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## Beyond Trade: Getting Economic Integration Right

### Introduction

Australia has an open economy that is heavily dependent on trade for its wellbeing. Well formulated evidence based trade policy therefore matters greatly, as does the form and content of these economic agreements (Miankhel et al. 2014).

Past trade policy practice has been focussed on consultations with industry as a precursor to negotiations, with the aim of rectifying market access issues. Today's trade treaties go far beyond negotiations about actual trade (Quiggin 2015). They also tackle a wide range of domestic policy issues.

These broader 'economic partnership' or 'comprehensive trade' agreements deal as much, if not more, in regulatory politics as in traditional trade policy. Consequently they affect many non-trading businesses and many segments of the wider community. This article draws on three different perspectives to suggest that consultations on these new generation deals need to be broader and more robust. Input from at least three major sectors of society is essential to identify Australia's priority 'demands' in a negotiation, and those areas of domestic activity that are non-negotiable.

Here we suggest a process for consultation with business, consumers and various levels of government that would enhance outcomes. We suggest that the national interest would be better identified in a process that is separate from any particular prospective trade deal (and its politically imposed time constraints) and which fully accounts for our domestic settings. The objective of these agreements should be the maximum benefit to the national interest, rather than achieving specific export successes. Such market entry issues create benefits for only selected businesses. A focus on a broader agenda of prioritised domestic reform would result in a stronger increase in national welfare.

### Business

Australian trade negotiators have enjoyed a long period of substantial autonomy over the development of bilateral and regional trade agreements. Low levels of public interest in trade policy and a multi-stakeholder business environment have traditionally allowed negotiators to pick and choose arguments in support of selective notions of the national interest (Morin & Duchesne 2013).

In an increasingly globalised world, Australian consumers are exposed to the realities of transnational supply chains, and

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business directly experiences the fiscal realities of cross-border influence via customer behaviour. In this context a focus on narrow sectional interests in determining the national interest is now facing criticism.

If Australian trade agreements are to realise their ambitious economic outcomes, business must be more directly involved in their negotiation. The grandiose economic promises made to business by government create expectations in the business community of tangible negotiating positions that support actual business performance.

The strong case for improved business consultation in the development of Australia's trade negotiating stances is made clear by a series of regional industry surveys, released in late 2014. These demonstrate suboptimal business use of trade agreements, and undermine ambitious claims about their economic potential.

The Economist Intelligence Unit (EIU) surveyed senior executives from 800 companies across eight economies in the Asia-Pacific region. It found that the average usage rate by business of the more than 50 trade agreements covering those economies amounted to 26%. In Australia, trade agreement usage by business fell below this average, at just 19%.

Another survey of 1000 Australian businesses by PricewaterhouseCoopers Australia, conducted in 2014 (the same year Australia concluded agreements with Korea, Japan and China) found that only 9% of Australian businesses are currently operating in Asia. The vast majority of businesses surveyed (65%) have absolutely no intention of commencing operations in Asia in the next two to three years.

Contemporary surveys of business demonstrate a national trading reality that fails to correspond to the selective notion of the national interest recently pursued by Australian trade negotiators. There is a strong case for improved consultations with business towards a better focussed negotiating agenda.

## Consumers

From an economic perspective the sole objective of trade negotiations is to increase net national welfare. This essentially consumer-based measure aggregates wins and losses over the whole of a trade deal. It is widely recognised that the major benefit to consumers from free trade is lower prices due to reduced tariffs (Armstrong 2012). Consumers also benefit from reduced non-tariff barriers, as these can improve the range of products available domestically, for example cheeses made from unpasteurised milk.

At the same time improving access by foreign firms to Australia's service markets can involve substantial changes to domestic regulations. To take the example of health, improving access for overseas firms could mean changing arrangements for blood donation, removing or qualifying the Australian Medical Association's role in approving the licensing of doctors trained overseas, and allowing a range of new practices in the delivery of health services. In the Trans Pacific Partnership (TPP) negotiations, for example, one of our major trading partners is attempting to make arrangements such as the Pharmaceutical Benefits Scheme unlawful except in the USA (Gleeson et al. 2013).

