equally dramatic move, the Liberals' Andrew Robb has been appointed the new Minister for Trade and Investment. This is the first time since 1956 that a Coalition government has not placed a Nationals member in the trade post.

The ostensible rationale is to put free trade and foreign investment at the centre of the Coalition's economic agenda. The Coalition has promised a rapid trade push to spur exports, foreign investment and employment, and Andrew Robb has been designated Australia's "ambassador for jobs".

High on the new Minister's agenda will be the advancement of Australia's free trade agreements (FTAs) with partners in Asia. Tony Abbott has indicated Robb's first task will be to conclude a series of deals that were marked by a "disappointing lack of progress under the former government". The Chinese, Japanese and South Korean FTA negotiations will be immediately prioritised.

But what are the prospects the new Minister can deliver on this promise? The difficulties facing Australia's current FTAs suggest the task will be a considerable challenge.

AUSTRALIA'S BILATERAL FREE TRADE AGREEMENTS IN THE ASIA-PACIFIC

The Australian government has proved highly capable at *launching* FTA negotiations. Consistent with a global trend towards 'trade bilateralism', Australia has opened bilateral trade talks with twelve countries since the year 2000. All but one of these initiatives have been in the Asia-Pacific region, and include important partners such as the US, China and Japan.

However, its record in *completing* these deals is decidedly lacking. Only five have so far been finalised, the majority of which are with small (and relatively less important) partners such as Singapore, Thailand and Chile. Conversely, FTA talks with major trade partners – in particular China, Japan, Korea – have been running

AUSTRALIA'S FREE TRADE AGREEMENTS, DECEMBER 2013

Country	Proposed	Negotiation starts	Agreement reached	Negotiation rounds	Current status
Singapore	November 2000	April 2001	February 2003	10	**Complete**
Thailand	July 2001	August 2002	July 2004	8	**Complete**
US	November 2002	March 2003	May 2004	7	**Complete**
China	October 2003	May 2005		19	**Negotiation**
Malaysia	July 2004	May 2005	May 2012	12	**Complete**
Japan	April 2005	April 2007		16	**Negotiation**
GCC	June 2006	July 2007		4	**Suspended 2009**
Chile	December 2009	August 2007	July 2008	4	**Complete**
Indonesia	August 2007	March 2013		2	**Negotiation**
India	April 2008	July 2011		5	**Negotiation**
Korea	April 2008	May 2009	December 2013	5	**Complete**

Source: Author's compilation, from http://www.dfat.gov.au/fta/

for many years with no concrete outputs. As these three Northeast Asian countries accounted for 57% of merchandise exports in 2012, finalising these deals would be of major significance to Australian exporters.

However, the prospects for concluding any of these deals in a speedy and *impactful* way are low. The previous ALP government indicated it would only sign FTAs which were "comprehensive", and genuinely reduce barriers to trade in areas of interest to Australia, such as the agriculture and services sectors. Unfortunately, comprehensive deals are proving difficult to strike in Asia.

FTA negotiations with Japan are a case in point. Japan maintains some of the highest rates of agricultural protection in the world, with a complex quota system and an 800 per cent tariff on rice imports. One of Australia's main FTAs goals has been to negotiate reductions in these forms of protection, particularly for the beef industry. However, the Japanese government remains wedded to protectionism due to domestic political pressure from rural constituencies, and has consistently resisted Australian requests to liberalise agricultural trade.

Negotiations with South Korea have also proven difficult. Despite claims from (then Foreign Minister) Kevin Rudd in 2009 that the talks were "near to conclusion", the FTA remains incomplete in 2013*. Australia is unwilling to agree to Korea's demand for investor-state dispute settlement provisions, following its legal dispute over plain packaging with tobacco giant Philip Morris. In the meantime, Australian beef exporters stand to lose out, as the recently signed US-Korea FTA will give American competitors a tariff advantage that the industry has claimed will cost $1.4 billion over the next fifteen years.

Australia's FTA negotiations with China have been even more fraught. Launched in 2005, the talks have now been through 19 rounds but are yet to even precisely define the scope of market access provisions. The sticking points are numerous, and include Chinese sensitivities about agriculture and service imports, and Australia's reluctance to raise thresholds for Chinese investments assessed by the Foreign Investment Review Board. Negotiations with China have become so tortuous that Craig Emerson, the now-former Trade Minister, took the unprecedented step of saying that a comprehensive FTA was "just beyond both countries" in April this year.

THE 'TRADE-OFF' DILEMMA IN AUSTRALIAN FTA POLICY

How might the new government go about sorting out this complex mess of stalled talks? The Coalition arguably faces a dilemma in choosing between two FTA strategies, neither of which are particularly attractive.

The 'pragmatic' option would be to abandon the goal of signing "comprehensive" FTAs entirely. This could involve prioritising the interests of a few key sectors, rather than insisting on across-the-board liberalisation from partners. Indeed, former Ambassador to China Geoff Raby has recently argued Australia should drop its demands in the sugar, wool and banking sectors, in order to focus only on access for beef, lamb, dairy, and horticultural products into China.

Lowering expectations would reduce the costs of an FTA for trade partners, smoothing the way to quickly concluding the deals. However, it is also a diabolical trade-off, which involves sacrificing the interests of certain sectors for those of others. Whether government should even be "picking and choosing" between export industries in the first place is also an open question.

> The government now faces the policy dilemma of either lowering its expectations from FTAs, or risking not signing any FTAs at all.

The "purist" option would be to maintain its current stance on comprehensive liberalisation and abandon bilateral FTAs entirely. Trade policy efforts could instead emphasise multilateral initiatives in the region. Australia is already involved in negotiations for two regional trade deals – the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP). Given these are complex multilateral deals, it is less likely that the sectoral interests of certain countries will block negotiation entirely.

Nonetheless, Australia is a relatively small player in both the TPP and RCEP, and may not be able to press effectively for its key interests in agriculture and services. The prospects for these agreements are also hard to gauge. RCEP is a relatively new proposal whose details remain unclear, while China is yet to officially join the TPP. Betting the trade farm of these nascent regional deals would be a high risk strategy.

Thus, the Coalition government now faces the policy dilemma of either lowering its expectations from FTAs, or risking not signing any FTAs at all. How the new Trade Minister will respond to this trade-off between FTA purity and pragmatism remains to be seen, but "embracing free trade" will prove more challenging than initially thought.

* **Editor's note:** On 5 December 2013 Australia concluded negotiations for a Free Trade Agreement with the Republic of Korea.

Jeffrey Wilson is a Fellow of the Asia Research Centre at Murdoch University.

Wilson, J (20 September 2013). *Why embracing free trade may be more complicated than it looks.* Retrieved from theconversation.com/au on 2 October 2013.

Australia's free trade choice is between regional relations or the bigger picture

Australia can choose to join with ASEAN nations in free trade agreements or persevere with multilateral agreements, writes Richard Pomfret

Although foreign policy was a low priority in its election campaign, the new government is entering a 15-month period when Australia is uniquely placed to set international agendas. Australia will take over the G20 chair, culminating in the November 2014 G20 summit in Brisbane – the most important international meeting ever on Australian soil. Next month at the APEC Summit in Indonesia and the East Asia Summit in Brunei Darussalam, Australia has the opportunity to discuss priorities with world leaders before setting a G20 agenda in December.

The government has signalled that it will continue the Russian G20 presidency's focus on "jobs and growth". While this is an appropriate overarching objective, Mike Callaghan has argued in a recent report from the Lowy Institute that Australia needs to identify specific objectives:

"One key priority should be trade. The G20 should be worried about the future of the international global trading system after the failure of the Doha round and the trend towards mega-regional, and discriminatory, trade deals."

Trade in a rule-based environment

The evidence of a positive connection between trade and growth is strong. Openness to the global economy was a crucial ingredient for the rapid growth enjoyed by Japan and then the Asian Tigers in the second half of the twentieth century. In Australia the dismantling of trade barriers since the 1980s underpinned the last two decades' stellar growth performance.

The BRICS* and other emerging economies are all integrated into the global economy. This is not to say that opening-up is sufficient or that there are no losers who may deserve compensatory transfers, but openness to trade is a necessary condition for prosperity.

The World Trade Organisation matters because its rules provide the legal framework for international trade and it has a dispute settlement mechanism. The advantage of this system is reflected in the continuing increase in WTO membership, currently 159 members and 24 applicants, which include all major economies; pariah states like North Korea and Turkmenistan head the outsiders.

After its establishment in 1995, the WTO progressed important agreements such as the 1996 *Information Technology Agreement* that freed trade in IT goods and paved the way for efficient production of smart phones and other products manufactured in complex global value chains. However, the WTO lost its way in 2001 by announcing a new round of multilateral negotiations, the Doha Development Round, which became mired in failure to reach consensus among 159 members.

The rise of bilateralism and the ensuing noodle bowl

Meanwhile, bilateral agreements have flourished, especially in Asia. Many focus on a few key constraints that the negotiators want to reduce. Hence, the network of agreements has become increasingly

heterogeneous. Trade policymakers are seeking a way to untangle the noodle bowl of overlapping agreements.

Australia joined the trend, signing agreements since 2003 with Singapore, Thailand, the USA, Chile and ASEAN. It is important to recognise the diversity. The easily negotiated agreement between low-tariff Singapore and Australia covered minor issues of mutual interest. The agreement with the USA involved detailed bargaining about market access where trade is not free, with a focus on US suppliers of patented pharmaceuticals and Australian farmers' access to heavily protected US agricultural markets. The ASEAN-Australia agreement is a classic free trade agreement, with zero tariffs on trade among the partners and almost 100% coverage.

TPP and RCEP as alternative approaches

To simplify the noodle bowl, two processes have competing visions: the ASEAN-led Regional Comprehensive Economic Partnership (RCEP) and the US-led Trans-Pacific Partnership (TPP). The RCEP generalises the ASEAN free trade area and agreements such as that between Australia and ASEAN to all trade among the ASEAN+6 countries (i.e. ASEAN, China, Japan, Korea, Australia, New Zealand and India). Proponents of the TPP argue that this is old-style tariff-focused integration, whereas the TPP is a new-age agreement going beyond tariffs.

Like the Australia-US agreement, TPP requires lengthy secret negotiations, currently entering their 20th round. The USA offers privileged access to its huge market in return for agreements in areas such as intellectual property or foreign investment where other countries are leery.

The RCEP model is essentially the open regionalism promoted by Australia within APEC in the 1990s. Countries with low trade barriers open up their markets to preferential free trade as a stepping-stone to deeper integration. There may be some trade diversion (i.e. promoting internal trade at the expense of more efficient external suppliers), but this misallocation is likely to be minor when trade barriers are low. Non-discriminatory trade would be better, but if this cannot be agreed within Doha then RCEP may be a good second-best outcome.

TPP is a different matter. It follows the North American Free Trade Agreement (NAFTA) pattern of the USA trading market access for specific concessions. Mexican textile manufacturers, for example, have access to the protected US market as long as they use US yarn. In the TPP, the United States is making a similar offer to Vietnam, which may benefit Vietnam on balance, but will hurt Chinese yarn suppliers. For Australia the negotiating ground is again the extent to which domestic policies should be modified to benefit US interests in return for better access to the US market for key farm products.

Many commentators view the RCEP versus TPP contest in terms of international relations: RCEP excludes the East Pacific (read USA) while TPP excludes those unwilling to bargain on US terms (read China). From an economic perspective, however the comparison is apples and oranges. RCEP envisages a WTO-consistent (Article XXIV) free trade area, continuing the Asian trade liberalisation of the last three decades that underlies the flourishing of efficient regional value chains. The TPP is a return to the pre-WTO concept of trading market access concessions, where bargaining is inevitably unequal.

Australia's challenge

Australia must choose whether to cement bilateral relations with the USA via the TPP or to continue the regional integration begun with the Australia-ASEAN agreement. The bigger picture involves our vision of the world trade system, and that is where the G20 agenda matters. The principles of the WTO need to be restated, Doha ditched as a false trail, and minimum standards on intellectual property, trade-related investment measures, rules of origin, etc brought within the ambit of world trade law. In the long run, this vision is far more important than making sacrifices to US tech or pharmaceutical interests in return for more sugar exports.

* BRICS is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa.

Richard Pomfret is Professor of Economics at University of Adelaide.

Pomfret, R (26 September 2013). *Australia's free trade choice is between regional relations or the bigger picture.* Retrieved from theconversation.com/au on 2 October 2013.

Globalisation: do the benefits outweigh the negative impacts?

Justin Healey explores the range of arguments in the globalisation debate

Explained in simple terms, globalisation is the worldwide movement of goods, capital, people, labour, culture and ideas due to increasing economic growth, and propelled by the ongoing expansion of global trade and investment. In recent times, new technologies such as the internet and reductions in trade barriers have hastened the speed of this global exchange, resulting in more opportunities for some and greater challenges for others.

Of particular concern is the issue of equality in relation to globalisation – why is there such inequality between rich and poor countries, and is it getting worse or better as a result of an increasingly globalised economy? Is globalisation shared equally, or is its inexorable advancement creating nations of 'haves' and

'have-nots'? What are the key economic, environmental, cultural and equity factors in the debate over the fairness of globalisation?

Pro-globalisation groups such as the World Trade Organisation, the International Monetary Fund, the World Bank and World Economic Forum advocate benefits such as the lowering of poverty in developing countries through increased employment; income for the Third World from the export of goods and services; increased foreign investment in poorer countries; improved labour standards, human rights and environmental standards; and increased wealth for all participating through free trade and its reduction of tariff barriers.

Anti-globalisation groups accuse globalisation of creating further inequality, or a 'race to the bottom', for poorer nations. Arguments include the belief that the gap between rich and poor nations is increasing;

WHAT IS GLOBALISATION?

There are many different definitions of globalisation, but most acknowledge economic integration – namely, the increase in international trade and investment – which has driven the movement of people, goods, capital and ideas across borders.

While there has always been a sharing of goods, services, knowledge and cultures between people and countries, improved technologies and the removal of trade restrictions have meant that the speed of exchange is much cheaper and faster.

BENEFITS AND PROBLEMS OF GLOBALISATION

Globalisation provides both opportunities and challenges. Bigger markets can mean bigger profits and greater wealth, which can be used for investing in development and reducing poverty. Each country tries to make decisions and policies that position them to maximise the benefits of globalisation. However, trade barriers, weak domestic policies, institutions and infrastructure can restrict a country's ability to do so.

The perceived effects of globalisation excite strong feelings, tempting people to regard it in black and white terms, when in fact globalisation is an extremely complex web of issues and interactions.

Source: AusAID
www.globaleducation.edu.au/global-issues/gi-globalisation.html

Australia's response to globalisation

Australia is an example of a country that has benefited from globalisation, both in terms of exports and as a borrower of international capital. The standard of living Australians enjoy now can be attributed to its 'open' and, therefore competitive, economy.

Recognising that economic growth is a key factor in a country's development, the Australian Government provides assistance to aid partners to create economic policy and conditions to encourage growth and to ensure the benefits of growth are effectively distributed.

This assistance, which typically covers many aspects of development focuses on:

- Supporting partner countries' participation in international trade
- Improving growth in the domestic private sector and access to financial services
- Building governance capacity and effective financial management
- Investing in the country's workforce through health and education programs
- Supporting programs for the environment, including sustainability and climate change.

International responses

There are a number of international organisations established to assist all countries to take advantage of the opportunities presented by globalisation and encourage cooperation and interdependence regionally and globally.

- International Monetary Fund (IMF)
- World Bank
- World Trade Organization

Source: AusAID
www.globaleducation.edu.au/global-issues/gi-globalisation.html

international markets are being prised open for the benefit of multinational corporations at the expense of national economies, workers, farmers and the environment; the power of multinationals compromises the sovereignty of poorer nations; cultural diversity is diminished by the spread of 'Americanisation' by western mass media; multinational corporations exploit polluting industries and resources in countries with inadequate environmental controls; and workers are exploited in countries that do not have the right to organise for better wages and conditions.

Is the global trading system inherently unfair to developing nations, or does it in fact create more opportunities to make 'haves' out of 'have-nots'? Can 'free' trade also be 'fair' trade?

Healey, J. (ed.) (2010). *Issues and Opinions*, Volume 1, The Spinney Press, Thirroul, NSW, p. 20

Arguments for and against globalisation

PRO-GLOBALISATION ARGUMENTS

- There is mounting evidence that inequalities in global income and poverty are decreasing and that globalisation has contributed to this turnaround.
- The countries that are getting poorer are those that are not open to world trade, notably many nations in Africa.
- Companies of all sizes are involved in world trade – the benefits do not just flow to large multinationals.
- Globalisation contributes to environmental improvements by promoting growth, increasing incomes, improving property rights and also favouring the efficient use of resources.
- Poor countries that have lowered their tariff barriers have gained increases in employment and national income because labour and capital shifts from import-competing industries to expanding, newly competitive export industries. In addition to providing jobs, companies moving to developing countries often export higher wages and working conditions compared with those in domestic companies operating in the country.
- Globalisation is not shifting power from nation states to undemocratic institutions. In the case of the World Trade Organisation, the practice has been that no decisions are made unless a consensus of governments is achieved. This guarantees that the WTO reflects the will of its member nation states. As the work of the United Nations has demonstrated, globalisation is more effective when there are strong governments, with sound domestic institutions.
- Australia provides a text book case for the benefits of globalisation. In 1986 it unilaterally lowered its tariffs. As a result, exports have soared, particularly in newly competitive industries such as manufacturing. It is noteworthy that wages in the new export sectors of manufacturing are 25% higher on average than those that simply service the domestic market. Manufacturing has doubled its share of Australia's exports over the last 20 or so years.
- Australia has a strong vested interest in further trade liberalisation, particularly in agriculture. Australia has made common cause with developing countries such as Brazil and Argentina to press for agricultural liberalisation, as this would have the benefit of opening lucrative American and European markets.
- It is estimated that if protection levels around the world were reduced by 50%, the benefit to Australia would be more than $7 billion a year.
- Australian companies investing abroad are helping to create employment and wealth in those countries, in the same way that foreign investment helps to create wealth here. For every dollar invested in Australia, 96 cents remains, including 50 cents in wages.

