Free Trade with the USA: What’s in it for Australian business?

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Free Trade Agreements (FTAs) are nothing new: there are over 170 different FTAs in existence today. What is new is the pace at which these arrangements are being negotiated. About 90 of these FTAs were formed in the past six years alone and a further 70 are under negotiation today. In addition, this seemingly frenetic activity is taking place against the background of a major ongoing multilateral trade negotiation at the World Trade Organisation (WTO) and continuing regional liberalisation initiatives like Asia Pacific Economic Cooperation (APEC).

The United States has recently completed eight years of implementation of the North American Free Trade Agreement (NAFTA) with Canada and Mexico. Australia is celebrating 20 years of what appears to have been a highly successful agreement on Closer Economic Relations (CER) with New Zealand. In mid-March Australia and the United States commenced negotiations on a bilateral FTA in March this year. Why is it that everyone seems to want to jump on the FTA bandwagon? What is the driving force behind a bilateral Australia–USA FTA and what's in it for Australian business?

A glance at the trade website maintained by the Department of Foreign Affairs and Trade (DFAT) shows us the global numbers on current bilateral trade and investment taking place under a non-FTA scenario. Australian exports to the United States are relatively more important to this country than are US exports to Australia and Australia is running a sizeable deficit in the bilateral exchange of goods and services. Two studies commissioned by DFAT each predict that there would be considerable scope for economic gain to Australia (and the United States) through an FTA, even in circumstances where not all barriers to trade were lifted as a result of
the negotiation. A third study, produced more recently, takes a far less optimistic view; however its methodology is roundly criticized by the economists who produced the initial report. In the recently released Australian Foreign and Trade Policy White Paper, persuasive arguments are advanced in favour of the FTA with the United States. An Australian Business Group for a Free Trade Agreement with the United States (AUSTA) has been formed to support the FTA.

Globally, the numbers in the studies are very interesting and promise considerable overall economic growth and welfare benefits to the Australian economy. But the 'Australian economy' is not going to export to the US market—that's the job of individual businesses. What could they hope to gain from the FTA?

Generally speaking, access to the US market is acknowledged to be liberal by international standards. That said, certain agricultural sectors—particularly sugar, dairy, certain grains and cotton—benefit from restrictive measures, including very high out-of-quota tariff rates. So there's one problem to tackle in the FTA. It won't be easy either. The US dairy industry has already gone on the warpath against giving up its protection in an FTA, with some of its members even resorting to national security arguments. Another area related to Australian agriculture exports concerns several products where Canberra is convinced that Washington maintains unnecessary sanitary and phytosanitary restrictions.

Outside of the agriculture (clearly critical), textiles and clothing industries (of no real concern to Australia), US tariffs tend to be relatively low. The US prohibition on the use in US waters of foreign-built ships (aka the Jones Act) has been cited as a barrier to trade in fast ferries, as has lack of Australian access to US Government purchasing markets, although the latter problem results from Australia's unwillingness to join the WTO agreement operating in this area. Some people might also cite
frequent US recourse to antidumping or safeguards measures as a trade barrier. The truth is that none of these restrictions is really relevant for the FTA exercise. There is no chance that the US will relax the Jones Act restrictions for Australia in an FTA, and with 66 senators writing to him denouncing moves in the WTO to reform antidumping rules, the US President is not about to mimic the CER approach, where antidumping is replaced by competition policy. But this doesn’t mean that there are no big gains to be had by individual Australian businesses in an FTA with the United States.

First of all, the elimination of even low tariffs through the FTA can be important when you are in competition with a supplier from a third country (say, Canada) that is currently enjoying the benefit of preferential treatment. As the United States widens its network of FTAs, through the Western Hemisphere and in other regions, it will be increasingly significant to certain Australian exporters if they are not ‘inside the tent’.

Other writers on this topic have already noted the mindset change that accompanies the implementation of an FTA. Suddenly, you’re not part of a ‘foreign’ market but one of the FTA ‘family’. Business relationships are easier to form and more secure over time. The FTA can be a very significant form of free advertising. The closer commercial relationships might lead to Australian firms’ earlier adoption of technologies and approaches to business management used more widely in the United States.