From a consumer perspective one of the most concerning of the non-trade issues is intellectual property rights (IPRs). Most IPRs involve government intervention in markets to suppress competition – the antithesis of free trade principles. The IPR demands of the USA and the EU call for “stronger” IPR provisions. What this actually means is IPR provisions which tilt the playing field further and further in the interests of a small number of major corporations, without providing any improved benefit for Australia's inventors, innovators and creators. Such changes also act against consumer interests. Importantly, the consumers in this context are not only final consumers but also the many firms buying a wide range of input goods to generate their final products. It has long been established that such systems are not in the interests of a country such as Australia – or indeed of the world as a whole (Deardoff 1992; Penrose 1951).

At present consumers are rarely consulted about the content of trade treaties. An exception is the current TPP negotiations where there has been substantial protest by a range of civil society groups. The resulting ‘consultations’ have been of very poor quality – mere form not substance. There is no public debate of the issues, and no evidence that *any* of the concerns have been taken on board. The Anti-Counterfeiting Trade Agreement ‘consultations’ demonstrated a similar lack of willingness to address consumer and intermediary concerns (Moir 2015).

## State Governments

The trend for ambitious, broad-ranging economic integration agreements is likely to continue. As trade deals protrude further behind borders, governments increasingly sign deals which impact on sub-national governments. Australia is no exception. Trade agreements have implications for Australian states and territories, and the peculiarities of the federation impact on – even constrain – Australia's international commitments. As agreements accumulate diverse chapters covering issues such as services, competition policy and education cooperation, we can reasonably expect substantive implications for the federation. Particularly where trade policy commitments overlap with contested policy competences, there is scope for federal strife.

The involvement of states and territories in trade policy is not

new. The program of economic cooperation between Australia and New Zealand since 1983 and the 2003 Singapore-Australian Free Trade Agreement are two examples where extensive cooperation between the Commonwealth and states and territories was required. In the case of mutual recognition of goods and occupations with New Zealand, the international agreement was preceded by a similar commitment among the states and territories. Resolving outstanding issues has been a long-haul process in train since the mid-1990s. All evidence suggests that the *internal* reforms were every bit as difficult as the international commitment. States and territories have necessarily been heavily involved.

If trade agreements elsewhere are any indication, future deals will rely on political cooperation and commitment from Australian states and territories, and perhaps even local government. The recently completed Comprehensive Economic Trade Agreement (CETA) between Canada and the European Union (EU) provides some clues. For example it includes broad coverage on government procurement at federal, provincial and territory levels inside both Canada and the EU member states. Canadian provinces were represented during the relevant negotiations, and have been vocal in evaluating the deal after its signing. Like Australia, Canada had in place some basic institutional mechanisms for trade policy consultations inside the federation. These arrangements were tested, and arguably found wanting, during the protracted CETA negotiations (Fafard and Leblond, 2013). The real test of provincial commitment – CETA's implementation – is still to come.

The Commonwealth-State Standing Committee on Treaties<sup>1</sup> is one possible avenue for enhanced cooperation among Australian governments. However the case can be made for an effective Trade Minister's Council, consisting of trade (or equivalent) ministers from each jurisdiction. Along with other COAG Councils this Council has been regularly disbanded and re-established. In its latest iteration it is named the Trade and Investment Ministers' Council and it met in February and September 2014.

Following recent reforms to the system of the COAG Councils, the trade ministers will no longer meet under the auspices of COAG but on an *ad hoc* basis. This is unfortunate, since the complex consultations and negotiations that are likely to be required for coming trade treaties would have been well served by the institutional arrangements (voting procedures, a functioning secretariat) which underpin COAG and its Councils. Further, high level political agreement can be instrumental in pushing forward the *internal* work across the federation that may be required to agree and implement the trade deals.