ANTI-GLOBALISATION ARGUMENTS

- Rising inequality is the inevitable result of market forces. Given free reign, market forces give the rich the power to add further to their wealth. Hence, large corporations invest in poor countries only because they can make greater profits from low wage levels or because they can get access to their natural resources.
- The freeing of financial markets creates global instability, as evidenced by financial crises in Asia and Latin America and the continuing marginalisation of sub-Saharan Africa.
- Globalisation greatly diminishes cultural diversity by promoting consumer demand for the products of transnational corporations. Most of the world already drinks Coca-Cola, watches American movies and eats American junk food.
- Transnational companies want to place environmentally degrading industries in countries that have inadequate environmental controls.
- Globalisation results in the exploitation of millions of workers in countries that do not give workers rights to organise. Workers in poor countries may have to work 12 hours a day, seven days a week with few protections for health and safety. In some countries, globalisation leads to the exploitation of child and prison labour. Within richer countries, there is growing inequality as unfair competition from countries repressing workers' rights to organise pushes down the earnings of the less skilled sections of the workforce.
- Globalisation is empowering corporations at the expense of the nation state, and the international institutions such as the WTO and World Bank are not democratic, making their decisions behind closed doors.
- Australian corporations participate in the oppression of workers and peasants in poor countries in Asia. Australian mining and forestry companies are involved in extracting wealth from countries such as Papua New Guinea, Irian Jaya and Indonesia, sometimes relying on military support to suppress local opposition.
- Australian support for trade liberalisation, particularly in agriculture, has been used to open up markets in poor countries where Australia's commodity exports put local subsistence farmers out of work.
- Australia has opened its own markets to goods made in countries that allow child labour, or forbid the formation of free trade unions.
- The Australian government has opposed efforts to include environmental and labour protection clauses in World Trade Organisation agreements. Australia should support reform of the WTO to make it more equitable for poor nations of the world.
- Australia places few restrictions on the operations of transnational organisations, which take wealth from the country, and are not managed in the interests of Australia.

Healey, J. (ed.) (2010). *Issues and Opinions*, Volume 1, The Spinney Press, Thirroul, NSW, p. 31.

Anti-globalisation movement

The anti-globalisation movement, or counter-globalisation movement[1], is critical of the globalisation of corporate capitalism. The movement is also commonly referred to as the global justice movement[2], alter-globalisation movement, anti-globalist movement, anti-corporate globalisation movement[3], or movement against neoliberal globalisation.

Participants base their criticisms on a number of related ideas.[4] What is shared is that participants oppose what they see as large, multinational corporations having unregulated political power, exercised through trade agreements and deregulated financial markets. Specifically, corporations are accused of seeking to maximise profit at the expense of work safety conditions and standards, labour hiring and compensation standards, environmental conservation principles, and the integrity of national legislative authority, independence and sovereignty.

As of January, 2012, some commentators have characterised the unprecedented changes in the global economy as "turbo-capitalism" (Edward Luttwak), "market fundamentalism" (George Soros), "casino capitalism" (Susan Strange)[5], "cancer-stage capitalism" (John McMurtry), and as "McWorld" (Benjamin Barber).

Many anti-globalisation activists call for forms of global integration that better provide democratic representation, advancement of human rights, fair trade and sustainable development and therefore feel the term "anti-globalisation" is misleading.[6,7,8]

REFERENCES

1. Jacques Derrida (May 2004). *Enlightenment past and to come*, speech at the party for 50 years of *Le Monde* diplomatique.
2. Della Porta, Donatella, ed. (2006). *The Global Justice Movement: Cross-national and Transnational Perspectives.* New York: Paradigm. ISBN 978-1-59451-305-3.
3. Juris, Jeffrey S. (2008). *Networking Futures: The Movements Against Corporate Globalization*. Durham: Duke University Press. p. 2. ISBN 978-0-8223-4269-4.
4. *No Logo: No Space, No Choice, No Jobs* by Canadian journalist Naomi Klein.
5. Strange, Susan. *Casino Capitalism*. Oxford: Blackwell, 1986.
6. Morris, Douglas. *Globalization and Media Democracy: The Case of Indymedia* (pre-publication version).
7. Podobnik, Bruce, *Resistance to Globalization: Cycles and Evolutions in the Globalization Protest Movement*, p. 2. Podobnik states that "the vast majority of groups that participate in these protests draw on international networks of support, and they generally call for forms of globalization that enhance democratic representation, human rights, and egalitarianism."
8. Stiglitz, Joseph & Andrew Charlton (2005). *Fair Trade for All: How Trade Can Promote Development*. p. 54 n. 23 (writing that "The anti-globalization movement developed in opposition to the perceived negative aspects of globalization. The term 'anti-globalization' is in many ways a misnomer, since the group represents a wide range of interests and issues and many of the people involved in the anti-globalization movement do support closer ties between the various peoples and cultures of the world through, for example, aid, assistance for refugees, and global environmental issues.")

Anti-globalisation movement, Wikipedia, Wikimedia Foundation,
Retrieved 10 April 2013 from https://en.wikipedia.org/wiki/Anti-globalization_movement

WHAT IS FREE TRADE?

Greenpeace International argues that free trade brings with it double standards

The act of opening up economies is known as 'free trade' or 'trade liberalisation.' It usually benefits the larger, wealthier countries whose big companies are looking to expand and sell their goods abroad. In the one sector where developing countries have the most to gain – agricultural goods – wealthier countries maintain the highest level of 'protection' of their own markets.

Globalisation has made the world a much smaller place. Global trade refers to the act of buying and selling goods and services between countries. Today these goods and services can travel further and faster so that – for instance – products from all over the world can be found at your corner shop. This can be anything from fruits and vegetables, to cars, banking services, clothing, and bottled water.

The scale and pace of this kind of trade has only increased over time, and has become a very powerful tool. International trade is considered a prime driver of how well a country develops, and affects very much how well the economies of different countries are doing.

FREE TRADE – WHO IS PAYING THE PRICE

Trade liberalisation means opening up markets by bringing down trade barriers such as tariffs. Doing this allows goods and services from everywhere to compete with domestic products and services. But in practice the set-up of global trade rules and the way these are administered by the World Trade Organisation, works best for those countries who are already rich, and increases the gap between them and poorer countries who are already struggling to compete.

WHEN TRADE IS A WEAPON – TARIFFS AND SUBSIDIES

Part of the problem is that trade is not always equal. It is not just a tool – it can also be a weapon. When countries put restrictions, such as tariffs, on goods from other countries, imported goods become more expensive and less competitive than goods from their own country.

Another thing that can be done is subsidising domestic businesses. This means that governments give money or other forms of support to local or domestic businesses, to make sure that they are cheaper over imported products and services. This can allow unsuccessful and inefficient businesses to do well, since they receive all kinds of government support. And while these businesses continue to grow, smaller or local producers, especially in many poorer countries – those that need support the most – are being destroyed.

Any measure like this is called "protectionist," since

FREE TRADE EXPLAINED

Free trade is a policy by which a government does not discriminate against imports or interfere with exports by applying tariffs (to imports) or subsidies (to exports) or quotas. According to the law of comparative advantage, the policy permits trading partners mutual gains from trade of goods and services.

Under a free trade policy, prices emerge from the equilibration of supply and demand, and are the sole determinant of resource allocation. 'Free' trade differs from other forms of trade policy where the allocation of goods and services among trading countries are determined by price strategies that may differ from those that would emerge under deregulation. These governed prices are the result of government intervention in the market through price adjustments or supply restrictions, including protectionist policies. Such government interventions can increase as well as decrease the cost of goods and services to both consumers and producers.

Since the mid-20th century, nations have increasingly reduced tariff barriers and currency restrictions on international trade. Other barriers, however, that may be equally effective in hindering trade include import quotas, taxes, and diverse means of subsidizing domestic industries. Inteventions include subsidies, taxes and tariffs, non-tariff barriers, such as regulatory legislation and import quotas, and even inter-government managed trade agreements such as the North American Free Trade Agreement (NAFTA) and Central America Free Trade Agreement (CAFTA) (contrary to their formal titles) and any governmental market intervention resulting in artificial prices.

Features of free trade

Free trade implies the following features:

- Trade of goods without taxes (including tariffs) or other trade barriers (e.g., quotas on imports or subsidies for producers)
- Trade in services without taxes or other trade barriers
- The absence of "trade-distorting" policies (such as taxes, subsidies, regulations, or laws) that give some firms, households, or factors of production an advantage over others
- Free access to markets
- Free access to market information
- Inability of firms to distort markets through government-imposed monopoly or oligopoly power.

Free trade, Wikipedia, Wikimedia Foundation. Retrieved 8 May 2013 from http://en.wikipedia.org/wiki/Free_trade

THE FREE TRADE DEBATE

Justin Healey has compiled a list of pros and cons regarding free trade

ADVANTAGES OF FREE TRADE

- **Specialisation:** Free trade allows countries to specialise in providing goods and services which they are most efficient at producing.
- **Economies of scale:** Greater specialisation leads to economies of scale, which lowers average costs of production and increases efficiency and productivity.
- **Increases in production:** Free trade promotes the efficient allocation of resources, because countries are producing the goods in which they have a comparative advantage.
- **Efficient production and innovation:** Free trade improves the efficiency of resource allocation, which leads to higher productivity and increased total domestic output of goods and services. Increased competition from free trade also encourages innovation and the spread of new technology and production processes domestically and globally.
- **International competitiveness:** This improves as domestic businesses face greater competitive pressures from foreign producers and governments encourage domestic industrial efficiency.
- **Higher living standards:** These result from lower prices, increased production of goods and services and increased consumer choice as countries have access to goods that a lack of domestic resources may otherwise prevent.
- **Benefits to consumers:** Domestic consumers benefit as they can now obtain a greater variety of goods and services, such as cheaper imported motor vehicles and clothing.
- **Foreign exchange gains:** When Australia sells exports overseas it receives hard currency from the countries which buy its goods, which is then used to pay for imports that are produced more cheaply overseas.
- **Employment:** Employment increases in exporting industries, however during the transition towards specialisation, workers may be displaced as industries which compete unsuccessfully with import-based industries close down.
- **Economic growth:** Countries involved in free trade experience higher living standards, real incomes and rates of economic growth.

DISADVANTAGES OF FREE TRADE

- **Unemployment:** With the removal of trade barriers, structural unemployment may occur in the short term, which can impact upon large numbers of workers, their families and local economies. Often it can be difficult for these workers to find employment in growth industries and government assistance is necessary.
- **Unlevel playing field:** Production surpluses from some exporting countries may be sold at unrealistically low prices ('dumping') on the domestic market, which may hurt efficient domestic industries.
- **Environmental damage:** Free trade may encourage polluting and environmentally irresponsible production methods because producers in some nations may produce goods at a lower cost because of weaker environmental protections and environmentally damaging practices.
- **Increased domestic economic instability:** As economies become dependent on global markets, businesses, employees and consumers are more vulnerable to downturns in the economies of trading partners.
- **Developing economies and infant industries:** It may be more difficult to establish new businesses, industries or economies if they are not protected from larger foreign competitors. It is difficult to develop economies of scale in the face of competition from large, foreign-based transnational corporations.
- **Protectionism during financial crises:** Governments affected by economic downturns such as the 2008-2009 Global Financial Crisis (GFC) may be under pressure to reintroduce or increase protectionism measures.

SOURCES

Free trade debate, Wikipedia, Wikimedia Foundation. Retrieved 2 October 2013 from http://en.wikipedia.org/wiki/Free_trade_debate

Edge, K. (2011). Free trade and protection: advantages and disadvantages of free trade. Retrieved from http://hsc.csu.edu.au on 2 October 2013.

Australia in the Global Economy 2013, Pearson Australia, Tim Dixon, John O'Mahony.

it has the effect of closing off a country's markets to goods from other countries. Many wealthy countries in Europe, as well as the US and Japan use these tactics to support their own domestic economies, making it impossible for smaller, or less developed countries to gain a foothold in the global marketplace.

As they go about protecting and closing off their own markets, many of these very same countries are creating double standards, by forcing other countries to open up their markets.

Greenpeace International (2005). *What is free trade?* Retrieved from www.greenpeace.org on 18 July 2013.

WHAT'S WRONG WITH WORLD TRADE?

DOUBLE STANDARDS IN GLOBAL TRADE ROBS POOR PEOPLE OF A PROPER LIVING AND KEEPS THEM TRAPPED IN POVERTY, ASSERTS OXFAM AUSTRALIA

Trade can be a powerful engine for reducing poverty. But rich countries dominate the World Trade Organization (WTO), which is where global trade rules are negotiated. And they set rules under which poor countries continually lose out.

Wealthy nations have double standards too – forcing poorer countries to keep to rules they don't obey themselves. The result? Trade robs poor people of a proper living and keeps them trapped in poverty.

HOW THE RIP-OFF WORKS

Regional Trade Agreements

Regional Trade Agreements link individual countries or regions – and are a good arrangement between equal partners with similar-sized economies.

But what happens with a trade agreement between a rich economy and a poor one?

The richer, stronger economy always wins – particularly in Free Trade Agreements (FTAs), which often remove the poor country's right to use tariffs and quotas to protect its own industries and farms from cheap imports.

Peru's 28,000 cotton farmers now face ruin because of a proposed FTA with the US.

Should it come into force, Peru's government will have to remove taxes on imports – and massively subsidised American cotton will flood their market.

Dumping cheap produce cripples small farmers

Together, the United States and European Union spend US$1 billion a day subsidising their farmers. When these farmers produce too much, the extra produce is sold to developing countries at vastly reduced prices. This then pushes down the price of local produce, so poor farmers can't compete.

Rich countries dominate the World Trade Organization, which is where global trade rules are negotiated. And they set rules under which poor countries continually lose out.

Mozambique's sugar industry, for instance, has been crippled in this way. Thousands of tonnes of cheap EU beet sugar were being dumped in developing countries, denying small farmers a fair chance.

Market rules favour the rich

Rich countries limit and control poor countries' share of the world market by slapping high taxes on imported manufactured goods. As a result, many poor countries can only afford to export raw materials, which give far lower returns than finished products.

For example, the rich world buys cheap cocoa and turns it into expensive chocolate – reaping all of the profit. At the same time, poor countries are threatened with having loans withheld unless they open their markets to rich countries' exports.

Development banks don't always work for the poor

The World Trade Organization's influence on international trade often steals the limelight but development banks play a critical role behind the scenes.

These banks, including the World Bank and Asian Development Bank, shape the trade and investment conditions faced by developing countries, as well as the trade and investment policies they adopt. And sometimes, the new trading economies they help to create can have complex and negative impacts on poor communities, particularly communities that depend on the land to make a living.

HOW DOES AUSTRALIA BENEFIT FROM FREE TRADE?

Over the 2000s Australia's ratios of exports and imports to GDP have each risen every year. Australia is an open economy, the size of its import and export sectors being greater than 20% of Gross Domestic Product. Australia is one of the countries that has benefitted most from rising international trade. It bought imported goods more cheaply than they could be made in Australia and sold exports overseas that commanded rising prices because they were in international demand.

One result of the increase in trade and openness of the Australian economy was has been structural change with a narrowing of the manufacturing and industrial base and a rise in the resources base. China became the world's manufacturing centre and increasingly lower priced manufactured goods made in China were imported into Australia, leading to the closure of inefficient manufacturers. At the same time, demand by China for Australian raw materials such as coal and iron ore increased rapidly, leading to expansion in the minerals sector.

Whilst the manufacturing base in Australia has narrowed, manufacturing output has actually increased by 40% and exports have risen by 400%, according to the Department of Foreign Affairs and Trade.

Greater access to imports has benefitted consumers and businesses by widening the choice of products available and boosting the living standards for many Australians. Reducing tariffs has resulted in savings estimated to be at least $1,000 per year to the average Australian family. For example, without the reductions in tariffs on motor vehicles, Australians would pay around $10,000 extra on a $30,000 car.

Having a bigger market to sell to means that a business can sell more, earn more profits and pay higher wages. Exporting businesses in Australia, on average, pay more to workers and sell more per worker than non-exporters.

Export growth has been essential to economic growth and job creation in Australia. For example, over 400,000 jobs were created between 1983-84 and 1993-94. By 2010, one in four jobs in Australia were related to exports.

Source: Department of Foreign Affairs and Trade, reproduced in Edge, K. (2011). *Free trade and protection: advantages and disadvantages of free trade.* Retrieved from http://hsc.csu.edu.au on 2 October 2013.

Wealthy nations have double standards too – forcing poorer countries to keep to rules they don't obey themselves. The result? Trade robs poor people of a proper living and keeps them trapped in poverty.

Labour rights matter

Globalisation and trade have drawn millions of people in developing countries into paid work. Their labour is contributing to rising global prosperity and to the profits of some of the world's most powerful companies. But many of these workers are still living in poverty even though they have paid jobs.

For example, workers producing for companies like Nike, adidas, Puma, Asics, FILA, Mizuno, New Balance and Umbro, often endure low wages and long hours in sweatshop conditions.

We're part of a global campaign to persuade companies and governments to respect workers' rights.

Join us and help make trade fair

We're demanding new trade rules and justice for the developing world, now. Join us in the fight and download our Fairtrade coffee action kit and run your own campaign in your workplace, office or community group.

Oxfam Australia. *What is wrong with world trade?* Retrieved from www.oxfam.org.au on 15 April 2013.

PROTECTIONISM EXPLAINED

A BRIEF EXPLANATION FROM WIKIPEDIA, THE FREE ENCYCLOPEDIA

Protectionism is the economic policy of restraining trade between states through methods such as tariffs on imported goods, restrictive quotas, and a variety of other government regulations designed to allow (according to proponents) 'fair competition' between imports and goods and service produced domestically.[1]

This policy contrasts with free trade, where government barriers to trade are kept to a minimum. In recent years, it has become closely aligned with anti-globalisation. The term is mostly used in the context of economics, where protectionism refers to policies or doctrines which protect businesses and workers within a country by restricting or regulating trade with foreign nations.[2]

Protectionism contrasts with free trade, where government barriers to trade are kept to a minimum.

PROTECTIONIST POLICIES

A variety of policies have been used to achieve protectionist goals. These include:

1. Tariffs

Typically, tariffs (or taxes) are imposed on imported goods. Tariff rates usually vary according to the type of goods imported. Import tariffs will increase the cost to importers, and increase the price of imported goods in the local markets, thus lowering the quantity of goods imported, to favour local producers.