Related very much to this point is the role that the FTA can play in facilitating investment in both directions and in potentially giving Australian business greater access to US foreign direct investment and sources of capital. Some have suggested that an FTA would enhance the attractiveness of Australia as a high-technology, but lower cost, research base for American industry. One can easily
imagine the increased scope for two-way technology transfer in a climate of improved access and greater certainty.

Perhaps most importantly, FTAs tend to be implemented through bilateral institutional arrangements that give special and ongoing attention to problem-solving and proposals for additional or accelerated liberalisation. DFAT’s White Paper recognises this as an important aspect of an FTA. Experience has shown that such institutional arrangements can act as forums for new ways of dealing with identified issues. You don’t necessarily need an FTA for this (there is a US–EU Trans-Atlantic Partnership forum), but it is much easier and more secure in the FTA context. Issues related to product standards or certain tests for health and safety reasons are good candidates for discussion and problem resolution through such bodies. The implementation mechanisms can, for example, facilitate the negotiation of mutual recognition arrangements.

Earlier, I mentioned Australian businesses’ exclusion from the US Government procurement market and connected it with Canberra’s position on joining the WTO Agreement. There is no reason why this topic cannot be on the table in the context of a purely bilateral agreement with the United States if it’s an important issue from this side of the Pacific. Individual investment or ownership restrictions can also be a part of the negotiation. The same is true of regulatory and qualification requirements associated with the provision of certain kinds of services. Because of the US federal structure, a large number of issues that can be important for individual firms in particular market situations tend to be regulated at the level of US state governments. While this will be a negotiation between authorities in the two central governments, the experience of the Uruguay Round WTO negotiations demonstrated that there is room for Washington to bring state measures into the picture (with the approval of the state(s) concerned).
In its written submission to the Commonwealth, AUSTA sees potential benefits for business through provisions in an agreement providing non-discriminatory (national) legal treatment, free movement of personnel across the two economies, mutual recognition agreements for technical standards and professional qualifications and greater, NAFTA-like, security of market access.

This piece is about the opportunities for Australian business, but it would be foolish to suggest that there would not also be challenges. Some of these could be in politically sensitive sectors like the audiovisual industry and Australian foreign investment restrictions. We will find that those who want to take advantage of the opportunities are going to have to involve themselves as well in the crafting of clever—and perhaps novel—ways of dealing with the challenges.

Some commentators have suggested that Australia’s alliance with the United States in the disarming of Iraq could result in Washington going 'soft' on the FTA negotiations. I wouldn’t encourage such speculation: in my experience as a former US trade negotiator it just doesn’t work that way. The US Administration can be very much in favour of negotiating this bilateral accord but in the end it will need to be examined and explicitly approved by the Congress. All politics are local and the voices of those opposed to an agreement will be loudest when the draft agreement is sent to the Hill.

To be worthwhile, the FTA will need to be a good agreement with real market access. Our new Institute for International Business, Economics and Law is in its very early days, but we are already hard at work developing the tools and networks that the Australian business community will be able to use to monitor the negotiations, ensure
that the agreement is worthwhile and take advantage of the opportunities when the talks finish.

‘What’s in it for Australian business?’ The answer is quite a bit more than meets the eye. Australian dairy, sugar and certain other agricultural sectors face real current barriers to their exports and while it will be extremely tough to crack the resistance in these markets, I believe there will eventually be movement on Washington’s part. For other Australian businesses, the FTA offers important opportunities to eliminate the preferences benefiting competitors. Gains from new partnerships made possible by a heightened level of business trust, access to investment and capital sources, and taking advantage of ongoing business facilitation mechanisms are also not to be underestimated. Even if the overall estimates are off by a large percentage, it’s clear that the remaining growth in the economic envelope will provide many thousands of new business opportunities in both the US and Australian markets.

1 Formerly Deputy Director-General of the World Trade Organisation (1999–2002) and senior official with the Office of the United States Trade Representative, Executive Office of the President.
2 The Institute for International Business, Economics and Law operates within the University of Adelaide and receives financial support from both the university and the Government of South Australia.
3 Considerably less than 2 per cent of total US exports are destined for Australia compared to the roughly 11 per cent of total Australian exports destined for the United States. According to the Australian Bureau of Statistics, in the December quarter (2002) the deficit with the United States increased by 7 per cent to A$ 3,302 million.