

Topic: Global trade in Australia: interrelations, consequences, and economic policies

1. Introduction

Australia has a long history of implementing economic reforms to create a resilient and sustainable economy. To mention a few changes, dollar floating, deregulation of financial markets, widening of the tax base and privatization of state-owned enterprises, have led to new opportunities and economies that can take advantage of global economic storms.

Australia is a relatively open and trade-oriented economy. This means that changing demand from other nations for our goods and services can have a significant impact on our economy. This report will evaluate the trade policy of Australia and how it impacts on its economy, also refer to the CIE's economic modeling to model the economic impact of Australian merchandise trade liberalization.

2. Background

Globalization is defined as an open economic system that allows for the international movement of people, goods, services, and capital. It aims to improve national economic systems' integration through international trade, capital flows, and international investment. Globalization is understood as "the strengthening of global social relationships and interactions" (Held and McGrew, 2007: 2), where distant and local events become increasingly intertwined and affected. The interconnection of similar industry participants in different countries is referred to as economic globalization. Shanahan (1998)

Globalization can be due to the absence of tariff barriers. There are other important factors of globalization. Technological advances and conscious reductions in transport and telecommunications costs (OECD, 2007). The combination of general airlines, supercargo vessels and containerization has significantly reduced business costs and time. Many developed countries have also reduced tariffs and regulatory procedures to encourage globalization. The reduction in international telecommunications costs has also facilitated the aspect of globalization. In addition, advances in computers and the Internet have greatly reduced the

cost of processing and transmitting information, facilitating trade and international commerce (Griffin, 2008).

3. The driving force for change

Several studies have examined the origins of Australia's policy shift towards globalization from the 1970s. These drivers include natural circumstances, political changes among trading partners, specific events, and the impact of people and organizations. specific states of mind.

To contextualize this change, Anderson and Garnaut (1987) discussed the origins of conservation policies prior to the 1970s. The rationale was to redistribute income among workers, in this context attracting more migrants from Europe, maintaining employment, especially in competitive import sectors, and developing a diversified industrial economy (Banks, 2005) (also based on Kelly, 1992) explained that Australian politics was part of the "Australian settlement", using trade barriers to protect production and employing relatively high-wage migrant workers. These have been established across Australia by a regulatory body, linked to a strict set of workplace regulations. Utilities were set up to provide services at "fair" prices (but which turned out to be high).

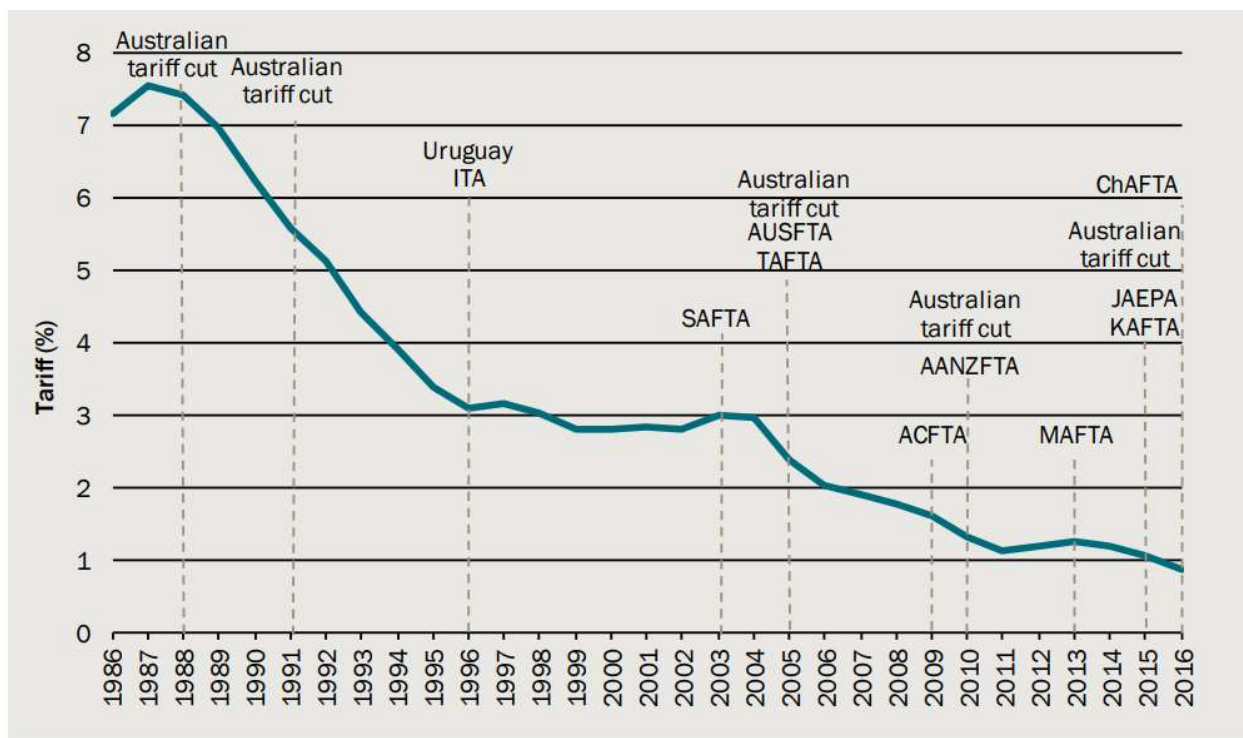
In the 1950s and 1960s, Australia did not engage in multilateral tariff reduction discussions under the General Agreement on Tariffs and Trade (Snape, 1984; Adams, Brown and Wickes, 2013). It has claimed on development grounds that it should not be categorized as an industrialized country due to its export mix. Furthermore, its export interests were not included in the scope of the discussions and the treatment of manufacturing tariffs would have been "unfair" and undercut its development model. Therefore, Australia maintained the highest manufacturing tariffs among the so-called "advanced industrial countries" until 1970. (Anderson, forthcoming).