Tariffs may also be imposed on exports, and in an economy with floating exchange rates, export tariffs have similar effects as import tariffs. However, since export tariffs are often perceived as 'hurting' local industries, while import tariffs

Arguments for protectionism

This extract from Wikipedia outlines the reasons why protectionists oppose free trade

Protectionists believe that there is a legitimate need for government restrictions on free trade in order to protect their country's economy and its people's standard of living. But that argument is explicitly and essentially premised on capital (and other factors) being immobile between nations. Under the new global economy, capital tends simply to flow to wherever costs are lowest – that is, to pursue absolute advantage. Protectionists would point to the building of plants and shifting of production to Mexico by American companies such as GE, GM, and Hershey Chocolate as proof of this argument.

Infant industry argument

Protectionists believe that infant industries must be protected in order to allow them to grow to a point where they can fairly compete with the larger mature industries established in foreign countries. They believe that without this protection, infant industries will die before they reach a size and age where economies of scale, industrial infrastructure, and skill in manufacturing have progressed sufficiently to allow the industry to compete in the global market.

Unrestricted trade undercuts domestic policies for social good

Most industrialised governments have long held that laissez-faire capitalism creates social evils that harm its citizens. To protect those citizens, these governments have enacted laws that restrict what companies can and can not do in pursuit of profit.

Examples are laws regarding:

- Collective bargaining
- Child labour
- Competition (anti-trust)
- Environmental protection
- Equal opportunity
- Intellectual property
- Minimum wage
- Occupational safety and health.

Protectionists argue that these laws, adding cost to production, place an economic burden on domestic companies bound by them that put those companies at a disadvantage when they compete, both domestically and abroad, with goods and services produced in countries without such laws. They argue that governments have a responsibility to protect their corporations as well as their citizens when putting its companies at a competitive disadvantage by enacting laws for social good. Otherwise they believe that these laws end up destroying domestic companies and ultimately hurting the citizens these laws were designed to protect.

Protectionism, Wikipedia, Wikimedia Foundation. Retrieved 18 July 2013 from http://en.wikipedia.org/wiki/Protectionism

Protectionism – the case against

This fact sheet from the OECD says governments should resist calls for protectionism and instead pursue further trade liberalisation

In the face of concerns over unemployment and recession, governments are coming under pressure to implement protectionist policies and measures – including tariffs, quotas and various forms of subsidies – as a way of 'saving' domestic jobs and enterprises.

However, such measures would be counterproductive. Direct trade-restricting measures have the most negative impacts on growth and employment. OECD says that governments should resist calls for protectionism and instead pursue further trade liberalisation, including a successful conclusion to the Doha Development Agenda talks.

Facts about protectionism

- **Protectionism makes domestic firms less competitive in the export market**
  Import barriers raise domestic prices through higher costs for intermediate inputs – and so export products also become more expensive and lose market share in the face of international competition. Also, protectionism leads to retaliation by trading partners.
- **Protectionism has costs for a country's overall domestic production**
  Each dollar of increased protection leads to a drop of 66 cents in gross domestic product (GDP).
- **Protectionism has a negative impact on the global economy**
  An increase of $1 in tariff revenues can result in a $2.16 fall in world exports and a $0.73 drop in world income.
- **Protectionism holds back economic growth for all countries**
  Full liberalisation of trade in goods and services would help increase average real incomes in developing countries by 1.3%, and by 0.76% in high-income countries. Newly-emerging economies, including Egypt, Thailand and Nigeria, would gain 3% to 6% of GDP.

Organisation for Economic Co-operation and Development.
Protectionism – the case against. Retrieved from www.oecd.org on 9 April 2013.

are perceived as 'helping' local industries, export tariffs are seldom implemented.

2. *Import quotas*

These are imposed to reduce the quantity and therefore increase the market price of imported goods. The economic effects of an import quota is similar to that of a tariff, except that the tax revenue gain from a tariff will instead be distributed to those who receive import licenses. Economists often suggest that import licenses be auctioned to the highest bidder, or that import quotas be replaced by an equivalent tariff.

3. *Administrative barriers*

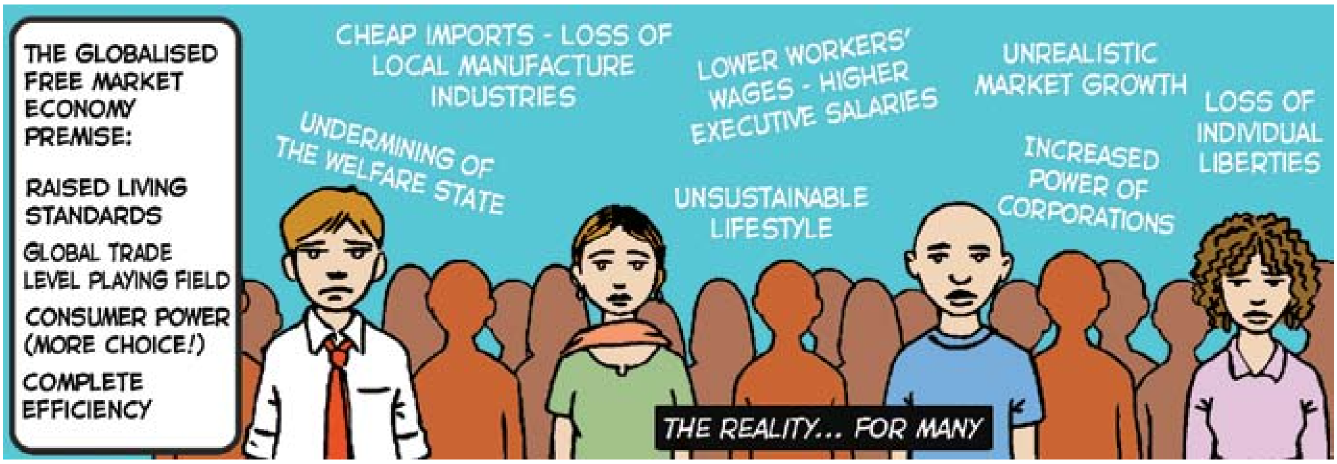
Countries are sometimes accused of using their various administrative rules (e.g. regarding food safety, environmental standards, electrical safety, etc.) as a way to introduce barriers to imports.

4. *Anti-dumping legislation*

Supporters of anti-dumping laws argue that they prevent 'dumping' of cheaper foreign goods that would cause local firms to close down. However, in practice, anti-dumping laws are usually used to impose trade tariffs on foreign exporters.

5. *Direct subsidies*

Government subsidies (in the form of lump-sum payments or cheap loans) are sometimes given to local firms that cannot compete well against imports. These subsidies are purported to 'protect' local jobs, and to help local firms adjust to the world markets.



6. Export subsidies

Export subsidies are often used by governments to increase exports. Export subsidies have the opposite effect of export tariffs because exporters get payment, which is a percentage or proportion of the value of exported. Export subsidies increase the amount of trade, and in a country with floating exchange rates, have effects similar to import subsidies.

7. Exchange rate manipulation

A government may intervene in the foreign exchange market to lower the value of its currency by selling its currency in the foreign exchange market. Doing so will raise the cost of imports and lower the cost of exports, leading to an improvement in its trade balance. However, such a policy is only effective in the short run, as it will most likely lead to inflation in the country, which will in turn raise the cost of exports, and reduce the relative price of imports.

8. International patent systems

There is an argument for viewing national patent systems as a cloak for protectionist trade policies at a national level. Two strands of this argument exist: one when patents held by one country form part of a system of exploitable relative advantage in trade negotiations against another, and a second where adhering to a worldwide system of patents confers 'good citizenship' status despite 'de facto protectionism'.

Peter Drahos explains that "States realised that patent systems could be used to cloak protectionist strategies. There were also reputational advantages for states to be seen to be sticking to intellectual property systems. One could attend the various revisions of the Paris and Berne conventions, participate in the cosmopolitan moral dialogue about the need to protect the fruits of authorial labor and inventive genius ... knowing all the while that one's domestic intellectual property system was a handy protectionist weapon."[3]

9. Employment-based immigration restrictions

These may include labour certification requirements or numerical caps on work visas.

10. Political campaigns advocating domestic consumption

E.g. the "Buy American" campaign in the United States, which could be seen as an extra-legal promotion of protectionism.

In recent years, protectionism has become closely aligned with anti-globalisation.

11. Preferential governmental spending

An example is the *Buy American Act*, federal legislation which called upon the United States government to prefer US-made products in its purchases.

In the modern trade arena many other initiatives besides tariffs have been called protectionist. For example, some commentators, such as Jagdish Bhagwati, see developed countries efforts in imposing their own labour or environmental standards as protectionism. Also, the imposition of restrictive certification procedures on imports are seen in this light.

Further, others point out that free trade agreements often have protectionist provisions such as intellectual property, copyright, and patent restrictions that benefit large corporations. These provisions restrict trade in music, movies, pharmaceuticals, software, and other manufactured items to high-cost producers with quotas from low-cost producers set to zero.[4,]

REFERENCES

1. 'Protectionism doesn't protect you'. PostNoon.com 27 April, 2012. Retrieved 26 May 2012.
2. Xinhua (2012-05-24). 'Trade-oriented Economy Boosts Growth, Employment'. *CRI English*. Retrieved 26 May 2012.
3. *Information Feudalism: Who Owns the Knowledge Economy?*. London: Earthscan. 2002. p. 36. ISBN 9781853839177.
4. [1][dead link]
5. *The Conservative Nanny State: How the Wealthy Use the Government to Stay Rich and Get Richer*. Published by the Center for Economic and Policy Research, Washington, DC.

Protectionism, Wikipedia, Wikimedia Foundation. Retrieved 18 July 2013 from http://en.wikipedia.org/wiki/Protectionism

TRADE POLICY RESPONSE TO THE GLOBAL ECONOMIC CRISIS

An OECD study endorses the trade and economic effects of free trade policy responses to the recent global economic crisis

Global trade fell by 12.5% in 2009, a collapse explained by factors such as a decrease in demand and the drying-up of trade finance. Although protectionism was not a major factor in this fall in trade, governments have faced pressure to implement protectionist policies and measures as a way of 'saving' domestic jobs and enterprises in the face of the economic crisis.

However, such measures would be counterproductive. Direct trade-restricting measures have the most negative impacts on growth and employment. An increase of $1 in tariff revenues results in a $2.16 fall in world exports and a $0.73 drop in world income.

This study argues that open markets will be necessary for a sustained economic recovery. It recommends that governments continue to resist protectionist pressures and work towards a level playing field for trade.

How can trade policy help address the economic crisis?

- Immediately, by helping to restore confidence, if goverments work together in this direction
- Over the short term, by avoiding protectionist responses that would worsen economic prospects
- Over the medium term, by delivering real opportunities to return to stable economic growth.

International trade policy measures to underpin open markets are needed now more than ever.

Avoiding protectionism

Greater protectionism would delay the adjustments needed to respond to changing demand. Ultimately, greater and more costly adjustments would be required both within the 'protected' economy and globally.

Following the 1929 stock market crash, the United States increased import tariffs in the hope of protecting jobs. But the swift retaliation from other countries, historians and economists agree, deepened and prolonged the depression.

More recently, growth surged in countries such as China and India only once they began opening up their economies after years of relatively closed trade regimes.

Attempts to favour domestic industry through discriminatory procurement and 'buy local' campaigns can be expected to backfire as others respond in the same way.

By closing borders or restricting markets, consumers pay more, firms incur higher costs, and choice is limited – even in the short term.

Consider a world with just two traders: you and me. If I no longer import from you, you no longer have the foreign exchange that is needed to import from me. And so on, across the globe. While an individual government might have some success with protectionist policies, as more governments employ the same approach, every country loses.

Global protectionism means job losses, including in the relatively competitive export sectors.

Protectionism does not just imply tariffs, quotas and other mechanisms that restrict trade or make imported products more expensive. A wide array of measures behind borders, such as direct subsidies, have similar effects.

Support to one sector in one country, whatever the motivation, disadvantages the rest of the economy as well as competing sectors in other countries.

As other countries then move to "level the playing field", a subsidy competition is launched that in the end benefits no country. And once allocated, subsidies to deal with a short-term problem are notoriously difficult to remove.

Poor countries which cannot afford to compete on the basis of subsidies will find themselves excluded from protected markets. The advances made in recent years by some developing countries, helped by trade, will be lost.

Stimulating growth

There is little standing in the way of governments willing to conclude

Understanding the World Trade Organisation

There are a number of ways of looking at the World Trade Organisation. It is an organisation for trade opening. It is a forum for governments to negotiate trade agreements. It is a place for them to settle trade disputes. It operates a system of trade rules. Essentially, the WTO is a place where member governments try to sort out the trade problems they face with each other.

The WTO was born out of negotiations, and everything the WTO does is the result of negotiations. The bulk of the WTO's current work comes from the 1986-94 negotiations called the Uruguay Round and earlier negotiations under the General Agreement on Tariffs and Trade (GATT). The WTO is currently the host to new negotiations, under the 'Doha Development Agenda' launched in 2001.

Where countries have faced trade barriers and wanted them lowered, the negotiations have helped to open markets for trade. But the WTO is not just about opening markets, and in some circumstances its rules support maintaining trade barriers – for example, to protect consumers or prevent the spread of disease.

At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. These documents provide the legal ground rules for international commerce. They are essentially contracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters, and importers conduct their business, while allowing governments to meet social and environmental objectives.

The system's overriding purpose is to help trade flow as freely as possible – so long as there are no undesirable side effects – because this is important for economic development and wellbeing. That partly means removing obstacles. It also means ensuring that individuals, companies and governments know what the trade rules are around the world, and giving them the confidence that there will be no sudden changes of policy. In other words, the rules have to be 'transparent' and predictable.

Trade relations often involve conflicting interests. Agreements, including those painstakingly negotiated in the WTO system, often need interpreting. The most harmonious way to settle these differences is through some neutral procedure based on an agreed legal foundation. That is the purpose behind the dispute settlement process written into the WTO agreements.

World Trade Organisation. *Understanding the WTO – who we are*. Retrieved from http://wto.org on 8 May 2013.

the World Trade Organisation's Doha Development Round of trade negotiations. Agreement on increasing market access to agricultural and industrial goods would pave the way for progress in other areas and limit protectionist reactions to the economic crisis. It would also make trade more predictable. This would be good for the economy as it would avoid the disruption to supply chains and to consumers caused when trade can be switched on and off.

Opening markets further would improve overall economic wellbeing, as resources could be used more efficiently through specialisation, economies of scale, international investment, competition and innovation.

The size of the economic gains from removal of remaining trade barriers is significant. According to OECD analysis:

- A 10% increase in trade is associated with a 4% rise in per capita income
- An 'open' foreign direct investment climate could be expected to yield a ¾% increase in OECD area GDP per capita
- 'Lower' regulatory barriers to competition could result in a 2-3% increase in OECD area GDP per capita
- More efficient customs procedures could improve global welfare by 100 billion USD
- Full tariff liberalisation in agriculture and industrial goods could increase global welfare a further 100 billion USD
- Much higher gains would be expected if services trade was liberalised.

While avoiding protectionism and opening markets further are necessary responses to the economic crisis, they are also insufficient. Jobs will continue to be lost and some sectors and regions will be hit harder than others.

Government policies that provide temporary help for people who lose their jobs and need to find alternative employment, along with internationally coordinated fiscal and monetary measures that restore confidence, stability and growth in the global economy, will be much more effective than protectionism.

OECD (2010). *Trade policy response to the global economic crisis.* Retrieved from www.oecd.org on 9 April 2013.

GLOBALISATION, INEQUALITY, INJUSTICE AND PROTEST

GLOBALISATION, INEQUALITY, INJUSTICE AND PROTEST ARE INEXTRICABLY LINKED, ACCORDING TO HISTORIAN KEN MACNAB

Globalisation, inequality, injustice and protest are inextricably linked, and 2011 was the year when these links were manifested most publicly and widely. The effects of globalisation as a set of economic policies have exacerbated existing injustices and created new ones, and generated powerful social, economic, political and cultural tensions.

Inequalities of all sorts have sharpened, not just in relation to material standards of living, but also in access to decent education, life choices, health, happiness and human rights. At the core of all the public protests, demonstrations, resistance movements and uprisings which characterised 2011 lay an awareness of and opposition to injustice and inequality.

The concept of 'justice' has a long history, and has always been seen as a virtue of both individuals and institutions. Plato defined it in his *Republic* (380BC) as both the most essential individual human virtue and the bond which held society together in a harmonious whole. Conversely, 'injustice' is the lack of or opposition to justice on both the individual and collective levels, including humanity as a whole.

Essentially, injustice means 'gross unfairness'. Synonyms for injustice frequently carry a negative prefix: unfairness, inequity, unlawfulness, inhumanity, maltreatment, inequality, malpractice, misuse, and so on.

Like violence, injustice can be generated by personal relationships, institutional procedures, structural frameworks, and cultural discrimination. Hypocrisy and corruption in all walks of life are potent creators of injustice. The ways in which the components of the criminal justice systems work – political bias and vested interest inputs, laws, police, courts and punishments – can generate both justice and injustice.

Violations of individual and collective human rights are always injustices. As are grossly unequal treatment and rewards in the workplace, both as individuals and as participants in national and global economic systems.

Unmerited inequality, created by structurally imposed discrimination, is one of the most keenly felt injustices. Such unjust inequality lies at the core of modern economic practice, which treats people as factors of production to be bought and sold as commodities rather than as human beings with inalienable rights.

On trips to Iceland in the 1870s, William Morris, the creative English revolutionary socialist, fell in love with its strange, ever-changing landscape, scene of the great sagas he would imitate, and its traditions of craftsmanship. But he also learnt there a fundamental political axiom, that 'the most grinding poverty is a trifling evil compared with the inequality of classes'.

Economic inequality, often quantified as 'wealth and income differences', has a clear impact on life opportunities and outcomes. President Barack Obama has called it 'the defining issue of our time'.

In their book titled *The Spirit Level: Why More Equal Societies Almost Always Do Better* (2009), epidemiologists Richard Wilkinson and Kate Pickett compared eleven significant indices of health and social development in 23 of the world's richest nations and in the individual US states. They concluded that in terms of physical health, mental health, drug abuse, education, violence, imprisonment, obesity, social mobility, community trust, teenage pregnancies and child wellbeing, outcomes for the overwhelming majority of people were significantly worse in more unequal rich countries and states.

