

Do bilateral free trade agreements work?

TIMES THREE

JOHN QUIGGIN, NEVILLE ROACH, AMELIA PORGES

Pact jury

Cameron Cooper asks international trade experts whether country-to-country deals can take up the slack when the global drive for free trade has been put on hold.

LOVE THEM OR loathe them, bilateral trade deals are here to stay. As hopes fade for a global trade agreement, the emphasis for many countries has shifted from a universal pact to two-party or regional trade agreements (RTAs). As of July 2010, the World Trade Organization had been notified of almost 500 RTAs and the number will continue to grow as governments seek access to new markets.

Are they worth the effort, though? Critics say they do not work and can actually damage momentum for a global agreement that has long been sought through the World Trade Organization's Doha Round of trade talks. Other trade analysts believe they are the best way to go in the absence of a global breakthrough.

Tim Harcourt, chief economist at Australian trade marketing organisation, Austrade, says in a perfect world "multilateralism is obviously a lot better".

"It's best to have a Doha deal," he says. "But when there's not multilateral action happening for one reason or another, if you have regional trade agreements that are consistent with the WTO and supportive then it's OK, and if it helps provide trade momentum then that's good."

In this article, we canvass the views of three experts on international trade.



PROFESSOR JOHN QUIGGIN ECONOMIST, UNIVERSITY OF QUEENSLAND www.uq.edu.au

It is fair to say John Quiggin is not a great fan of bilateral trade deals.

When asked, for example, what benefits the Australia-US Free Trade Agreement has delivered to Australia, he is blunt. "None," Quiggin says. "There's very little evidence of any increased access to US markets."

A sticking point for Quiggin and other critics of bilateral or regional trade deals is that they take the spotlight off the holy grail – a global trade agreement. "That's clearly been the case ... I mean, the bilateral process is both a symptom and a continued cause, but everybody is now focusing on these bilateral agreements and then trying to build up regional [deals]."

He cites the Trans-Pacific Partnership (TPP), a proposed US-backed alliance that has lured countries such as Australia, Chile, Singapore, Peru and Malaysia to the negotiating table. "So that's really meant that whatever impetus there was for a global agreement has pretty much dissipated."

One of Quiggin's concerns with bilateral or regional alliances is that a superpower such as the US

typically holds all the aces and allows Washington to impose stringent restrictions on would-be partners. "Certainly, in the case of the Australia-US FTA it's clearly an agreement that gave us very little and made us do a lot."

According to Quiggin, pressure to get a deal – any deal – with the US led the former Howard government to agree to terms stacked in Washington's favour. "Essentially, our government had committed its credibility to getting a deal. The US realised that and gave us an offer that any sensible negotiating partner would have refused, but politically John Howard couldn't come up empty."

Quiggin also sympathises with farmers around the world who have protested against various pacts with the US in the belief that they hurt local producers. "What you see – and it's very typical of agreements negotiated by the US – is that they don't give any significant amount of ground on their agricultural restrictions and then they demand very favourable treatment ... for things like intellectual property rights, pharmaceutical

companies and so on." On a more positive note, Quiggin can see that trade deals between Australia and New Zealand have been a "real success" in terms of economic integration. "For Australia and New Zealand to have a much closer economic relationship makes a lot of sense." Similarly, the North American Free Trade Agreement between the US, Canada and Mexico is a logical move for three countries that share borders. "It goes well beyond just a bilateral version of what we would hope for in a global trade deal. It's an example of where bilateral trade makes obvious sense."

While the ultimate goal of a global trade deal remains on the agenda, Quiggin is not confident of success. "It does seem that, as the processes have become more fraught and as more and more nations have gone the bilateral route, the prospects of a global agreement are receding."

■ Professor John Quiggin is a federation fellow in economics and political science at the University of Queensland and a prominent commentator on Australian economic policy.



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Australia and India highlight the complexity of bilateral relationships. Of a total trade balance of almost A\$21 billion, resources-rich Australia exports about A\$18 billion worth of goods and services to the booming Indian market, making it Australia's third-largest export destination. In return, India receives just A\$2.5 billion from its growing services trade. Only Japan tolerates a bigger trade inequity with Australia.

With an Australia-India bilateral trade agreement covering goods, services, investment and greater cooperation on the table, Neville Roach says balancing free-trade outcomes is problematic when goods and services are juxtaposed. "There is a challenge whereby bilateral trade agreements can take a long time to resolve because there isn't this even-handed approach to different sectors of the economy," he says.