4. Policy change

In Australia, the movement toward economic deregulation and trade liberalization began in the mid-1970s. It was accompanied by significant changes in the global economy as a result of the fall of the Bretton Woods system of fixed currency rates and the volatility caused by the first oil

price shock. These developments, which were beyond Australia's control, raised awareness that the country was operating in an unpredictable foreign environment. To preserve its position in the globe, Australia needs to remain competitive and responsive.

In 1948, Australia was a founding member of the General Agreement on Tariffs and Trade (GATT), a multilateral body that oversaw the world trading system until the creation of the World Trade Organization (WTO) in 1995. And in the 1970s, 1980s, 1990s and over the past decade, Australia has begun to liberalize its trade unilaterally, bilaterally, and multilaterally under the aegis of the GATT and WTO. As seen in graph 1, Australia's numerous trade liberalization initiatives have reduced the average (import-weighted) tariff rate from over 7% in 1986 to less than 1% in 2016.



Note: ITA = Information technology agreement, SAFTA = Singapore-Australia FTA, AUSFTA = Australia-US FTA, TAFTA = Thailand-Australia FTA, ACFTA = Australia-Chile FTA, AANZFTA = ASEAN-Australia-New Zealand FTA, MAFTA = Malaysia-Australia FTA, JAPEA = Japan-Australia Economic Partnership Agreement, KAFTA = Korea-Australia FTA, ChAFTA = China-Australia FTA.

Graph 1. Tariff rate for Australian imports estimated

Source: CIE (2017)

Since the mid-2000s, Australia's trade liberalization efforts have evolved into bilateral or regional agreements that continue to impose unilateral TCF and PMV tariff reductions. Australia currently has a total of 16 trading partners and is party to 10 agreements, some of which are parties to multiple agreements. A further ten multilateral, regional and bilateral agreements are being negotiated or finalized but have not yet entered into force. Most provisions in earlier agreements with New Zealand (since 1933) and Canada (introduced in 1960) have been replaced by tariff reductions achieved through WTO negotiations and subsequent bilateral agreements.