## What can be done?

The task ahead of Australian negotiators is now a daunting one. Trade policy is increasingly politicised, and the changing nature of the agreements makes the task even greater. All evidence suggests that economic integration policy has the potential to be highly contentious: consider the profile and politics of the Australia-United States Free Trade Agreement and the current TPP negotiations.

We suggest that broader consultation is required to meet current needs. Business is consulted prior to trade negotiations, but usage rates suggest that the agreements are not always meeting industry needs. There are no consultations to determine where input costs are high and therefore where domestic concessions would result in national gains. Consumers have scant input into a process which will increasingly impact them directly. Citizens have no say in agreements that potentially affect highly sensitive areas of domestic policy such as the Australian health system.

1. Consisting of representatives from the Premier's or Chief Minister's Departments in each state or territory, and chaired by the Department of the Prime Minister and Cabinet.

And unless current practice is revised, states and territories will find themselves implementing trade deals about which they were only superficially consulted.

Consulting widely on live economic integration negotiations presents challenges. Fitzgerald (2015) recently referred to the notion as 'functionally impossible'. Yet there is nothing to preclude an improved system in which Australia pro-actively identifies both demands and concessions, and weighs the social and economic implications.

An improved system must begin by developing a domestic agenda setting out clear priorities for reform. This would involve consultations across the economy – both exporters and non-exporters – and with consumers, other segments of civil society and their representative organisations. As three of Australia's leading economic commentators have noted, here the world could usefully learn from Australia's experience with the Productivity Commission and its predecessors (Thirwell et al. 2009).

A body such as the Commission, or one with a similar mandate and approach, could manage an effective consultation and agenda-setting process. The Commission's tradition of working to a statutory mandate of improving the national interest involves careful consultation across many interest groups combined with evidence-based analysis. This highly credible approach ensures that those who have been consulted are aware of what suggestions have been taken on board and why others have been rejected. The process of issuing an options paper and a draft report allows for substantial input from all segments of the community

The objective of the national economic reform agenda would be to identify all areas where Australian activity is limited either by the peculiarities of overseas markets, by high input costs or by other poor regulations. The goal would be to maximise improvement in net national welfare. Such a consultation and evidenced based process would ensure that positions adopted during specific preferential trade negotiations are debated and more widely understood throughout the community.

The exercise should be repeated at regular intervals, commencing with a thorough review of lessons from previous trade negotiations – both successes and missed opportunities – and adoption of learning from this.

This domestic agenda-setting process would provide far better guidance than is currently available to trade negotiators on what outcomes would best suit our national interest. It would allow for full consultation with all stakeholder groups and thorough and dispassionate national interest analysis. The current ad hoc processes lead to substantial discontent, particularly among non-exporter groups who are largely outside current consultative arrangements. The domestic agenda-setting process would allow for more thorny issues to be thrashed out domestically well before any trade negotiations.

By separating the consultation and priority-setting process from specific negotiations, placing it in the hands of an independent institution, a genuine debate on what constitutes the national interest can take place. If necessary such a process could run in parallel – and inform – trade negotiations, without being hostage to the negotiating dynamic of a particular agreement.

At the same time the Australian Government would be wise to take a close look at consultation and cooperation mechanisms within the federation. As trade policy impinges further on sub-national governments, the need for coordination across

Australia grows. The forthcoming Reform of the Federation White Paper has the stated objective of supporting Australia's economic growth and international competitiveness (Department of the Prime Minister and Cabinet, 2014). It is an opportunity to ensure that our (sometimes informal) institutions are fit for purpose when it comes to complex trade deals.

Broad consultation on complex and sensitive international economic integration agreements will be hard. The implications of failing to consult – with business, consumers, civil society and within the federation – will be worse. The process we propose would identify the greatest areas of need for trade liberalisation: both in our trading partners, and domestically. Without such a process it is difficult to see how Australia can maximise its position in an increasingly complex world.

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