Nevertheless, Roach notes that Australian corporations are waking up to the value proposition of Indian

IT services offerings, in particular, and are increasingly tapping into the Asian giant's vast level of skills.

In a philosophical sense, Roach supports multilateral agreements. "They are probably the best because they apply across the board and simplify things, and the benefits are spread to a large number of countries."

However, he concedes that steps towards a global deal are very difficult.

"There are some very significant challenges with the Doha Round. In those circumstances it doesn't make sense to just wait for the best outcome. Doing whatever you can bilaterally is a good thing. I support free trade and therefore the more that trade barriers can be bought down, the better."

As a successful Indian businessman who has long lived in Australia, Roach straddles the two cultures. He says it is apparent that the manner in which bilateral deals between various markets interact and overlap can be messy and lead to "dysfunctional >

A\$21b

The India-Australia trade balance.
India's share: A\$2.5 billion.

behaviour". There is also the question of fairness.

Roach says the truth is that market forces often dictate trade volumes. A burgeoning Indian economy, for example, is hungry for Australian resources. "India needs our mineral resources and some of our agricultural resources, depending on particular shortages at any time, and they will continue to buy them. They seem extremely objective and mature in the approach they take to the balance of payments deficit with Australia." He says Indian companies also have to be more aware of market opportunities in Australia.

Cultural tensions over recent events in Australia also serve to highlight the byzantine nature of trade relationships. A spate of bashings of Indian nationals living in Australia received widespread media coverage, as has a federal government decision to tighten rules on applications by overseas students for permanent residence, affecting an estimated 40,000 Indian students.

"That becomes a barrier which is handled as an immigration issue or a security issue or an employment issue, but it is in fact a trade issue," Roach says.

■ Neville Roach is chairman emeritus of the Australia India Business Council and a business and community leader in areas such as trade, IT and social policy.

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Amelia Porges takes a pragmatic view of bilateral and regional trade deals. After all, she observes, after nine years of multilateral trade negotiations through the Doha Round of WTO talks, the truth is that "governments are still wide apart on industrial tariff cuts".

"While we wait for the WTO, trade negotiators can also work on bilateral or regional free trade agreements to reduce trade barriers, increase trade flows and increase jobs and economic growth," she says. Yet Porges concedes that bilateral pacts will not work in all cases. "Some problems can only be solved by global trade deals – for instance, reducing or eliminating agricultural export subsidies for sales to global markets."

The services trade is one area in which bilateral agreements have had a positive effect, she says, with governments using them to provide "more and better access". Greater market access for foreign service providers can have significant flow-on effects, with Porges citing the Closer Economic Partnership Agreement (CEPA) between Hong Kong and China. It has delivered



KEY TAKEAWAYS

■ BILATERAL and regional trade agreements have emerged because of the lack of a global deal through the WTO.

■ THE complexity of bilateral trade deals often leads to wrangles between countries over the goods and services entitled to preferential tariff treatment.

■ A CRITICISM of some trade deals is that the cards are often stacked in favour of the largest and most powerful country involved in the agreement.

■ TRADE deals between Australia and New Zealand deliver strong results that point to the advantages of agreements between countries with close cultural and geographic links.

preferential access to mainland markets for many Hong Kong-based companies and their overseas partners. All the same, bilateral deals and RTAs are often complicated. Wrangles can occur over so-called

and costly for businesses to comply with, particularly where a multinational manufacturer sources inputs globally and ships to many different FTA markets."

On the flip side, trade agreements

of the benefits depends on factors such as relative market size, a country's general attractiveness as a place to invest, and the utilisation of FTA tariff and non-tariff preferential treatment," Porges

tariff won't make much difference."

Porges says it is hard to single out any agreements as shining examples because so many are relatively new.

However, she says the Hong Kong-China CEPA pact provides evidence that such agreements can make markets more competitive.

■ Amelia Porges is a professorial lecturer at the Johns Hopkins School of Advanced International Studies in Washington DC and principal of the Law Offices of Amelia Porges.

"If the normal tariff is low or zero, a preferential tariff won't make much difference."

rules of origin that dictate whether goods are entitled to preferential tariff treatment. "Rules of origin can be complex

can in a best-case scenario generate substantial employment and investment growth. "But the distribution

says. "If bureaucratic obstacles make it difficult to claim FTA tariff benefits, or if the normal tariff is low or zero, a preferential

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