The significance of such studies is strengthened because they reveal patterns across the type of economy that is proliferating worldwide.

The idea of a unified world is an old one, which spread rapidly after the First and Second World Wars. But the humanitarian ideals of the *League of Nations Covenant* (1919), the *UN Charter* (1945) and *Universal Declaration of Human Rights* (1948) and many other Agreements and Conventions were accompanied by global economic institutions such as the International Monetary Fund (1945), the World Bank (1945) and the *General Agreement on Tariffs and Trade* (GATT 1948), later becoming the World Trade Organisation (WTO 1995).

These and other global economic organisations have promoted the economic interests and policies of the victors of both the Second War and the Cold War. Accompanying them has been the creation of the myth of universal benefits from globalisation, by people such as Marshall McLuhan, who popularised the term Global Village (1962), and Theodore Levitt, a Harvard Business School marketing economist, who from the early 1980s promoted the benefits of 'globalisation'.

However, despite all the boasts about the benefits of the increasingly global relationships of culture, ideas, communications, languages and peoples, they are primarily the servants of economic globalisation. This is essentially the ideology of unregulated self-interest, facilitated by reduced international barriers and regulations, dominated by the free marketing of finance, goods and services.

It is the latest packaging of capitalism, which has had many champions and slogans: the 'market forces' of classical orthodox political economy (Smith, Malthus and Ricardo), 'laissez-faire' and 'free trade' (Cobden, Bright and the Manchester School), social Darwinism, imperialism, economic liberalism, 'trickle down economics' (Thatcher and Reagan), triumphant 'liberal democracy' (Fukiyama) and 'economic rationalism'.

But the supposedly self-evident axioms of globalisation are actually self-serving platitudes. Because it serves their interests well, in the last few decades globalisation has been embraced by the leaders and elites of an increasing number of nations, such as South Africa, Russia, Mexico, India, Malaysia, Thailand, the Philippines and South Korea. A Swiss Economic Institute even puts out the *KOF Index of Globalisation*, which measures and ranks 'the economic, social and political dimensions of globalisation.' But there is increasing evidence that globalisation delivers its benefits inequitably, and that the gap between the rich and poor is widening everywhere.

The effects of globalisation as a set of economic policies have exacerbated existing injustices and created new ones, and generated powerful social, economic, political and cultural tensions.

The plethora of statistics documenting these trends can only be sampled briefly here. According to the *World Top Incomes Database* from the Paris School of Economics, between 1980 and 2008 the share of total household income in the United States accruing to the top 1% rose from 10% to 21%, and that of the top 10% rose from 34.6% to 48.2%.

To quote Saul Eslake: 'Put simply, the top 10 per cent of Americans control almost half the country's household wealth.' In the same period, the average real incomes of the bottom 90% rose by just 2%.

All other indicators, such as gross incomes, taxation percentages, stocks and shares value, and property ownership, indicate vast and widening inequalities, particularly since the Global Financial Crisis. Statistics for other countries, such as Britain, Sweden, India, Australia, even China, though moderated in some cases by progressive taxation rates, welfare redistributions and other transfer systems, show the same growth of inequality and the same deleterious consequences.

In an article on the worldwide Occupy movement, Saul Eslake concluded:

> *... the fact the economic gains from the policy agenda pursued, to varying degrees,around the world over the past three decades have accrued so disproportionately to upper income groups has undermined political acceptance of (let alone support for) the key elements of that agenda – including deregulation of markets, reductions in barriers to cross-border trade and investment, and lower rates of corporate and personal income tax.*

In short, globalisation sharply increases the injustice and inequality it claims to reduce.

The links between globalisation, injustice and inequality were highlighted in 2011 by worldwide protests. There has been much speculation about possible common denominators between 'popular protests' that helped topple regimes in Tunisia, Egypt and Libya, have rattled regimes in Syria, Yemen and Bahrain, and have highlighted grievances in countries as different as Mexico, Spain, Greece, the United States, Russia, England, Pakistan, India and Thailand. Moreover, the Occupy movement by the end of 2011 boasted protests in '951 cities in 82 countries'.

Compared with the widespread protests of the late 1960s, what stood out in 2011 was the breadth, variety and depth of protests, the range of grievances, the global media coverage, and the determination and courage of the protesters. This was acknowledged when *Time* chose 'THE PROTESTER' as its 'Person of the Year' for 2011. In his Introduction explaining this choice, Rick Stengel wrote that:

> *Protests have now occurred in countries whose populations total at least 3 billion people, and the word protest has appeared in newspapers and online exponentially more this past year than at any other time in history.*

What also united the protesters was anger about social, economic and political inequality and injustice.

This point was made many different ways. Spanish protesters called themselves Los Indignados (The Outraged) and united under the banner: 'We are not goods in the hands of politicians and bankers.' Veteran Russian human rights activist Lyudmilla Alexeyeva recently branded Vladimir Putin's economic policies as 'capitalism for friends'. Even Sarah Palin has railed against 'corporate crony capitalism' in America, though it's a strange grievance for her side of politics. The Occupy Wall Street protest movement, which began in mid-September in Zucotti Park in the heart of New York's financial district, targeted social and economic inequality, mass unemployment, and the greed and corruption enmeshing big business, finance and government.

In short, globalisation sharply increases the injustice and inequality it claims to reduce.

The Occupy protest slogan, 'We are the 99%', rapidly became the banner for worldwide imitation. Commenting on this, the 'Occupy Wall Street' website wrote: 'The one thing we all have in common is that we are the 99% that will no longer tolerate the greed and corruption of the 1%.' Kurt Andersen wrote of the protesters: 'they believe they're experiencing the failure of hell-bent megascaled crony hypercapitalism and pine for some third way, a new social contract.' The American Dialect Society voted 'Occupy' as the 2011 Word of the Year.

Former Sydney Peace Prize winner Arundhati Roy, visiting Zucotti Park just after it had been cleared by police and then re-occupied in mid-November, made the point: 'We are fighting for justice. Justice, not just for the people of the United States, but for everybody.' She went on to comment on globalisation:

> *The Indian government worships US economic policy. As a result of 20 years of the free market economy, today, 100 of India's richest people own assets worth one-fourth of the country's GDP while more than 80% of the people live on less than 50 cents a day; 250,000 farmers, driven into a spiral of death, have committed suicide. We call this progress, and now think of ourselves as a superpower. Like you, we are well-qualified: we have nuclear bombs and obscene inequality.*

Most protests in 2011 challenged not just the outcomes, but the very systems that produced them. As Kurt Andersen wrote in his *Time* cover story on 'The Protester':

> *All over the world, the protesters of 2011 share a belief that their countries' political systems and economies have grown dysfunctional and corrupt – sham democracies rigged to favor the rich and powerful and prevent significant change. They are fervent small-d democrats.*

Greed, corruption, inequality and injustice, the four horsemen of globalisation, were seriously challenged in 2011. But persistence, activism and courage on a large scale will be necessary in the future if peace with justice is to be achieved on the global stage.

Dr Ken Macnab is an historian and President of the Centre for Peace and Conflict Studies (CPACS) at the University of Sydney.

Macnab, Ken (2012). *Globalisation, inequality, injustice and protest.* Retrieved from www.onlineopinion.com.au on 9 April 2013.

CAN FREE TRADE BE FAIR?

A policy lecture delivered by Australian trade minister, Craig Emerson

"We remain committed to the principles and practice of free trade."

Prime Minister Julia Gillard, Speech to the International CEO Forum 10th Foreign Investor Dialogue, 15 June 2011

Public discussion of trade policy is often couched in terms of a conflict between free trade and fair trade. Under this paradigm, if trade is made freer it must become less fair, and the only way to make trade fairer is to make it less free. But can free trade be fair?

In a recent debate with 2UE's morning radio host and former One Nation staffer, David Oldfield, I argued that it was not unfair of an Australian government to allow the duty-free importation of goods produced in countries with lower wages than ours. Mr Oldfield countered that the existence of lower wages in poorer countries proved the playing field was not level and it was unfair that Australia should have to face this disadvantage.

Mr Oldfield was expressing One Nation views of fairness. He has plenty of sympathisers; he wouldn't be a compere on Sydney commercial radio if he didn't. And at least Mr Oldfield is up-front with his views, making a debate possible.

The reason I retell the conversation – or shouting match – with Mr Oldfield is that it traversed the two main controversies: what is fairness and fairness to whom?

I will deal tonight with these issues as a precursor to a discussion of whether free trade can be fair, and whether it is time for Australia to ditch its adherence to the world trading rules and the open, competitive model in favour of the Far Right's Fortress Australia.

What is fairness?

Those who argue that the existence of low-wage countries makes the economic playing field uneven and therefore unfair are, logically, arguing for a single global wage rate payable to all. This is a fascinating proposition advocated by the Far Right, but closely attuned to the philosophy of Karl Marx.

The Far Right believes in global conspiracies to establish a One World Government. It seems they are so resigned to its formation that they are developing its work program, starting with setting and enforcing a single global wage rate. Pending the formation of a One World Government setting a One World Wage Rate, the Far Right will continue to argue for tariffs and other restrictions on imports of goods from low-wage countries.

Australia's minimum wage is $15.50 per hour. Wage rates in overseas factories producing cheap socks and underpants are around 80 cents per hour. A tariff in excess of 1,000 per cent would be needed to cancel out the competitive advantage of low-wage countries over

Australia, enabling Australian workers to produce socks and underpants while still receiving the minimum wage. The effective rate of protection on socks and underpants reached 180 per cent during the mid-1980s, but never quite made it into the thousands.

The alternative remedy for Australia's competitive disadvantage in producing socks and underpants would be to drive Australian wages down towards 80 cents an hour. But why should Australian workers be required to enter into a race to the bottom, competing on wages with poverty-stricken, low-wage countries, just so that we can produce our own socks and underpants?

Australia's future is as a high-skill, high-wage country. It is in the interests of working Australians that we compete in the production of goods embodying high levels of skills and innovation, not on the basis of low skills and low wages.

And what of those people in poor countries who, having moved out of subsistence agriculture, are doing better by gaining a wage producing socks, underpants and other low-wage goods for export? Does the Brotherhood of Man extend to them or is it confined to Australians?

Ask the Far Right and they will tell you charity begins at home – we should look after our own and disregard foreigners, who are just as likely to be disease-carrying terrorists. If this sounds exaggerated, please check out Pauline Hanson's speeches.

But Bob Hawke retells the counsel of his Dad, Reverend Clem Hawke, who, in espousing the virtues of egalitarianism and fairness, taught Bob: "If you believe in the Fatherhood of God, you must believe in the Brotherhood of Man." If God is our Father, we must all be brothers and sisters, Clem was logically arguing.

You don't have to be a Christian to believe that the

world's people are our brothers and sisters. The Socialist International calls on the world's masses to stand up and band together in struggle to unite the human race.

Christians and socialists should empathise with the poor and oppressed, allowing them to gain paid work as a pathway out of poverty and misery.

On many occasions I have been described as a "neo-con" – a neo-conservative – for arguing against trade restrictions in rich countries that prevent poor people gaining a living by producing goods for export to Australia. If having compassion for the poor and the oppressed makes me a neo-con, then I'd rather carry that burden than agree to consign them to unrelenting poverty by shutting their produce out of rich-country markets.

The existence of people struggling on very low wages is not unfair to rich countries; it is unfair to them and the families they are trying to support. For them, free trade is fair and if we have any compassion for them we should agree.

Fairness to whom?

Within any society there are two categories of people: producers and consumers. All producers are consumers but not all consumers are producers. Advocates of trade restrictions argue that limiting imports is in the national interest. But import restrictions increase the cost of living for consumers. How can it be in the national interest to impose higher living costs on consumers?

For those of us who seek a fairer society, tariffs and quotas are regressive – they impose a disproportionately heavy burden on the poor. In this respect, tariffs and quotas have exactly the same regressive distributional effect as a consumption tax, a GST. Progressives support a progressive taxation system rather than a flat tax. Yet tariffs and quotas are a flat tax.

If I am a neo-con in making this indisputable point, then I am joined by two other neo-cons: Bob Hawke and Paul Keating.

In announcing the 1991 tariff reduction program, Prime Minister Hawke told Parliament:

> *"The most powerful spur to greater competitiveness is further tariff reduction.*
>
> *"Tariffs have been one of the abiding features of the Australian economy since Federation. Tariffs protected Australian industry by making foreign goods more expensive here; and the supposed virtues of this protection became deeply embedded in the psyche of the nation.*
>
> *"But what in fact was the result? Inefficient industries that could not compete overseas and higher prices for consumers and higher costs for our efficient primary producers. Worse still, tariffs are a regressive burden – the poorest Australians are hurt more than the richest."*

Treasurer Keating added:

> *"The package of measures announced today ends forever Australia's sorry association with the tariff as a device for industrial development.*
>
> *"By turning its back on tariffs, Australia will be further propelled in its quest for international trade and efficiency, a search begun with the opening up of the economy in 1983 when we floated the dollar and abolished exchange controls."*

Hawke and Keating were and are progressives – champions of a fairer society. Yet they were also champions of free trade. They did not consider free trade to be inherently unfair.

But Hawke and Keating understood, as the Gillard Government does, that reducing domestic trade barriers can be very painful for workers in the affected industries. That's why the big tariff reduction programs were accompanied by structural adjustment assistance plans for affected workers. It was considered only fair that the wider community, as beneficiaries of reductions in trade barriers, should contribute taxpayers' dollars to assisting displaced workers into alternative employment through retraining and mobility programs.

Now that quotas have been removed and tariffs are at zero or negligible levels, attention has turned to the new burden on manufacturing imposed by Australia's unprecedented mining boom. The high exchange rate is placing heavy pressure on Australian manufacturing as it tries to compete on international markets and at home against imports.

It is extremely frustrating for the workers, management and owners of efficient manufacturing businesses that they are losing markets under the pressure of the high exchange rate.

To the great credit of the Australian trade union movement, union leaders, urged by their members to do something about the effects on manufacturing jobs of the high exchange rate, have not called for the re-introduction of tariffs. Through the recent jobs summit they successfully called for the development of plans that would enable local suppliers of major project inputs to compete with overseas rivals on level terms, but they have not demanded mandatory local content obligations. They have displayed a responsibility that has evaded the Far Right.

Fairness through the world trading rules

In the aftermath of the Great Depression and World War II, major countries decided to establish a set of rules by which world trade would be conducted. In promoting free trade, the General Agreement on Tariffs and Trade (GATT) developed rules designed to ensure free trade was actually fair.

The architects of the GATT understood that free trade could not be achieved and sustained unless it was done in accordance with a set of fair rules. Successive rounds of multilateral trade negotiations have widened and strengthened these disciplines of fairness.

Members of the GATT's successor body, the World Trade Organization, are not allowed to increase tariffs above the rates at which they have agreed to bind them. They are obliged to comply with limits on subsidies they apply to domestic industries. They are constrained in dumping products onto export markets.

When the GATT was formed in 1947 it had only 23 member countries. By the time the WTO was established in 1994 it had 128 members. Right now the WTO has 153 members. Russia and several other countries are expected to join the WTO in December.

The World Trade Organization is a club everyone wants to join. China joined in 2001 and Russia has been trying for 18 years. Not one country has decided to leave the WTO – not one. Members are protected from unfair practices by other members, but non-members enjoy no such protection.

The philosophy of the WTO is free trade conducted under fair rules; there's no inherent conflict between the two. But the world trading rules are far from perfect in ensuring fairness.

- Some countries have high tariffs while others have none.
- Some countries have tough quota restrictions while others have none.
- Some countries have many nasty non-tariff barriers in place behind their borders while others have few.
- Some countries have big subsidies on domestic production of agricultural and manufactured goods while others have none.
- Some countries dump their surplus products onto export makets at below-cost prices while others do not.
- Some countries heavily subsidise their offshore fishing industries – contributing to fishery depletion – while other countries do not.

Clearly the WTO's rule book contains loopholes and has pages missing, such that trade is neither free nor fair, though it is freer and fairer than would be the case if there were no rules.

The big question, then, is: should the world go forward or backward on trade?

Some critics of the inadequacy of the world trading rules argue that since some countries can skirt around the rules, others should too, to make it fair for all.

It's a strange line of reasoning: the best way of dealing with inadequate rules is to abandon them and engage in a free-for-all.

The consequence, of course, would be no different from what the world experienced the last time this happened, before a rule book was written. It was called the Great Depression. Jobs would be destroyed on a massive scale in implementing such a policy of mutually assured destruction; or MAD for short.

For those of us who seek a fairer society, tariffs and quotas are regressive – they impose a disproportionately heavy burden on the poor.

The objectives of both free trade and fair trade are best served by applying the rules to everyone, and making sure the rules cover all unfair practices. That's exactly what the Doha Development Round of global trade negotiations has been seeking to do for more than a decade now.

A successfully completed Doha Round would result in the elimination of agricultural export subsidies, the application of strict limits on farm subsidies, further reductions in industrial tariffs and tighter disciplines against dumping, to mention but a few fairness-enhancing improvements.

That's why Australia has been such a strong advocate of completing the Round.

Prime Minister Gillard has set out a new pathway for completing the Doha Round and won support for her plan at the G20 meeting meeting held in Cannes late last week. In keeping with a belief in the Brotherhood of Man, Australia has pledged access to our market for 100 per cent of goods from the 48 Least Developed Countries free of tariffs and quotas. The Prime Minister has urged other countries to make pledges as well.

Australia's plan is then to break the Round into more manageable parts and bring them to conclusion as they become ready, rather than waiting for one grand bargain to magically emerge – an agreement that has eluded negotiators for more than a decade. And while these negotiations are underway, countries would commit not to succumb to protectionist pressures at home.

A prime candidate for early agreement could be trade facilitation. This would involve expediting the movement, release and clearance of goods, including goods in transit. Australia would ensure that any agreement will provide technical assistance and capacity building to developing countries and improve cooperation between customs and other authorities to assist businesses.

One example of a measure that has been shown to provide trade facilitation benefits is the making of advance rulings.

Advance rulings involve customs authorities providing confirmation of how a good will be treated upon arrival to that country. This can provide certainty to traders as to how their goods will be classified, how they will be valued, and what tariff rates they will incur.