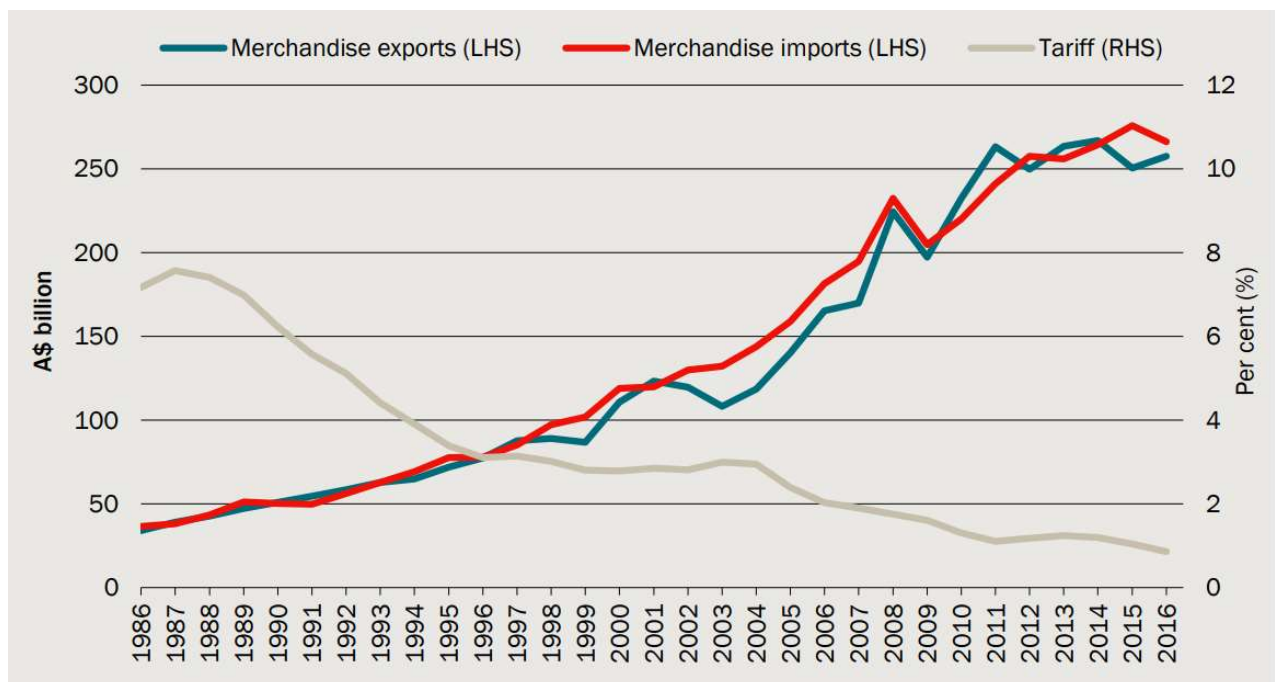
Pomfret (2015) noted that, except from its agreement with New Zealand (Scollay, Findlay, and Kaufmann, 2011) and its preferences for developing nations, Australia did not discriminate among partners at the end of the twentieth century. Australia is a strong supporter of the multilateral system, but in light of its inability to develop and the worldwide move toward preferential accords, Australia has mobilized its own approach. Pomfret (2015) has claimed that in times of low tariffs, other trade obstacles become comparatively more relevant, and international reform becomes linked to (nondiscriminatory) deregulation more broadly, a process regulated through accords with fewer participants. Adams, Brown, and Wickes (2013) examined the controversy over the shift to free trade agreements.

5. Benefit of globalization

Australia is one of the most globalized countries in the world according to the KOF Globalization Index and ranks second in the Asia Pacific region. Twelve of the top 15 export markets are in Asia, with a total export value of \$326 billion in 2020. Australia accounts for three quarters of all exports of goods and services.

Over the last 30 years, Australia's average (weighted import) tariff has dropped from more than 7% to around 1%. Individual rates have dropped from a high of almost 90 percent to a high of 5 percent. Despite the limit, the majority of fare lines are tax free. In 2016, 79 percent of all imports (by value) into Australia benefited from tariffs. Almost half of all product categories were duty free for all nations and all commodities are tariff-free for the least developed nations.

Tariff reductions have corresponded with increased commerce — both merchandise imports and exports — and greater integration of the Australian economy with the rest of the globe. The volume of imports and exports of goods through time is depicted in Graph 2, together with the average Australian (weighted import) tariff. Aside from some turbulence during the 2008 Global Financial Crisis, commerce has expanded steadily for the past 30 years.



Graph 2. Tariff reductions in Australia and increased trade in Australia

Source: CIE (2017)

5.1. Additional employment opportunities

More jobs and better paying jobs are the result of increased globalization.

5.2. Increasing tax revenues

Higher investment rates, economic growth and employment growth, and high income and expenditure tax revenues.

5.3. Low inflation

Direct competition from cheap imports helps keep prices of goods and services low. Companies with competitive imports are reluctant to raise prices for fear of losing sales of imported goods.

5.4. Access to skilled foreign labor

Australia has a very small population and a limited skilled and specialized workforce. Employers can sponsor skilled foreign workers on temporary visas who contribute to greater economic growth. According to the Department of Immigration Statistics, there are 415,103 temporary work visas in Australia.

5.5. More efficient resources

Greater competition from imports increases the efficiency of domestic producers, who have an incentive to invest in new methods or technologies or to transform production into a more efficient industry. The unemployed in inefficient industries are retrained and join more efficient industries, increasing economic growth and long-term incomes.

5.6. Access to foreign investment

Australia is often described as a country rich in resources but lacking the savings necessary to fund investment for the development of capital projects. Access to foreign investment narrows Australia's savings-investment gap, enabling Australia to achieve higher rates of investment and achieve faster economic growth.

5.7. A better variety of products and services

Trade provides access to goods and services that are either too expensive or cannot be produced in Australia.

