

ECONOMICS

Discuss Australia's policies regarding free trade and protection and the implications of global protection for the Australian economy.

Since the 1970s, Australia has undergone a gradual decline in the protection of local industries, shifting from a relatively closed economy to an economy exposed to the global business cycle in a process of globalisation. Government policies in this period reflect the need for a balance between protecting weak industries whilst maximising the positive effects of globalisation upon the economy. However, an increase in multilateral trade agreements in recent years has led to a process of regionalisation, placing Australia at a major disadvantage in foreign markets such as the Americas and Europe due to low or nonexistent trade barriers between them. Thus, Australia has been forced to reconsider its position in the global economy, and has attempted to join a regional trade centre through ASEAN and APEC.

Australia's protectionist policies have gone well beyond those required under international trade agreements instigated by the World Trade Organisation. Such policies have been conducted with the notion that whilst free trade can encourage stronger growth at lower inflation, weaker domestic industries are severely impacted, creating higher short term unemployment and raising Australia's dependency on foreign markets to supply Australian consumers. Thus, Australia's protection levels reflect the international competitiveness of domestic industries, such as a 10% tariff on the clothing and textiles industry, whilst subsidies on agriculture provide as little as 3% of farm incomes, in contrast to the US and Japan, consisting of 10% and 48% respectively. Since the 1970s, average tariff levels have fallen from more than 30% to as low as 1.9%, in line with falls in tariff levels across other developed economies. Despite relatively low protection levels overall, policies such as the \$5 billion New Car Plan for a Greener Future and the \$406 million Innovation Package for the manufacturing and textile industries respectively are subsidising programmes aimed at increasing the competitiveness of these crucial industries, employing 10.2% of Australian employees. Through these policies, the government seeks to lessen the negative impact of a structural shift toward a more efficient reallocation of resources to industries where Australia maintains a comparative advantage, such as mining and tourism sectors.

In response to higher protectionist levels of foreign economies relative to Australia, the government deems export assistance programs necessary especially for infant export industries. The most significant and successful programmes of recent years administered through the Australian Trade Commission has been the Export Market Development Grants scheme, partially reimbursing exporters the cost of promoting products in new export markets. Providing around \$150 million in grants across Australian businesses, the EMDG scheme is very effective, generating up to \$27 worth of exports for every \$1 the scheme distributes. This maintains export revenue for key Australian export industries such as the automotive industry, crucial to growth in the Australian economy.

In addition to reducing trade barriers to international markets, Australia has sought free trade agreements with nations of high trade volumes to maximise comparative advantages within their own domestic economies. At a bilateral level, the Australia-New Zealand CERTA (1983) has led to free trade between the two nations, as well as greater standardisation of laws and business practices. This has been Australia's most significant and successful agreement due to similar protection levels, and geographical convenience allowing for greater trade integration. In an attempt to undo many of the trade barriers that exist between NAFTA and foreign exporters, Australia signed the Australia-United States Free Trade Agreement to reduce tariff levels especially in manufacturing and agriculture. The agreement has resulted in relative success, with the US becoming Australia's third largest trade partner, with 8.5% of Australia's two way trade. This initiative was also aimed at keeping Australia from falling into complete regional isolation as many multilateral agreements are decreasing trade barriers within, but maintain high barriers to foreign markets.

Despite rejection to joining the Association of South East Nations due to the highly developed nature of Australia's economy, the ASEAN-Australia-New Zealand Free Trade Agreement (2010) remains Australia's most important multilateral agreement, covering 20% of Australia's trade in goods and services. Furthermore, Australia was instrumental in establishing the Asia Pacific Economic Cooperation forum in 1994, with the aim of supporting trade liberalisation across a variety of industries amongst highly regionalised economies. However, without strict goals, the agreement hasn't had the effect Australia first anticipated. Maintaining export competitiveness is crucial to the highly integrated Australian economy; thus, international trade agreements are crucial to the sustainability of Australia's export markets, providing a large injection into the domestic economy, promoting economic growth.

The growing impact of regionalisation has had a significant impact on Australia's export competing industries, deducting almost 1% from Australia's GDP per year. As a relatively small economy, with a high level of agriculture trade, Australia suffers from the high agriculture subsidies in place by the European Union and NAFTA, eliminating Australia's international competitiveness. This process of regionalisation is the most significant cause of Australia's weakening agriculture export industry. Conversely, Australia's resource exports, which comprises the largest share of Australia's export revenue, faces relatively fewer trade barriers due to their high demand by economies which cannot meet domestic demand with its domestic resource industry. Consequently, Australia's resource sector faces export restrictions put in place by the Australian Government in order to supply the domestic economy, albeit a comparatively lower domestic demand. Likewise, Australia's manufacturing sector faces lower trade barriers, despite lowered share of export portfolio (due to lowered productivity, lower production costs in developing nations). Despite this process of liberalisation, large negative shocks on the global business cycle such as the recent Global Financial Crisis force many economies to replace barriers to protect their vulnerable and exposed industries. This severely inhibits the globalisation process. Ultimately, the Australian economy does not rely on the export revenue of highly protected industries, such that the process of regionalisation and the threat of high trade barriers to foreign markets have not resulted in a large negative impact upon on Australia's domestic economic performance.

Despite the fact that full trade liberalisation could bring significant benefit to the Australian economy, the measures the Australian government put in place reflect the need for a sustainable domestic industry to effectively dampen negative shocks in the global business cycle. Although these measures inhibit more competitive import competing markets from penetrating domestic consumers, Australia is still able to generate strong economic growth whilst remaining one of the most trade liberalised economies in the world.

Plan:

Intro

Aus policy – tariff quota and subsidy levels – industry analysis: agriculture, mining, services, manufacturing

Aus policy – export assistance programmes, EMDG

Aus policy – trade agreements; bilateral CERTA, AUSFTA, multi; APEC, ASEAN

Impact of regionalisation – EU, NAFTA, ASEAN, effect of GFC on protection

Conc