The European Commission released a study in October 2011 which estimates that a trade facilitation agreement could boost global GDP by around US $67 billion.

Much of the gains would flow to developing countries, with Africa, South East Asia and South American countries receiving more benefit from trade facilitation outcomes than from any other part of the Doha package.

That same study from the European Commission estimates the effect of successfully completing the full Doha Round would be a boost to global GDP of US $152 billion.

The trade facilitation agreement therefore would constitute an estimated 44 per cent of the total global benefits of the Doha Round – well worth having, and worth having sooner rather than later.

These fairer rules would help liberate millions of the world's poorest people from poverty, allowing them to gain jobs producing for developed country markets to which they would have fairer access.

Forward with fairness

As Prime Minister Gillard remarked at the G20 meeting, "We are a great trading nation and so we've got nothing to fear from freer and freer trade." This from the Leader of a Party that is conventionally characterised as being to the Left of Centre.

On numerous other occasions, Ms Gillard has committed her Government to supporting free trade, telling Parliament her Government is keeping up Australia's credentials as "a great free-trading nation".

Yet the Right in Australian politics is being infected with a new bout of xenophobia of the One Nation strain.

It needs to be remembered that at least one in five Australian jobs is a direct consequence of trade, and working people engaged in exporting earn around 60 per cent more than those employed in non-trading parts of the economy.

Australia is benefiting enormously from its economic integration with the Asian region in this, the Asian Century. Visionary leaders such as Bob Hawke, Gough Whitlam and Paul Keating have ensured Australia is in the right place at the right time.

Australia, like the rest of the world, is at a defining point in economic history. Should it press ahead with the free-trade philosophy of the last quarter century or should it revert to economic isolationism?

Whitlam officially recognised the People's Republic of China in one of his first acts as Prime Minister, and cut tariffs by 25 per cent.

Hawke engaged the leadership of China, Japan and India, Keating strengthened the relationship with Indonesia and both fashioned Australia's open, competitive economy.

Howard and Costello continued the Hawke-Keating reforms, further opening up the Australian economy.

Rather than succumbing to pressure from her political opponents to return to the Fortress Australia of the 1960s, Prime Minister Gillard is intent on strengthening and broadening Australia's economic integration with Asia through her Asian Century White Paper project.

Australia, like the rest of the world, is at a defining point in economic history. Should it press ahead with the free-trade philosophy of the last quarter century or should it revert to economic isolationism?

The Gillard Government is charting a course of freer trade that, in bolstering the world trading rules, would be fairer too. Fairer to the world's poorest people. Fairer to working Australians employed in export industries as it opens up other countries' markets to our products. Fairer to the Australians working in import-competing industries by strengthening the rules against subsidies and dumping by overseas competitors.

Economic Hansonism, xenophobia – call it what you will – might be a political opportunity for some.

The Gillard Labor Government will refuse to contest the field, sticking instead with the great program of advancing Australia as an open, competitive economy and a champion of global free trade.

Emerson, C (2011). *Can free trade be fair?*, The Biennial Sir Alan Westerman Lecture in Australian Trade Policy, Canberra (Speech). Retrieved from http://trademinister.gov.au on 8 May 2013.

A continuing debate? Protectionism and free trade in Australia

Protectionism may well return to Australian shores, writes Binoy Kampmark

The Australian Foreign Minister Kevin Rudd is worried. Just prior to flying to the US for defence talks, he extolled the merits of free trade. Economies, small or large, had 'to maintain an open international trading system.' Artificial trade tariffs had to be avoided. Crisis was no excuse for protection.

In his keynote address at the Australian Historical Association's Perth meeting in July last year, Ross McKibbin, currently of St. John's College, Oxford, noted the role protectionism played in shaping Australia's political, and in so many ways, its social path. Instead of embracing the free trade dogmas of Britain, Australia, at its foundation, decided to impose a tariff regime. This was a social ethos in action.

Within Australia itself, divisions over whether incipient industries should be protected were rife. In the 1890s, New South Wales preferred to avoid tariffs while Victoria took the opposite route. After federation, trade within Australia would be deemed free, as long as a tariff would be imposed on goods coming into the fledgling state.

By 1905, the protectionists were in the ascendancy, and Alfred Deakin's policy gained prominence. To qualify for protection, companies had to pay their employees 'a fair and reasonable wage."

The 1907 Harvester Case, in which Mr Justice Higgins of the Commonwealth Court of Conciliation and Arbitration delivered his renowned judgment on the 'living wage,' confirmed what became a remarkable statement of social policy in Australia. According to Higgins, Sunshine Harvesters could only receive protection from North American competitors in the event it provided its workers with what amounted to the living wage.

'The Australian form of wage determination was,' McKibbin points out, 'intimately connected to the fiscal system, and when in the 1980s a serious attack on that system was made, the consequence was also a serious attack (only partly successful) on the existing structure of industrial relations and wage-fixing.'

Higgins' role has been seen as nothing short of remarkable. The federal system was fragile. For one thing, the union movement hardly expected him to hand down the ruling he did. Some academics speculate that Higgins might himself have been dabbling in a bit of nation building.

The legacy was not something that would last. Protectionism as an idea started to gather dust. Australia, somewhat eccentrically, then took the high road with free trade. In the 1980s and 1990s, its market was deregulated by successive governments, with devoted enthusiasm.

The Australian dollar was floated. Microeconomics – the study of the firm rather than the study of macroeconomics – became the scientific mantra of governments. From 1970 to 2001, according to Andrew Leigh, the current federal member for Fraser, industry assistance, as an average measure, fell from over thirty per cent, to under five.

Leigh also goes on to note that three significant decisions on the reduction of trade barriers took place in Australian trade policy – 1973, 1988 and 1991, all incidentally, being made by Labor Governments.

Free trade tends to be spoken about in absolute terms when it tends to be relative. Few countries genuinely follow an unadulterated model, mixing and matching interests they feel fit their local economies.

Australia, oddly, is an exception, allowing an assault, to take one blatant example, on its

Free trade tends to be spoken about in absolute terms when it tends to be relative. Few countries genuinely follow an unadulterated model, mixing and matching interests they feel fit their local economies. Australia, oddly, is an exception.

Pharmaceutical Benefits Scheme via the Medicines Working Group. The assault, conducted via the free trade agreement with Washington, was mitigated to a certain extent by public health advocates in this country. The PBS, as a result, has been hampered in its efforts to keep down prices.

A certain game of shadow play takes place – some industries are protected, others are not. The Obama administration continues to shield trade and jobs against cheaper Asian competition and is hardly likely to budge on this. The criticism by such independents as Bob Katter, who has always taken a strong stance against a policy he sees as crippling to rural Australia, is not without cause.

There is little reason to assume that Australia will not, at some point, adopt a policy that moderates the distortions that are now rife in the economy.

Accused of going troppo where the sun beats down too heavily, Katter has seen the more destructive effects of policies that have emptied the interior of services and industries. Rural Australia only matters now because residents of those five teeming sores, as the Australian poet A.D. Hope put rather graphically, yearn for its product.

One sometimes wonders where the madness lies – in Katter's easily dismissed warnings and wishes. For example, the remarks of Guy Rundle in *Crikey* (Jun 6): "Crazy Bob Katter brought the crazy to politics" – or in the complicity of a consensus with the followers of Australia's mining conquistadores.

Any country blessed with natural resources is invariably cursed by it. This is the dilemma so wonderfully captured in the German term 'robber economy' (Raubwirtschaft). Australian manufacturing is barely a murmur on the world stage, obscured by the enthusiastic plunder of the mining boom. In 1984, manufacturing employed 17.5 per cent of the workforce. It has now dropped to somewhere around 9 per cent.

Any overly energetic and wealthy sector of the economy is unhealthy. To take the analysis of former federal Treasury secretary Ken Henry, Australia now operates on a three-speed model: The accelerator, dull as ever, lies in a happy-go-lucky cheap form of mining; then come industries such as manufacturing; then sectors which are not primarily dealing with trade.

According to James Glynn of the *Wall Street Journal*, the data reveals narrower trends – Australia is, effectively operating no a two-speed model. Pharmaceuticals, recreational and electrical goods outlets are all, in an assessment of the chief economist of Commonwealth Securities Craig James, experiencing a slump. To sum up: If you are not in the mining industry, you can hop it.

Now, philosophers such as John Raulston Saul are making an argument that globalism – the philosophy whereby markets are deified and rendered sacred – is obsolete. An open market is never a recipe for doing nothing to control it, precisely because our freedoms have always been gained by action, intervention and an awareness of their dimensions.

The conscience of a Higgins eventually wins out over the free-market ideologues of the Chicago School. Countries have reacted to the financial crisis by wholeheartedly embracing measures of intervention in preventing the bad from getting worse. Few government officials, leaving aside Rudd's concerns, are willing to take their hands off the wheel of the economy. To do so would be perilous.

There is little reason to assume that Australia will not, at some point, adopt a policy that moderates the distortions that are now rife in the economy. The potential collapse of the Euro zone amidst the continuing sovereign-debt crisis, with the EU still being an important trade partner, may make the worries of Rudd academic.

The decisions on European trade policy are hardly going to be swayed by Canberra, and its humble officials may have to follow suit. Protectionism, in short, may well return to Australian shores.

Politics is a continuous practice of contradiction. According to the political theorist Hannah Arendt, it is even a flagrant one. But it is not merely the political idea that holds sway. To that we have the economist, the contemporary astrologer who gazes at stars in the hope of discerning the mystique of the money cosmos.

John Maynard Keynes's statement in *The General Theory of Employment, Interest and Money*, authored in the depressed world of 1936, is still relevant – be they right or wrong, ideas 'of economists and political philosophers, are more powerful than is commonly understood. Indeed, the world is run by little else.'

Binoy Kampmark was a Commonwealth Scholar at Selwyn College, Cambridge. He currently lectures at RMIT University, Melbourne and blogs at Oz Moses.

Kampmark, B (2011). *A continuing debate? Protectionism and free trade in Australia.* Retrieved from www.onlineopinion.com.au on 9 April 2013.

Free trade: offering the best value to consumers and producers

A deregulatory approach is necessary as well as continued resistance to backsliding on protectionism, argues Alan Moran

Developments in Australian trade policy

The Productivity Commission (PC) annually undertakes comprehensive estimates of industry protection, which combine tariffs and other forms of support. The following diagram illustrates the changes in Australia's "effective rate of protection." This measures the assistance on the local value-added (that is, if the tariff is 10 per cent and local value-added is 75 per cent, the effective rate is 10/75 or 13.3 per cent).

The PC's measure of assistance does not cover all forms of subsidy. However, many of the measures it excludes have also been reduced over the past three decades. This is true of government purchasing preferences, local content arrangements, air travel, anti-dumping and countervailing measures, agricultural marketing arrangements, rural support programs and resource access arrangements relating to mining, forestry and fisheries.

The two stand out areas of protection are textiles clothing and footwear, with support at 13 per cent (down from 20 per cent in 2003) and motor vehicles and parts at 11 per cent (down from 17 per cent in 2003).

Pressures for trade protection

There are always pressures to provide greater support for a local industry. These come either as a means of offering it a platform on which it might develop economies of scale, often referred to as 'picking winners,' or as a means of preventing it from being out-competed by imports.

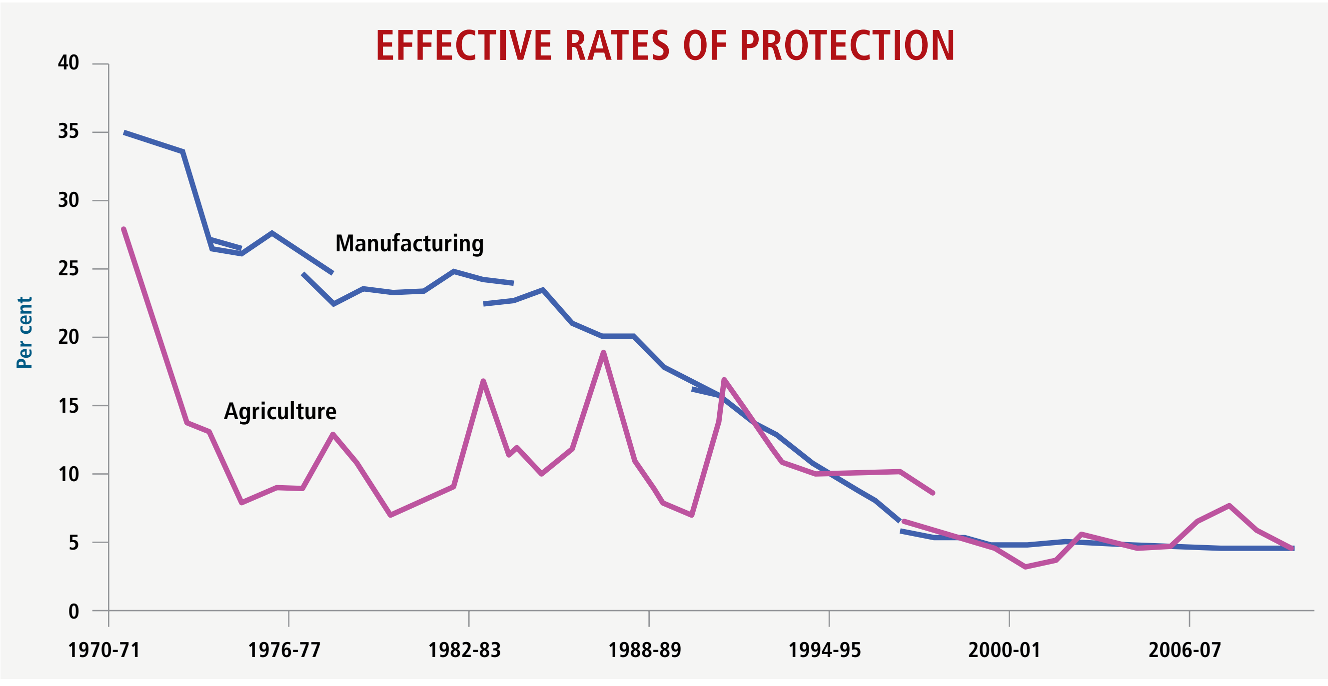
In Australia the former approach has never lacked sponsors. Indeed, even protection for clothing, footwear and motor vehicles started life as industry development plans. Later schemes favoured IT industry areas.

More recently, industry development plans have focussed on green power (where state and federal support has been extended to areas like turbine blade factories that politicians and lobbyists claim to be promising). The Government's carbon tax package includes a $1.2 billion program in subsidies to these developments.

Pressures for protection in the home market occur throughout manufacturing and the intensive agricultural areas and are particularly strong when exchange rates make imports cheaper. Steel, motor vehicles, clothing and horticultural products (where quarantine is used as a non-tariff barrier) are presently receiving or seeking political favours. While government support for activities that are failing as a result of competitive pressures could reverse their fortunes, successful cases are hard to identify.

There is no example of a developed country increasing its relative success while de-liberalising its import markets.

Protection through tariffs and other barriers has however been present during the industrial growth periods of most major countries from the US onwards (where tariff increases sparked off the Civil War). Protection of local production from imports was a significant policy measure in the rapid growth phases



of Japan, Korea, and Taiwan though less important for Singapore and totally absent for Hong Kong.

Tariffs were also prominent (and, though they have been reduced, remain so) for China. In the case of India, although tariff levels are double those of Australia, the nation's recent growth was triggered by deregulation, including declining levels of external protection.

Eastern European EU members have also seen rapid growth and have attracted manufacturing investment, while eliminating import protection vis-à-vis their EU partners.

The liberalisation of trade over the past sixty years has been crucial to higher living standards in Australia and elsewhere. Reversing that trend would see a relative and perhaps absolute fall in living standards.

It is therefore possible for a country to embark on a growth momentum in spite of protectionist restraint on imports. But in all such cases the protection has co-existed with privatisation, deregulation and increased levels of domestic savings to fuel productive investment. Those efficiency improvements have more than compensated for the adverse effects of protectionist policies.

And the respective outcomes in Singapore and Hong Kong indicate that the latter's free trade policy has achieved similar stellar growth while seeing less income allocated to savings. In other words, it would appear that a more liberal trade policy allowed Hong Kong both to have and to eat more of its cake.

The point about free trade is that it provides the cheapest goods and services to the consumer. This may entail importing from countries that follow practices that we ourselves reject. Thus some countries have more relaxed laws than us on matters like child labour. We can urge those countries to change such laws but the appropriate standards are matters of judgement. After all, child labour is common on farms in Australia, some kids sell lemonade at charity stands and 30 years ago there were plenty of 14-year-olds in the Australian workforce.

Similarly, some countries' workplace safety standards are sometimes cited as a reason why we should reject their imports. Safety standards tend to be highest in the more affluent countries and in the end reflect the willingness of the worker to accept greater risk as a consequence.

Importantly, it is not up to us to pick and choose which imports we might allow on grounds of labour laws and so on, since to do so would require us to develop a vast new apparatus to determine what countries goods and services will be allowed.

It may well make sense to refuse some imports on quarantine grounds but, as already noted, quarantine provisions are often an excuse to protect domestic producers, thereby preventing domestic consumers from benefitting from the cheapest suppliers. At the same time the protectionist policy means maintaining land, labour and capital in activities that produce less value than if they were to be shifted to areas of greater competitiveness.

Keeping Australian and world markets open

World trade negotiations have focussed on offering and accepting concessions in reducing domestic barriers to entry. Although such mechanisms may have been useful in bringing political acceptance for trade liberalisation (and a general global reduction in barriers to trade, offers gains in excess of a unilateral reduction), we don't actually need reciprocity to make gains.

If some countries place barriers to getting the cheapest goods they are willingly accepting a diminution of their real income levels. That can rarely be in their interests.

The liberalisation of trade over the past sixty years has been crucial to higher living standards in Australia and elsewhere. Reversing that trend would see a relative and perhaps absolute fall in living standards.

A major frontier left behind in trade liberalisation is agriculture. Australia could gain considerably from the rapid income growth in China and India, which is likely to see a considerable expansion in demand for higher protein and fat foods.

Though geographically well placed to benefit from this, Australian policy directions in recent years detract from this potential. Disallowing water storages (and reducing existing water rights held by farmers), locking up vast tracts of land in northern Australia and arbitrary decisions like that on live cattle exports have reduced the attraction of farm investment.