6. The cost of globalization

6.1. The Uneven Benefits of Globalization

The benefits of globalization are not evenly distributed. Growing industries and those with valuable assets will benefit from globalization, while those with less competitive income will suffer. It is clear here that globalization has generally contributed to the growth of the goods

sector, while Australian car production has declined because it cannot compete with cheap imports.

6.2. Pollution

Globalization has exposed businesses to unsustainable resource depletion and high levels of visual, air, soil and water pollution. This is clearly seen in China, where globalization has created large manufacturing plants that produce high levels of air pollution and visibility-limiting smog.

6.3. Weak behavior of multinational companies

Multinational companies cooperate with the following ethical and illegal practices. The minimum tax and tax program is the same Irish tax rate as Ireland. Instead of investing in society, take a look over the seas: Foreign employees work instead of local staff; Employees working in the country of the third world are low; Identification of the source of small or inefficient world countries with environmental rules.

7. Modeling the impact of Australian trade in goods liberalization

CIE (2017, pp.11) has done economic modeling of Australian merchandise trade liberalization from 1986 to 2016 in order to assess the contribution of enhanced openness to the Australian economy in 2016. According to the modeling, liberalization in goods trade benefited the Australian economy from 1986 to 2016, with real GDP being in 2016 5.4% higher than it would have been otherwise (excluding trade liberalization). The typical Australian family's actual income in 2016 is expected to be A\$8448 greater than it would have been otherwise.

Indicator	Unit	Modelling result
Real gross domestic product	Per cent	+ 5.4
Real national income	Per cent	+ 5.1
Real consumption	Per cent	+ 2.1
Real exports	Per cent	+ 28.5
Real imports	Per cent	+ 28.6
Real investment	Per cent	+ 11.7
Real wages	Per cent	+ 7.4
Nominal wages	Per cent	+ 3.8
Prices	Per cent	- 3.4
Real gross domestic product	\$ billion	+ 85.5
Real national income	\$ billion	+ 65.1
Real GDP per capita ^a	\$	+ 3 506
Real national income per capita ^a	\$	+ 2 671

Graph 3. Expected Effects of Merchandise Trade Liberalization 1986-2016

Source: CIE (2017)

Tariff liberalization is analogous to abolishing an import tax. Because of competition among importers, the tax elimination and resulting cost savings are passed on, resulting in cheaper imports. The modeling results show a link between tariff liberalization (and hence cheaper imports) and increased exports. As can be seen, trade liberalization is anticipated to have resulted in a rise in exports nearly equal to the increase in imports. This represents imports being utilized as manufacturing inputs in items that are later exported, with cheaper imports helping Australian exports compete. The reduction in tariffs therefore leads to an increase in exports.

Tariff liberalization reduces the protection of some domestic companies, allowing the means of production (land, labor, capital) to move to the most valuable, productive activities where consumer needs are met.

Capital earns a higher return in the Australian economy as efficiency improves, leading to more investment and productive capacity. Stronger exports and investment are connected with higher labor demand, with tariff liberalization resulting in 7.4 percent higher real wages (Graph

3). More salaries, along with cheaper imports and reduced Australian manufacturing costs, result in higher household spending.

8. Conclusion

The further liberalisation of trade barriers and reduced industry protection has been a key component of the reform agenda. Throughout the 1970s, 1980s, and 1990s, as well as the previous decade, Australia pursued unilateral, bilateral, and multilateral trade liberalization.

Reference

Adams, M., N. Brown, and R. Wickes (2013), *Trading Nation: Advancing Australia's Interests in World Markets*. Sydney: UNSW Press.

Anderson, K. (forthcoming), 'Introduction and Overview', in K. Anderson (ed.), *World Scientific Reference on Asia-Pacific Trade Policies: Volume 2: Agricultural and Manufacturing Protection in Australia*. Singapore: World Scientific.

CIE (2017), *Australian trade liberalization*, report prepared for the Department of Foreign Affairs and Trade, <https://www.dfat.gov.au/sites/default/files/cie-report-trade-liberalisation.pdf>

Griffin, J, 2008, *Globalization*.

OECD, 2007, *OECD Economic Outlook*, OECD Publishers, Sydney.

Pomfret, R. (2015), 'Reorientation of Trade, Investment and Migration', in S. Ville, S. and G. Withers, (eds.), *The Cambridge Economic History of Australia*, pp.397–418

Scollay, R., C.C. Findlay, and U. Kaufmann (2011), *Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) and Regional Integration*. Singapore: Institute of Southeast Asian Studies.

Shanahan, M & Gerry, T, 2003, *Globalization: Australian Regional Perspectives*, Wakefield press

Snape, R.H. (1984), 'Australia's Relations with GATT', *Economic Record*, 60, pp.16–27.

