

**HD** Australia trade agreements: Benefits of frantic deal making unclear

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BANGKOK -- Australia has silenced critics who doubted the Abbott government's ability to reach its goal of negotiating free trade agreements with Japan, South Korea and **China** by the end of 2014.

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In a frantic bout of deal making, the Liberal/National coalition government has reached deals with three of Australia's four biggest trading partners in less than 14 months. Collectively, the three countries account for 37% of Australia's trade and **buy** two-thirds of its exports, according to Trade and Investment Minister Andrew Robb.

There is still more to come. Prime Minister Tony Abbott and Narendra Modi, his Indian counterpart, said Nov. 18 that they would together push to reach an agreement too within 12 months. The pacts are to complement a 2004 agreement with the U.S., Australia's third largest trading partner.

The recent galloping pace of negotiations, however, is raising concerns about the level of compromises accepted by Abbott to meet his ambitious timetable.

Critics have focused on the **China**-Australia Free Trade Agreement, referred to as Chافتا, in part because the final text has been "held over" until 2015. The delay has led some diplomats to describe the deal privately as resembling a "memorandum of understanding" more than a formal bilateral agreement. It appears many details have not been fully resolved.

There is also concern about concessions, including a provision making it easier for **Chinese** citizens to work in Australia, and another raising the threshold for Australian reviews of inbound private **Chinese** investments.

In an address unveiling the deal with **China**, Australia's largest trade partner, Robb said it had foundations in traditional products, resources, energy and agriculture. "A lot of the growth will, I think, come about because of the extraordinary service offering we've got -- literally hundreds of services across the economy -- that are in demand in **China** and so many parts of the region," he said.

Triumph

The completion of trade pacts with Northeast Asia's three biggest economies marks a triumph for Robb, whose team of trade negotiators crisscrossed the region tirelessly in pursuit of their goal. The **China** agreement had stymied three successive Australian governments after talks commenced in 2005.

A major sticking point in negotiations for all three of the new pacts was access for Australia's agriculture sector to its partners' domestic markets.

The **China** pact will create opportunities for Australia's beef and **dairy** farmers, as well as horticultural and seafood producers. Meat & Livestock Australia, a farmer-owned marketing and research **company**, forecast that the red meat and livestock sector will post an 11 **billion** Australian dollar (\$9.47 **billion**) gain from the pact through 2030.

Philip Tracy, chairman of Devondale Murray Goulburn, Australia's largest **dairy company**, told members of his cooperative on Nov. 27 the pact was "a huge win for MG and for the **dairy** industry broadly." He added, "We could not have predicted a better outcome in the end."

But the products that will gain duty-free access represent just 22% of Australia's agricultural exports to **China**, according to Alan Oster, chief economist at National Australia Bank. That is because the pact excludes Australia's biggest cash crops: wheat, cotton, rice and sugar.

While Robb also highlighted gains in the three pacts for Australian services companies, the reality is that language and cultural barriers will limit effective access.

Richard Cant, Yangtze River Delta managing partner at consultancy Dezan Shira & Associates, which advises foreign companies entering **China**, called Chafta a "good deal." However, "**China** has got what it wanted in terms of investment thresholds and it has prized open the door on employment visas, without really giving away much in return," he added.

The economic impact of the deals is unclear. The Australian government has boasted that they will bring tens of **billions** of dollars of extra revenue to Australia, but there has been no official economic modeling of the impact.

Independent analysts are split. "When the Chafta comes into effect, we can expect it to add between 0.25% and 0.5% to gross domestic product annually," Credit Suisse **Group** said. "Considering our current economic growth is running at 3.1%, the forecast effect of Chafta is actually enormous."

Others, like National Australia's Oster, are far less effusive.

"It's very unlikely you ever get a free trade agreement where suddenly it's worth half a percentage point of your GDP," Oster said at a briefing in **Hong Kong**. "It might help some, like the **dairy** industry, more than others. It certainly makes [Australian agribusiness] a lot more competitive with New Zealand."

He said the deal with **China** would not change his growth forecast for Australia "one way or the other" in the next 12 months or have an appreciable impact the year following. This prediction would be in line with a 2010 report by the government Productivity Commission, which concluded that trade agreements in general do not boost trade or growth.

#### Political hurdles

The **China** deal must pass both houses of the Australian parliament. But the Abbott government lacks a majority in the Senate and will need to court support from other parties and independents.

That could present problems because trade unions, the core constituency of the opposition Labor party, are concerned about the relaxation of employment visas for **Chinese** workers.

Another provision raising concerns will lift the threshold for government review of inbound nonagricultural investments by **Chinese** private companies from A\$248 **million** to A\$1.08 **billion**; this will give **Chinese** companies more leeway to make deals without seeking official Australian endorsement.

Still, polls show that Australian voters perceive trade agreements as a good thing. The South Korean and Japanese deals sailed through parliament in October and November respectively with little fuss. Commentators expect that, after scrutiny by parliamentary committees, the **China** deal will also gain bipartisan support.

**Chinese** media reports have celebrated Chafta in part as an obstacle to the finalization of the Trans-Pacific Partnership, a wide trade agreement being negotiated by the U.S., Australia, Japan and nine other nations without **China**.

"Xi [Jinping] and his colleagues believe that wider economic opportunities and kind words will seduce Australia away from its alignment with **China's** strategic rivals, and encourage us to be more willing to accommodate **China's** ambitions for regional leadership," Hugh White, professor of defense studies at Australian National University in Canberra, wrote in an essay for the Lowy Institute, a Sydney-based think tank.

But even as he announced the completion of Chafta, Robb said Australia remained strongly committed to the TPP, which he said was close to being finalized. Australia also remains in negotiation on at least three other pan-regional deals: a three-way pact with New Zealand and the Association of Southeast Asian Nations, the Regional Comprehensive Economic Partnership and the Free Trade Agreement of the Asia Pacific.

So far, Australia is successfully playing both sides of the fence: strengthening economic ties with **China** while simultaneously beefing up its defense relationships with the U.S. and Japan. Whether it can keep this balance in the long run remains unclear.

Zach Coleman, deputy editor of Nikkei Asian Review in **Hong Kong**, contributed to this article.

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