A deregulatory approach is necessary as well as continued resistance to backsliding on protectionism to allow labour and capital to be used more remuneratively is essential if the prospects are to be realised.

Alan Moran is Director of the Deregulation Unit at the Institute of Public Affairs.

Moran, A (2011). *Free trade: offering the best value to consumers and producers*. Retrieved from www.onlineopinion.com.au on 10 April 2013.

Free trade reform must look beyond tariffs

The government must stare down protectionist sentiment across the political divide, contends Tim Wilson from the Institute of Public Affairs

The Gillard Government's recent rhetoric on free trade deserves praise. Now they have to deliver. At a CHOGM business forum last week the Prime Minister vowed to scrap all remaining tariffs for developing country imports into Australia.

Gillard reportedly said 'Australia will continue the strongest possible commitment to market access for the world's poorest countries, irrespective of the settlement of other issues in the Doha Round'. Her comments come off the back of Trade Minister Craig Emerson's recognition last week that the World Trade Organisation's Doha round of negotiations is going nowhere.

Emerson's right. What's surprising is that it has taken him this long to figure out, or at least say what everyone else in trade policy has known for years. He's now trying to lobby WTO members to start negotiating bite-size liberalisation pieces where agreement will be easier to secure.

That won't be an easy task considering the perfect tango that needs to be achieved to get rich countries to cut their agriculture subsidies and developing countries to slash tariffs on industrial goods. And that's before there's any focus on an extensive number of substantive, but peripheral issues.

Emerson is more likely to achieve his free trade agenda at home. In a speech to the Lowy Institute last December he correctly outlined that 'domestic economic reform is essential to lifting productivity growth and through it the international competitiveness of Australian businesses ... [and that the Gillard Government] will continue to devote enormous energy to opening up other countries' markets, gaining market access for our exporters'.

He continued arguing that the spirit of the Hawke, Keating and Howard government's efforts in cutting trade barriers should be reinvented during the Gillard Government.

Despite the rest of the world not following, Australia (with New Zealand) led the rest of the world in the 1980s and 90s in liberalising tariff barriers. Some remain but are trivial; though they should be scrapped.

Gillard's CHOGM statements would appear to be an adoption of Emerson's ideal.

But there are two problems for the Prime Minister in achieving her objectives. First, there are virtually no tariffs left to scrap. And second, Australia's fragile free trade consensus has crumbled.

Despite the rest of the world not following, Australia (with New Zealand) led the rest of the world in the 1980s and 90s in liberalising tariff barriers. Some remain but are trivial; though they should be scrapped.

For many developing countries promoting growth through trade requires them to cut their self-imposed barriers against each other.

To truly live up to the Hawke/Keating/Howard legacy the real task for the Prime Minister is to actually re-form Australia's fragile free trade consensus. The liberalisation of that time period existed because both the government and opposition supported trade reform. All that remains of that consensus is a no-tariff policy. But free trade covers more than tariffs.

On liberalisation grounds the 'benefit' of tariffs is that they are transparent and easy to phase out because

> But while both sides of the political aisle have been cutting tariffs, protectionist non-tariff trade barriers have been increasing over time.

their economic profile is straightforward.

But while both sides of the political aisle have been cutting tariffs, protectionist non-tariff trade barriers have been increasing over time. Non-tariff barriers are far more insidious because they're successfully paraded as 'justified' based on alternate policy grounds and include subsidies, local content requirements, certification of origin requirements and quarantine, to name a few.

What's ignored is that non-tariff barriers have a damaging economic profile just like tariffs. They are just more opaque.

When Australian Workers Union head, Paul Howes, argues for 'local content requirements' to help Australian producers it means local businesses are saddled with extra costs that make them less competitive in the international marketplace. And this is a growing bipartisan trend supporting the introduction of non-tariff barriers on perceived 'environmental' grounds.

Recently a greens group-backed bill designed to foster consumer boycotts against Australian food and cosmetic manufacturers who use palm oil as an ingredient nearly came into law.

The bill was introduced by independent Senator Nick Xenophon, but puzzlingly was supported by Opposition in the Senate. Puzzling because free trade isn't a fad for liberals; it is a load-bearing philosophical pillar.

Ultimately the bill failed in the House of Representatives after the Opposition finally realised it was not compliant with international trade rules.

The whole process is now being repeated as a Greens-backed bill to add costs to wood imports is likely to pass the Parliament in an effort to tackle 'illegal' logging.

The bill has the backing of the Government despite its own-commissioned advisers completing an analysis showing Australia's imports of the offending material was non-existent and that the bill's requirements would have virtually no effect.

Other policy concerns are also trumping trade liberalisation. Not scrapping non-tariff import restrictions on copyrighted books on the misleading grounds that they protect local culture was another free trade failure.

Non-tariff barriers like these are precisely the policies Gillard and Emerson need to stare down if they want to unilaterally liberalise and maintain global leadership on trade.

Both add costs and restrict market access to Australia for developing country primary industry imports. More concerning is that they target industries based in rural industries that already lack the greatest opportunity to harness the economic opportunities of globalisation.

In Emerson's speech to the Lowy Institute last year he correctly highlighted that 'unilateralism in tariff reductions incidentally gave Australia credibility in international trade negotiations way beyond the relative size of our economy'.

If Emerson and Gillard want to be successful in tackling the challenges of global trade liberalisation that same credibility will be needed again. But it requires staring down protectionist sentiment across the political divide at home.

Tim Wilson is Director of the IP and Free Trade Unit at the Institute of Public Affairs and author of *Trading Away Competitiveness* available at www.ipa.org.au

Wilson, T (2011). *Free trade reform must look beyond tariffs*. Retrieved from www.abc.net.au/unleashed on 10 April 2013.

FREE TRADE AND FAIR TRADE

INTERNATIONAL BUSINESSES SEEK THEIR OWN PROFITS AND NOT AUSTRALIA'S WELFARE, ARGUES VALERIE YULE

Free trade and fair trade are complex issues. A few thousand words can only open up the many elements that are relevant.

Free trade really began as a mercantile ideal, with the repeal of the English Corn Laws in 1832. This was a blow for freedom, and for the workers who needed bread, as the farmers had to bring their excessive prices down. It was a sign for the English exporters of goods, who wanted freedom to export anywhere. During the next century, free trade was a banner for the British and American push backed by navies and armies, into overseas markets, especially India, China and Japan.

Today however, trade can be governed by Free Trade Agreements with other countries, especially the United States, which always bargains in its own favour. The high rate of the Australian dollar encourages imports and discourages exports. Cheap labour in competing countries makes their prices lower than ours. A level playing field is not possible when other countries have tariffs, dumping policies, low wages, subsidies and low exchange rates. The abandonment of the principle of balanced trade allows us to import things that we once made or grew ourselves.

Big supermarkets buy the cheapest from overseas. Most people's main consideration when buying goods is price. Origin is not considered.

Many people believe that they are helping the third world develop when they buy overseas goods. However, each purchase should be scrutinised and determined whether it actually does help the citizens of these countries.

Sometimes commodities produced in developing countries are controlled by multinationals at the price of those countries' own self-sustainability. Sometimes the production of commodities for overseas consumption prevents a developing country developing for its own needs. What happens to developing countries if we don't buy from them? What is charity and what is helping them develop their own industries and standing on their own feet? Buy from them what we can't grow or make, and be sure we give them a long-term, durable future.

We need to keep some industries of our own. Self-defence needs steel, for example. We need to be able to feed ourselves. We cannot rely on the exports of mining and innovative products produced by a few ingenious minds. We can take in each other's washing, with service industries, but that does not fulfil all our needs. Tourists may not always come to Australia bringing their extra money.

Currently, much that is made or grown in Australia is controlled by businesses owned overseas, and the profits go overseas. Investment from overseas can be a desirable source of capital, but this is not often the case in many of the overseas' takeovers of flourishing Australian companies.

There is inhibition of free trade that can also harm us. For example, excessive copyright laws prohibit the free exchange of information, and go beyond fair reward to the originators. The most important free trade is free trade in knowledge and ideas.

What can be done?

Everyone can do something to reduce the harm from imports that compete unfairly with our home products. Everyone has a part to play, from the consumer and retailer, to the negotiators of free trade agreements, and the home producers themselves, who can ensure that their integrity and quality remain high.

Indeed, Australia does have some lazy workers and incompetent and greedy businesses. Just look at the failure of the government insulation schemes and school building, which were wrecked by some contractors. We need watchful eyes on them. Nevertheless, most producers are straight players; they struggle on the tilted playing field.

Australian manufactures go under, but people laugh because they can buy cheaper shoes, clothes, chemicals and furnishings from overseas. They do not consider that the cost of freight and of overseas goods will be higher in the future. They do not consider how the former workers will be unemployed, a burden on the fewer taxpayers, rather than sharers in paying taxes and buying other Australian products. Who knows the count of jobs and businesses that have gone under?

Already 80% of food in supermarkets is foreign-owned and far too much of it is imported. Where are the promotions of all-Australian products in shops? We have promotions of say, Dutch or Italian goods. At Christmas, fine chocolates on display in supermarkets are all imported. You may look vainly for the many Australian makers of fine chocolates and other sweets. Why should lemons in the shops come from the United States, at up to a dollar each, in suburbs where gardens grow lemons by the bushel?

Government tenders can seek the cheapest suppliers, while Australian heavy industry languishes.

In agriculture, farmers may be uprooting their long-term investments – for example, their orange trees, because they cannot afford to harvest them. Sometimes this is because the area is not suitable for continued growth of these crops. But often, it is simply the competition from other countries that have cheap labour and low exchange rates.

If we cut our carbon emissions by abandoning our aluminium

An original function of the nation state was to protect the people against robber barons. It still owes this duty to protect its people against outside demands that can harm our enterprises, workers, environment, natural resources and provide continued sustainability.

industries – an obvious industry to maintain with our abundant raw material, and the needs of continuing manufactures – we are only sending the emissions overseas by buying the aluminium that we import. Greater innovation in production would be the better option.

The future requires that we have food security, self-defence, and jobs for youth.

We should still be protesting and asking for re-negotiated clauses in Free Trade Agreements. Tell the politicians to defend their country.

Up for grabs under the Australia-United States Free Trade Agreement (The Agreement) are Australian agriculture, manufactured goods, financial services, intellectual property, freedom of information, investment, health, education, entertainment, media, automotive, telecommunications, e-commerce, quarantine, technical regulations and standards, environment and labour.

The Agreement goes far beyond a trade agreement. It includes foreign investment, competition policy, government procurement and makes many of our own laws subject to US regulation, such as quarantine and copyright.

United States corporate interests can prevent legislation that protects Australia's interests, including environmental or social welfare, and can sue our government in costly litigation paid for by us taxpayers. The powers of the Foreign Investment Review Board are crippled.

Such agreements make Australia lose the power to govern itself.

Canadians complain about losses of power to self-govern in their own country. Mexicans complain that the initial rush of United States investment because of lower labour costs has now shifted to Asia, where labour costs are lower still. But these countries have the benefit, which we have not, of being next to the United States, so that bilateral trade agreements for goods to flow across borders make sense.

It does not matter whether we are in name a republic or not, if in effect we become an economic colony of the United States or China. We should be friends, not subordinate to other countries interests. The United States' history of assertive colonisation and 'free trade' should warn us. They want 'freedom to' and we need 'freedom from.'

It makes sense for Australia to work for multilateral trade freedom through the WTO and for bilateral agreements with our neighbours, exchanging what they want for what we want. They need our primary products and many of our other products and services.

The United States needs nothing that we produce, and it is hard to sell there, whether or not there are tariffs. Yet, I understand that there is no clause in The Agreement giving us a right to re-negotiate if disastrous consequences eventuate. We can only 'discuss'. Lawyers proliferate.

Surely our government must be concerned at the clauses that open up Australia to losing even more Australian ownership of assets and companies. The Agreement also adds risks to quarantines that have served us well, that threatens our intellectual property, extends copyrights that will cost us dear and risks corporate litigation that taxpayers must pay for.

Australian workers' wages and conditions are threatened by increased unemployment from competition with cheaper overseas products. There are too many areas where our government will be unable to protect our environment, welfare services, quarantine and assistance to industries, including primary industries.

Such agreements do nothing to help reduce our immense foreign debt, already $1.169 trillion for a nation of 22 million people. The cost of complacency about our ballooning public and private foreign debt will become clear sooner, rather than later.

International businesses seek their own profits and not Australia's welfare. An original function of the nation state was to protect the people against robber barons. It still owes this duty to protect its people against outside demands that can harm our enterprises, workers, environment, natural resources and provide continued sustainability.

Yule, V (2011). *Free trade and fair trade.* Retrieved from www.onlineopinion.com.au on 9 April 2013.

Free trade: what Australian industry wants

BY HEATHER RIDOUT, CHIEF EXECUTIVE OF THE AUSTRALIAN INDUSTRY GROUP

With 17 of the G20 countries quietly erecting some form of trade protection in the six months immediately following the global financial crisis, it is not surprising that business has grown more skeptical of the power of the Free Trade Agreement.[1]

Even the United States, despite driving the adoption of a number of international agreements to encourage the free movement of goods, wrote new protectionist "Buy American" provisions into law, engaged in a trade skirmish with China over the importation of tyres into the United States and reintroduced the Dairy Export Incentive program, a subsidy scheme by any other name.

Only one in 20 Australian companies exports their goods or services. This is despite the opportunities provided by three decades of growth in the economies of our global neighbourhood, across the Asian region.

Only one in 20 Australian companies exports their goods or services. This is despite the opportunities provided by three decades of growth in the economies of our global neighbourhood.

Australian industry has gone through a major transformation through the same period, with the phased collapse of tariffs and other forms of industry assistance. The changes in key manufacturing industries, such as automotives and textiles, clothing and footwear, have been enormous. With the pain of employment losses has come the ability of the survivors to compete both at home and abroad. In the past two decades, Australia has become one of the most open economies in the world with average tariffs at less than 3.9 per cent.

A hand-up not a handout

Australian industry is aware – now more than ever – that in order to grow it has to be part of the global supply chain where appropriate. It has to compete on productivity, price and quality. The phase-out of the remaining assistance is planned and there is no need to reheat that debate because no successful or ambitious Australian company wants a government handout to survive. What companies do want, when it comes to exporting, is a hand up to thrive.

Realising that exports are our best means to long-term economic growth, Australian governments and industry have long acknowledged the need to clear a path and encourage Australian businesses to take the calculated plunge into foreign markets.

With the recent completion of the first round of talks on a Trans-Pacific free trade agreement, and President Obama's proposed Australian visit in June likely to

focus on trade links between our nations, now is an excellent time to examine the effectiveness of recent trade liberalisation efforts in terms of their application for Australian business, and to consider what else might be done. The results of much laudable effort in recent years in opening new markets for Australia in parts of Asia, the United States and Latin America are unfortunately mixed.

How do Australian companies see the success of the various free trade agreements signed by Australia?

According to Federal Government figures, there has been a modest increase in export volumes from January 2003 to the middle of last year (2009), a time when four new free trade agreements came into effect (Singapore, Thailand, the United States and Chile). According to the Mortimer Review undertaken by the Rudd Government into Australia's trade performance 'the growth in export volumes has been markedly slower in this decade than the previous two decades. Australia has lost global market share in manufactures, services, agriculture and resource exports".[2]

To assess the impact of Australia's various free trade agreements, in late 2009 the Australian Industry Group surveyed 50 member companies with annual exports valued at between $40,000 and over $1 billion in the manufacturing, construction, food and beverage, the production of metals, chemicals and coal machinery, printing and publishing, ICT, retail and homewares sectors. On average, a little over one-third of exporters reported they had received any benefit from exporting to destinations with existing free trade agreements. Of the individual agreements, only 55 per cent of respondents saw the USFTA as being effective, with effectiveness figures for other agreements being New Zealand, 48 per cent; Thailand, 25 per cent; Singapore, 18 per cent; and Chile, 17 per cent.

The signing of these agreements alone does not ensure broad benefits to Australian industry, nor does it motivate companies to seek new export destinations.

There are, of course, pockets of true success in each agreement. However, while existing exporters report some moderate benefits in the markets they already serve, new entrants do not flock to join in. The value of the agreements is not being translated – whether in reality or perception – to Australian industry.

In other words, the signing of these agreements alone does not ensure broad benefits to Australian industry, nor does it motivate companies to seek new export opportunities. The mere fact of an agreement does not immediately position industry to take advantage of the Government's handiwork. A range of factors are at play, including the continuing high value of the Australian dollar, domestic economic circumstances, the overall market maturity, industry capability and the usual risk factors that industry takes into account when moving into new markets, including political, economic, legal and technological risk.

Australian companies also report facing a growing number of 'offset' obligations – effectively compensation – in many markets. Previously relevant to the defence sector, offsets are being increasingly used in infrastructure and construction activities to 'balance' foreign contracts with local content. This has the effect of reducing competition and efficiencies in the global trading environment.

It is hard for Australian industry not to be just a little cynical when confronted with newly increased port fees, increased customs duties, new administrative arrangements, new licensing arrangements and fees, new standards requirements, new quarantine requirements and even increased tariffs in parts of Asia, which can dramatically impact on the success of a business.

The effects of Doha

It is important in examining the current global appetite for free trade and the perceived value of free trade agreements for Australian industry, to look at the impact of the multilateral agenda. Since the establishment of the World Trade Organization (WTO), the average number of preferential trade agreements signed per annum is 20, compared to only three or four during the time of its predecessor, the General Agreement on Tariffs and Trade (GATT).

However, the current reality is that the Doha Round of negotiations to obtain a global agreement on free trade has been a massive disappointment and is now a major distraction for those nations, including Australia, who have put an enormous amount of effort into developing a multilateral free trade agenda. For many nations, it has become an excuse not to pursue free trade. The rationale of not wanting to act outside the Doha constraints for fear of being seen to walk away from the Doha goals has held back momentum towards worthy bilateral, regional or sectoral free trade agendas (India, Brazil for example). For now, Doha has become an impediment to free trade.

The rationale of not wanting to act outside the Doha constraints for fear of being seen to walk away from the Doha goals has held back momentum towards worthy bilateral, regional or sectoral free trade agendas ... For now, Doha has become an impediment to free trade.

From an Australian industry perspective, it is difficult to see how European, Chinese, American, Indian and Brazilian interests will all be reconciled in the short term as the Doha process plods along and the world focuses on recovery from the global financial crisis. Certainly President Obama's focus on a Trans-Pacific free trade agreement, along with the reality of a low US dollar, as the key vehicles towards an export-led US recovery – with little or no mention of Doha – make its prospects for success exceedingly remote. Perhaps the time has come to park Doha to one side, to allow the development of the web of those multilateral, bilateral and sectoral agreements that must come to enhance fair and comprehensive free trade.

Regional economic integration

The most recently signed agreement, the ASEAN Australia New Zealand Free Trade Agreement (AANZFTA), which came into being on 1 January 2010, is the latest attempt to more closely integrate Australian trade with our region. Currently around 55 per cent of our trade is with the broader Asian region, and ASEAN accounts for a significant 15 per cent.

There is currently little cohesion in our ASEAN trade, with each of the 10 nations having different objectives and central relationships in their trade policies.

But there is the real likelihood that ASEAN nations will become increasingly important to Australian exporters as they seek to diversify, and as the key markets for Australian industry, especially Indonesia, Malaysia, Thailand and Singapore, become more mature and open. Asia will unquestionably be the key market for Australian exporters in the decades ahead. This is where global economic growth will be driven, where markets will develop and to where global capital will shift. Given our geography, resources and skills, Australia is uniquely placed.

The agreement with ASEAN was as comprehensive at it could have been under the circumstances. It suffers from fragmentation among ASEAN nations which forced the acceptance of compromise. Some of the harder bilateral issues between Australia and its neighbours had to be pushed aside to individual agreements either under consideration or in negotiation. Without comprehensive agreements on some of those tough issues related to market access, the benefits from the AANZFTA will unfortunately be muted. However, the agreement does present significant opportunities for parts of Australian industry to operate more fully in key ASEAN markets.

What business needs

There is a serious disconnect between the level of government resources invested in negotiating necessarily complex FTAs, compared with the resources applied to ensuring their successful application.

What is required is clear and strong follow-through assistance and support from government to turn benefits from free trade agreements from a theory to a reality: programs to encourage industry to look beyond these shores – an extremely costly enterprise for a small business – to develop and maintain contacts and credibility in new markets. These programs are investments in Australian productivity and ingenuity, not a handout.

The Mortimer Review found that $1 created under the Export Market Development Grant Scheme generated up to $27 in additional exports – a significant economic multiplier. Another program, TradeStart, has assisted 2000 companies since 2002 achieve more than $750 million in exports on the back of very limited funding. Industry seeks guidance to get started but has demonstrated an ability to quickly establish itself where it finds a niche.

So what do Australian companies want from free trade agreements? Free trade agreements, at a minimum, must be WTO-consistent – meaning the agreement must substantially cover all trade, with substantial sectoral coverage, and they must eliminate discrimination. They must also be WTO-plus, meaning liberalisation should

be delivered more rapidly and fully than could otherwise be achieved through the WTO. The coverage and scope of the agreement must be as broad as practicable. And Australian exporters need some level of comfort that their export markets will not change the rules of the game overnight, either overtly or covertly, to their material disadvantage.

There is a serious disconnect between the level of government resources invested in negotiating necessarily complex FTAs, compared with the resources applied to ensuring their successful application.

Australian industry has not walked away from the free trade agenda. But it must be an agenda that delivers practical results, not vague promises of success. The free trade agreement process does not end with the justifiably proud signature of political leaders. It is industry that does the trade, and industry that ultimately determines if a free trade agreement is a success. The lesson taken from our survey of exporting companies is that more needs to be done to assist Australian companies to export. For industry – and for government, too – those signatures must represent the start of a new phase of cooperation to make the agreement actually work.

Heather Ridout is Chief Executive of the Australian Industry Group, the leading association representing businesses in manufacturing, construction, automotive, ICT, transport, defence and labour hire. She is a leading figure in Australian public policy debate, and is a member of a number of policy setting and consultative groups including Skills Australia, the Business Advisory Group on Workplace Relations, Infrastructure Australia and the Henry Review into Australia's Taxation System.

NOTES

1. Elisa Gamberoni and Richard Newfarmer 'Trade Protection: Incipient but Worrisome Trends', *Trade Notes*, International Trade Department: World Bank. March 17, 2009.
2. 'Winning in World Markets: Review of Export Policies and Programs', by David Mortimer AO, 1 September 2008, commissioned by the Department of Foreign Affairs and Trade.

Ridout, H (2010). 'Free Trade: What Australian industry wants', *The Asialink Essays 2010 Vol. 2 No. 3,* pp. 2-5. Retrieved from www.asialink.unimelb.edu.au in June 2013.

1,000,000 economists can be wrong: the free trade fallacies

If economics were a real science, it would have long ago been overthrown and replaced by something more realistic, remarks Steve Keen

Not only did the global financial crisis catch the vast majority of economists completely unawares, they instead expected tranquil and even buoyant times just as the biggest economic crisis since the Great Depression began.

My favourite such observation is from the OECD's *Economic Outlook* for June 2007 – in which the Chief Economist suggested that, "the current economic situation is in many ways better than what we have experienced in years ... Our central forecast remains indeed quite benign." But there are countless other such utterly wrong prognostications about the economy, from the profession that is supposed to be the font of wisdom on the economy.

Those 'in the know' understand that this is not an isolated failing. The neoclassical model that dominates economics today is riven with logical and empirical fallacies. If economics were a real science, it would have long ago been overthrown and replaced by something more realistic.

Yet at least 90% of academic economists believe in this model, as do almost all economists working in government and private industry. Left to their own devices, they will continue thinking that this model does describe the economy as the real economy falls deeper and deeper into a crisis, even though their model says that this can't even happen.

Since economics has failed to clean out its own intellectual stable, it will be the public that finally forces reform upon it – as once-supporters like Anatole Kaletsky of *The Times* calls for "a revolution in economic thought" and George Soros funds an Institute for New Economic Thinking. With luck, in a decade or two, a more realistic approach to economics might emerge. But in the meantime, here's a simple guide for the public: Anything the vast majority of economists believe is likely to be wrong.

Which brings me to 'Free Trade'. The belief in free trade is one of the hallmarks not just of the neoclassical school which began in the 1870s, but also of the original classical school which began with Smith in 1776. It argues that almost everyone's material welfare will be increased if all countries specialise in what they are good at – a proposition that on the surface seems plausible, and a formidable body of mathematical economic theory has been erected to support it.

Unfortunately, like so much else in economics the model of Free Trade is, to quote the humorist H.L. Mencken, "neat, plausible, and wrong". The theoretical fallacies at its core have been there since David Ricardo first coined his model of comparative advantage during the political battle to repeal the "Corn Laws", which restricted the importing of cereal crops into England.

The arguments in favour of the Corn Laws included the belief that if trade were unregulated, English industry – in particular its agriculture – might be wiped out by foreign competition. Ricardo, in a brilliant debating ploy, conceded his opponents' case that a rival country (Portugal, which was then one of Britain's major rivals) was better at both agriculture and manufacturing than England and then preceded to "prove" that England would still benefit from free trade.

He assumed that in Portugal 80 men could produce a quantity of wine (say, 1,000 gallons), whereas

> Since capital is destroyed when trade is liberalised, the watertight argument that trade necessarily improves material welfare springs a leak.

England would need 120 men to produce the same amount and that Portugal was more efficient too at producing cloth – needing 90 men to produce a quantity of cloth (say, 100 square yards of cotton) whereas England needed 100.

Without trade, both countries would have to produce both goods for themselves so that per 1,000 workers, Portugal would produce some combination lying between the extremes of 12,500 gallons of wine and 1,100 yards of cotton, while England would produce a combination lying between 8,333 gallons of wine and 1,000 yards of cloth.

If however Portugal specialised only in wine and England specialised only in cloth, the total output would be 12,500 gallons of wine and 1,000 yards of cloth. This is more than the total output of the two countries in the absence of trade. With free trade, they could specialise in their comparative advantages and welfare in both countries would be higher.

This argument was so clever that it aided the campaign to repeal the Corn Laws and it has seduced almost all economists ever since.

But there is an obvious fallacy to this neat and plausible argument: To effect specialisation, England has to shift labour and capital from wine to cloth (and Portugal has to do the opposite). Arguably labour can be retrained – a vigneron can become a machinist – but how do you convert wine press into a spinning jenny?

The obvious answer is that you don't. Instead, you sell the wine press and buy a spinning jenny with the proceeds. But because of the introduction of trade, the price of wine in England would have fallen, so that the sale price of the wine press will also fall (economists have modified Ricardo's model to introduce curves where Ricardo had straight lines, so that total specialisation is no longer required and there would still be some wine production in England under the 'new' model of free trade), while the price of spinning jennies will have risen, given the new export market to Portugal. Some capital is necessarily destroyed by the opening up of trade and it applies in reverse in Portugal as well.

Since capital is destroyed when trade is liberalised, the watertight argument that trade necessarily improves material welfare springs a leak. If economics were a real science, this real-world complication to Ricardo's argument would be considered, but it has never been seriously addressed.

These and many other failings that explain why, when Dani Rodrik took a careful look at the empirical record of trade liberalisation, he found that it had frequently reduced material welfare rather than increasing it. Writing back in 2001, he summarised his findings for *Foreign Policy* magazine with the statement that:

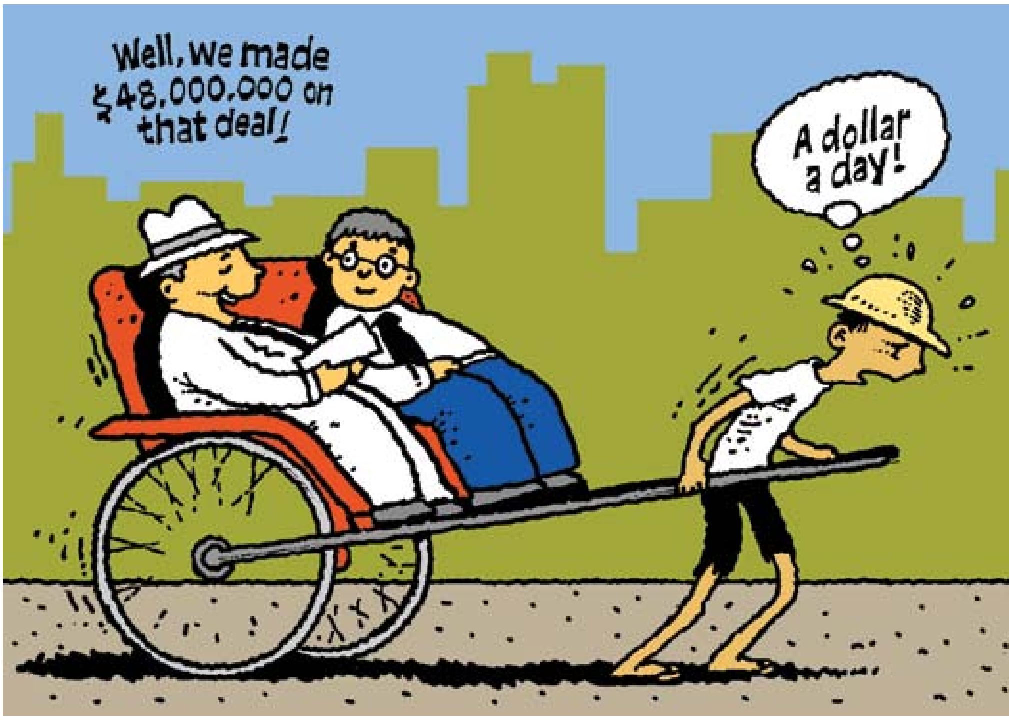
> *"Advocates of global economic integration hold out utopian visions of the prosperity that developing countries will reap if they open their borders to commerce and capital. This hollow promise diverts poor nations' attention and resources from the key domestic innovations needed to spur economic growth."*

> "Advocates of global economic integration hold out utopian visions of the prosperity that developing countries will reap if they open their borders to commerce and capital. This hollow promise diverts poor nations' attention and resources from the key domestic innovations needed to spur economic growth."

As an economist who has specialised in dissecting the empirical claims for the role of free trade, Rodrik has the might of the majority of the profession against him. As noted above, that's a good rule of thumb that Rodrik is right.

Steve Keen is Associate Professor of Economics and Finance at the University of Western Sydney and is a fellow of the Centre for Policy Development. He is the author of 'Deeper in Debt: Australia's addiction to borrowed money', published by the Centre for Policy Development, September 2007. He maintains a blog at www.debtdeflation.com/blogs/

Keen, S (2011). *1,000,000 economists can be wrong: the free trade fallacies.* Retrieved from www.debtdeflation.com on 20 June 2013.



FREE TRADE HAS HAD ITS TIME

THERE HAS NEVER BEEN A PERIOD WHERE ALL NATIONS ADHERED TO FREE TRADE, NOTES CHRIS LEWIS

Come on. Does anyone really believe that the world will be okay if nations simply adhere to a belief that a nation should produce goods and exports in accordance to one's comparative advantage? Or is international relations a bit more complex, thus requiring a bit more honesty about the limitations of recent policy trends?

In truth, there has never been a period where all nations adhered to free trade. Some did to a greater extent, others did not. In most recent times, one can note the protectionist barriers that have accompanied the rise of China to develop its manufacturing sector (and exports).

Even though most economists generally concur that true free trade erases inefficiencies and inequalities, the evidence indicates just how unfree international trade remains. While about 400 free trade agreements have emerged since the early 1990s, covering about a third of global trade, most had been 'nation-to-nation and, invariably, carry exemptions that protect domestic industries that politicians decided were vital'.

For instance, as of 2008, all Canadian pacts protect Canada's milk, poultry and egg industries. Even the 15-year-old North American Free Trade Agreement had protectionist provisions given that 62.5 per cent of an automobile's total parts must be made within the three member states (Canada, the US and Mexico) before a car could cross a border. Further, agricultural subsidies by the US and European nations have 'paralyzed global trade talks since 2001'.

In Australia, where most tariffs are five per cent or less, considerable protectionist barriers remain. This includes bounties on the outputs of select industries; tax concessions on R&D; investment incentives/subsidies; and export assistance. There are also limitations placed on foreign acquisitions, and some regulation in key industries. For example, only a limited number of airlines are allowed on domestic routes and foreign banks in Australia must operate as a wholesale bank through an Australian branch or conduct business through an Australian-incorporated subsidiary.

Of course, there are good reasons why freer trade should be supported. For example, international food aid groups rightly blame agricultural subsidies – along with a conversion of farmland from food to bio-fuel – for increasing hunger across the developing world as local food producers give up growing crops that cannot compete against subsidised imports. Further, depriving poor nations of their economic opportunities can lead to many more illegal immigrants or refugees, as suggested by Mexico's President Felipe Calderon of Mexico in 2008 when Obama vowed to renegotiate NAFTA to protect US workers.

But national policies never operate fully in accordance with an ideal. Each nation must make up its mind just what kind of policy mix is needed. There is no such thing as a magical policy solution in a world of competing nations still struggling for resources and the influence of certain ideas.

Truth is that Western leadership never had the complete answers. The US especially since the Second World War simply promoted freer trade as the best policy option to serve its national interest while promoting the growth of the international trade to encourage economic prosperity between nations.

The need to take account of national economic imperatives remains. Take the US decision in August 1971 to abandon ties between the value of its dollar to gold, and to abolish its capital controls in 1974. With a declining trade deficit and inflation reaching an unheard post-war high of 4.5 per cent in 1971, the US currency came under increased pressure because of declining international confidence that its value could be sustained. US financial dominance was also challenged by the expansion of private international finance, notably through the establishment of Eurocurrency and Eurobonds, where investors were able to avoid many of the national regulations governing the operation of domestic banks, especially in relation to national capital controls. With the US abolishing its capital controls, it was assumed that private market actors were more likely to hold their assets in American dollars in an open international financial environment because of its position as the world's largest economy.

In time, after the turmoil of the 1970s of high oil prices, unemployment and inflation, many Western governments gave policy support to floating exchange rates and the discipline of the market.

However, and despite many Western governments seeking to make their economies more competitive by lowering tariffs and promoting user-pay principles, although the degree varies between nations, Western nations became increasingly reliant upon debt (see table below). This includes Australia which, despite maintaining a relatively low level of government debt amongst developed nations, has experienced one of the greatest increases in household debt since 1990.

GROSS GOVERNMENT AND HOUSEHOLD DEBT AS PERCENTAGE OF GDP

COUNTRY	DEBT	1980	1990	2000	2010
USA	Public	46	71	58	97
	Household	52	64	74	95
Japan	Public	53	66	145	213
	Household	60	82	87	82
Germany	Public	31	42	61	77
	Household	59	61	73	64
UK	Public	58	42	54	89
	Household	37	73	75	106
France	Public	34	46	73	97
	Household	27	46	47	69
Italy	Public	54	93	126	129
	Household	6	21	30	53
Australia	Public	43	46	37	41
	Household	42	46	74	113
Austria	Public	36	59	76	82
	Household	41	41	47	57
Belgium	Public	61	140	121	115
	Household	35	38	41	56
Denmark	Public	36	77	73	65
	Household			95	152
Finland	Public	16	23	67	57
	Household	29	48	35	67
Greece	Public	26	83	124	132
	Household	8	9	20	65
Netherlands	Public	65	97	67	76
	Household	43	49	87	130
Norway	Public	43	38	44	65
	Household			64	94
Portugal	Public	36	68	63	107
	Household	15	23	75	106
Spain	Public	27	49	71	72
	Household	24	41	54	91
Sweden	Public	58	54	77	58
	Household	53	61	51	87

Some 2010 figures refer to 2009.

So what are the answers? While they are difficult, the acceptance of recent policy trends is limited in the longer term, notwithstanding Australia's benefit from supplying raw materials to the fastest growing region in the world (especially China).

At present, Western governments desperately cling to a misguided hope that more and more debt is needed to save banks, boost share prices and somehow restore the magical days of economic growth. As the Bank for International Settlements declares, ... there is a clear linkage: high debt is bad for growth. When public debt is in a range of 85% of GDP, further increases in debt may begin to have a significant impact on growth: specifically, a further 10 percentage point increase reduces trend growth by more than one tenth of 1 percentage point. For corporate debt, the threshold is slightly lower, closer to 90%, and the impact is roughly half as big. Meanwhile for household debt, our best guess is that there is a threshold at something like 85% of GDP, but the estimate of the impact is extremely imprecise.

There are no easy policy solutions out there, as reflected by the Swiss National Bank recently announcing moves to stem the flow of money into Swiss Francs in order to protect its exports.

For heavily indebted nations, there is likely to be painful reform, and this is why public dissent is increasing in many Western nations as governments struggle for answers.

> Unless Western nations are willing to destroy their social welfare systems simply to compete against lower cost economies, or to double infrastructure expenditure to China's level of 50 per cent of GDP, then greater protection may be needed.

Just recently, and following on from the Tea Party movement which aims to shrink the size of government and cut federal spending (with 60 of 435 US representatives now identifying themselves as party members), protests spread from Wall Street, New York to many cities around the world. In the US alone, signs, slogans and discussion focused on opposition to bank foreclosures, corporate influence in politics, the wars in Iraq and Afghanistan, insufficient job prospects, currency devaluation, affordable housing and universal health care, and fixing inner-city schools.

Dissent is hardly likely to go away. In the four years since the US recession began, the US civilian working-age population has grown by about 3 per cent yet the economy has 5 per cent fewer jobs (6.8 million jobs) with the real unemployment rate 15-20 per cent. With poverty levels rising recently to now affect 46.2 million Americans, the bottom fifth of households that made $20,000 or less in 2010 saw their incomes decline 3.8 per cent after inflation.

In countries like Greece, Ireland, Portugal and Spain, unemployment is already around 20 per cent (youth unemployment around 40-50 per cent) at a time when such economies have shrunk by 10-20 per cent. Western societies are somehow expected to create employment and wealth at a time when domestic consumption already comprises 60-70 per cent of GDP.

As one critic notes, the US has to decide how much further it is prepared to go in terms of the balance between cheaper goods and enough wealth to boost domestic economic activity. With the average wage in developed economies about 10 times the average level in emerging economies with less environmental regulation and worker protection, the number of US manufacturing workers dropped by one-third over the past decade. In terms of output, manufacturing declined from 14.2 to 11 per cent of GDP from 2000 to 2009.

Solutions will also not come from authoritarian China, unless mercantilism is our inspiration and developing a rich class while exploiting the poor is the new policy role model for the world. Yes, China's new confidence sees it lecture the West on what we debt-laden nations need to do while it calls for Western markets to be opened further to Chinese companies.

But China hardly created its wealth from new ideas about social and economic organisation. Rather, it benefited most since 2000 by policing capital crossing its border, and by curbing its currency to aid exports and buy US dollars and other foreign currencies, thus amassing $3.2 trillion of foreign-exchange reserves (about 54% of China's 2010 GDP). It is also estimated that China's headline debt to GDP ratio of 17 per cent could be above 100 per cent if debt from local government, state-controlled banks, state-owned enterprise, and other government supported debt are included.

Authoritarian China will aid many poor nations as it searches for more and more raw materials, but it will never inspire the world given its mercantilism, corruption, and authoritarian paranoia about its own population? Just recently, Michael Sata won the Zambian presidency because of opposition to China given the latter's drive to secure supplies of raw materials and the way its nationals treated local workers. While China has invested $6.1 billion into Zambia, many Zambians were outraged by Chinese managers who shot Zambian coalminers during a labour dispute.

In truth, unless Western nations are willing to destroy their social welfare systems simply to compete against lower cost economies, or to double infrastructure expenditure to China's level of 50 per cent of GDP, then greater protection may be needed.

As *The Economist* predicted in January 2010, while noting the importance of China helping the world economy through its own stimulus package and its imports growing faster than exports, protectionist pressures are likely to increase as China's rising share of world exports receives more attention. This will include further calls for China to revalue the yuan on the basis that this drains demand from other nations experiencing low growth.

The Economist notes that over the ten years to 2008 'China's exports grew by an annual average of 23 per cent in dollar terms, more than twice as fast as world trade'. If that rate was to continue, China would increase its share of world exports from 8 per cent in 2009 to about a quarter by 2020, a level higher than the 18 per cent share by the US in the early 1950s.

The answers are difficult, but time will show that recent policy trends cannot be sustained. There is only a set time that silly arguments advocate pure free trade or smashing working conditions can be tolerated.

Perhaps new tensions will emerge between nations as many developed nations recognise the difficulty of finding win-win economic situations for all involved in the international economy.

But we either change or increasingly accept that a greater proportion of Westerners will see their living conditions and wealth eroded, notwithstanding Australia's more fortunate position because of raw materials. The days of relying on debt are over, and the world now demands different policy solutions.

Chris Lewis has an interest in all economic, social and environmental issues, but believes that the struggle for the 'right' policy mix remains an elusive goal in such a complex and competitive world.

Lewis, C (2011). *Free trade has had its time.* Retrieved from www.onlineopinion.com.au on 10 April 2013.

Mind the gap: benefits from free trade haven't quite gone the distance

Bilateral trading agreements favour the biggest countries, such as the US and China, argues Rodney Tiffen

Five years on, it is clear the free trade agreement between Australia and the United States was a dud. Despite the fanfare with which the Howard government introduced it, no tangible benefits have resulted for Australia.

Australia's exports to the US in the five years to last year grew by only 2.5 per cent, compared with double-digit growth for exports to all the major Asian trading partners. Since the signing, America has slipped from third to fifth among Australian export destinations, overtaken by Korea and most recently India.

The value of Australian exports to the US is now only about a quarter of those to the two leading customers, China and Japan. The four Asian countries together take more than 10 times the value of exports to the US.

Moreover, between 2004 and 2009, the bilateral trade gap in America's favour grew even larger. Australia's imports from America have grown much more quickly than its exports to America. According to US data, the gap in America's favour grew from $US6.4 billion ($A7.1 billion) to $US11.6 billion.

In 2004 Australian exports to America were worth about 54 per cent of the value of imports from that country. By last year the figure was down to 41 per cent.

So the agreement joins a long and sad list of El Dorados, loudly promised by governments, that failed to materialise.

As with some other central episodes of the Howard government – such as children overboard and Iraqi weapons of mass destruction – it raises the question of where self-deception stopped and a deliberate public con job began.

Did John Howard and his cabinet really believe the free trade agreement would help Australia? Even in the narrowly mercantilist frame in which he cast it, he won no benefits for Australia. Nothing, for instance, immediate for Australian agriculture. But perhaps his motive was electoral rather than economic – to highlight the American alliance and hope that if Labor opposed it it could be cast as anti-American, and hence a security risk.

A world in which bilateral trading agreements play a more central role favours the biggest countries, such as the US and China. Their power affords them superior bargaining leverage to win concessions favouring their domestic constituencies. Australia and most other countries have an interest in more global agreements.

The ardent pursuit of such an agreement with the US suggested the Howard government did not have a clear perception of Australia's national interest. Australia's opportunities for future trading growth were much more likely to be in Asia.

But it also represents a deeper misperception. Australia is a middle-level power whose prosperity is enhanced in a world where trade is free and governed by universal rules, rules that facilitate a level playing field and make trade between all nations easier.

A world in which bilateral trading agreements play a more central role favours the biggest countries, such as the US and China. Their power affords them superior bargaining leverage to win concessions favouring their domestic constituencies. Australia and most other countries have an interest in more global agreements.

But short-term political benefits

But short-term political benefits flow in the other direction. A bilateral meeting with a friendly leader presents many domestic political advantages. It gives the appearance of advancing the national interests and attracts intense and usually uncritical media coverage.

flow in the other direction. A bilateral meeting with a friendly leader presents many domestic political advantages. It gives the appearance of advancing the national interests and attracts intense and usually uncritical media coverage.

After bilateral meetings, leaders can sing each other's praises and hail the breakthrough their mutual brilliance has achieved. In practice, the promised benefits often fade just a little more slowly than the TV lights.

Contrast this with the inevitable messiness of global gatherings. Overwhelmingly at the end of global gatherings the news focus is on failure. With a large range of competing interests and viewpoints, there will always be unresolved issues and messy loose ends. As the media gravitate towards conflict and failure, these, rather than any consensual progress, become the staple of news reports. The domestic political interest of national leaders is more often served by distancing themselves from proceedings rather than hailing their success.

There can be no more dramatic example than the Copenhagen summit on climate change. Almost everyone has a political interest in criticising it. Opposing groups with conflicting motives and aims unite in denouncing its lack of achievement.

The negative coverage is well-merited. The summit fell radically short of the hopes many had invested in it, and at times its proceedings descended into farce. But the central measure by which it is judged – an unprecedented globally binding agreement to undertake substantial action to address global warming – was always politically improbable.

Pundits often hail the importance of perceptions in politics but it is always a challenge to disentangle appearance and reality, to make explicit the criteria by which summary judgments are being made and to trace through the publicity interests of the major participants.

A rule of thumb in the politics of visibility is that bilateral gatherings generate better publicity than they deserve, while global gatherings generate worse publicity than they deserve.

The significance of bilateral meetings is often exaggerated and their benefits are more apparent than real (witness the Australian-US Free Trade Agreement).

In contrast, the negative publicity about global meetings and the chorus of criticisms surrounding them often mask the (always limited and sometimes disappointingly small) progress they achieve.

Rodney Tiffen is professor of government and international relations at the University of Sydney.

Tiffen, R (3 March 2010). 'Mind the gap: benefits from free trade haven't quite gone the distance', *The Sydney Morning Herald*. Retrieved from www.smh.com.au on 10 April 2013.

- As a founding member of both the WTO in 1995 and its predecessor, the General Agreement on Tariffs and Trade in 1947, Australia has a longstanding commitment to the multilateral trading system operated by the WTO. This system provides the framework governing world trade. Members agree on legally binding rules that provide important certainty for their exporters. Members can use the WTO's dispute settlement system to uphold these rules. (p.1)
- Australia is a founding member of the Group of Twenty (G20), the premier forum for international economic cooperation. The G20 consists of 19 countries and the European Union. (p.4)
- Foreign investment has allowed Australians to enjoy higher rates of economic growth, employment and living standards than could have been achieved from domestic savings alone. (p.5)
- Trade liberalisation has been at the heart of Australian Government policy for the past 30 years. Australia now has limited tariff and import restrictions on most of our traded goods sectors and low barriers to most services trade – initiatives that have bolstered the strength of our economy. (p.5)
- The benefits of reductions in industry protection have flowed through to everyday Australians. Opening up the Australian economy to more trade has made Australian households better off on average by an estimated $3,900 per annum (Centre for International Economics 2009). These gains have come in the form of greater income from exports and reductions in the cost of imported and import-competing goods and services. (p.6)
- More trade is a pathway to a high-skill, high-wage future for working Australians. Australians working in export industries on average are paid 60 per cent more than other working Australians (Pink and Jamieson 2000). (p.6)
- Since the opening-up of the Australian economy initiated by the Hawke Government in the early 1980s, Australia has lifted its trade intensity (exports plus imports as a share of total economic output) from 28 per cent to 40 per cent. Given the small size of the Australian market and the massive size of the global market, the more we trade in the future the greater will be the prospective benefits for everyday Australians. (p.6)
- In line with global trends, Australia has recently entered a number of new bilateral and regional trade agreements (BRTAs) and is negotiating several more. (p.10)
- The Australian Government's approach has been to negotiate comprehensive agreements that seek substantial reductions in trade barriers. For merchandise trade, recent bilateral and regional trade agreements (BRTAs) have resulted in some significant bilateral tariff reductions both in Australia and in partner countries. For services and investment trade, BRTAs typically limit discrimination between suppliers. Australia's agreements have often also included provisions on matters such as intellectual property, competition policy and trade facilitation. (p.10)
- Free trade agreements (FTAs) can cover entire regions with multiple participants or link just two economies. Under these agreements, parties enter into legally binding commitments to liberalise access to each others' markets for goods and services, and investment. FTAs also typically address a range of other issues such as intellectual property rights, government procurement and competition policy. (p.11)
- Australia has seven free trade agreements (FTAs) currently in force with New Zealand, Singapore, Thailand, US, Chile, the Association of South East Asian Nations (ASEAN) (with New Zealand) and Malaysia. The countries covered by these FTAs account for 27 per cent of Australia's total trade. (*Editor's note: Australia concluded an FTA with the Republic of Korea in December 2013*) (p.11)
- Australia is currently engaged in nine FTA negotiations – five bilateral FTA negotiations: China, Japan, Korea, India and Indonesia; and four plurilateral FTA negotiations: the Trans-Pacific Partnership Agreement (TPP), the Gulf Cooperation Council (GCC), the Pacific Trade and Economic Agreement (PACER Plus), and the Regional Comprehensive Economic Partnership Agreement (RCEP). The countries covered by these negotiations account for a further 45 per cent of Australia's trade. (*Editor's note: Australia concluded an FTA with the Republic of Korea in December 2013*) (p.11)
- A Free Trade Agreement is an international treaty which removes barriers to trade and facilitates stronger trade and commercial ties, and increased economic integration between participating countries. FTAs open up opportunities for Australian exporters and investors to expand their business into key overseas markets. FTAs can improve market access across all areas of trade – goods, services and investment – and help to maintain and stimulate the competitiveness of Australian firms both internationally and domestically. This also benefits Australian consumers through access to an increased range of better value goods and services. (p.12)
- There are many different definitions of globalisation, but most acknowledge economic integration – namely, the increase in international trade and investment – which has driven the movement of people, goods, capital and ideas across borders. (p.19)
- Globalisation provides both opportunities and challenges. Bigger markets can mean bigger profits and greater wealth, which can be used for investing in development and reducing poverty. Each country tries to make decisions and policies that position them to maximise the benefits of globalisation. However, trade barriers, weak domestic policies, institutions and infrastructure can restrict a country's ability to do so. (p.19)

GLOSSARY

Bilateral trade agreements
Agreements between two countries that regulate the terms of trade between them.

Comparative advantage
The economic principle that nations should specialise in the areas of production in which they have the lowest opportunity cost and trade with other nations, so as to maximise both nations' standards of living.

Dumping
The practice of exporting goods to a country at a price lower than their selling price in their country of origin.

Fair trade
'Fair' trade is a term used by opponents of globalisation's detrimental impacts as an alternative approach to conventional international trade. It is a trading partnership that aims to promote sustainable development for excluded and disadvantaged producers.

Foreign direct investment
FDI is the acquisition or construction of physical capital by a firm from one (source) country in another (host) country.

Free trade
A situation where there are no artificial barriers to trade imposed by governments for the purpose of shielding domestic producers from foreign competitors.

Globalisation
The increasing integration of economies around the world through international trade and investment, which has driven the movement of people, goods, capital and ideas across borders. There has always been a sharing of goods, services, knowledge and cultures between people and countries, however improved technologies and trade liberalisation have made these exchanges cheaper and faster.

Group of Twenty Nations (G20)
Plays the leading role in global economic policy coordination, by providing a forum in which government leaders regularly meet and can negotiate agreements on global economic challenges. The Group of Eight Nations (G8) also remains an important forum for the major advanced economies.

International Monetary Fund
A global organisation whose main role is to maintain international financial stability. The IMF plays a key role in monitoring the international financial system and assisting economies who face major economic crises.

Protectionism
Protection of domestic producers by impeding or limiting the importation of foreign goods and services through government policies that give domestic producers an artificial advantage over foreign competitors. The key methods of protection are: tariffs, subsidies, local content rules, quotas and export incentives.

OECD
The Organisation for Economic Co-operation and Development is an international organisation which promotes policies to governments that aim to tackle the economic, social and governance challenges of a globalised economy.

Quotas
Restrictions on the amounts or values of various kinds of goods that may be imported.

Subsidies
Government grants to businesses to encourage production of a good or service and influence the allocation of resources in an economy. They are often granted to businesses to help them compete with overseas produced goods and services.

Sustainable development
Economic development that is achieved without undermining the incomes, resources, or environment of future generations.

Tariffs
Taxes on imported goods imposed for the purpose of protecting Australian industries.

Trade
Trade allows people to buy goods and services that are not produced in their own countries. The money countries receive from exports helps determine how much they can afford to spend on imports, and how much they can borrow from abroad. Trade can stimulate a country's development and economic growth, helping to create new jobs, raise living standards and economically empower people.

Trade agreements
A way of reducing barriers to trade between nations. Recent years have seen the growth of multilateral agreements (e.g. NAFTA and the ASEAN free trade agreement) and bilateral agreements (e.g. the AUSFTA).

Trade bloc
Occurs when a number of countries join together in a formal preferential trading agreement to the exclusion of other countries.

Trade dispute
A disagreement between nations involving their international trade or trade policies. Most disputes appear before the World Trade Organisation dispute settlement mechanism.

Trade liberalisation
The movement towards removing barriers that restrict the importation and exportation of goods and services (flow of trade) between countries.

World Bank
A global organisation whose main role is to assist poorer nations with economic development through loans, development assistance and technical advice, with the primary aim of halving global poverty by 2015.

World Trade Organisation
A global organisation that enforces the existing WTO agreement, resolves trade disputes and is the major forum for global trade negotiations pursuing the goal of global free trade.

Websites with further information on the topic

AusAID www.ausaid.gov.au
Australian Policy Online www.apo.org.au
Department of Foreign Affairs and Trade (Trade page) www.dfat.gov.au/trade
Global Education (AusAID) www.globaleducation.edu.au
Global Issues www.globalissues.org
International Monetary Fund www.imf.org
On Line Opinion www.onlineopinion.com.au
Organisation for Economic Co-operation and Development (OECD) www.oecd.org
Oxfam Australia www.oxfam.org.au
World Bank www.worldbank.org
World Trade Organization (WTO) www.wto.org

ACKNOWLEDGEMENTS

The publisher is grateful to all the contributors to this book for granting permission to reproduce their works.

ILLUSTRATIONS AND PHOTOGRAPHS

Photographs and illustrations courtesy of iStockphoto, except pages 7, 17, 22, 28 and 30 © Angelo Madrid; pages 25 and 51 © Don Hatcher; and pages 46 and 52 © Simon Kneebone.

THANK YOU

- Department of Foreign Affairs and Trade
- Organisation for Economic Co-operation and Development.

INDEX