



DTED 030/001/284.TC75

**Government
of South Australia**

**Minister for
Industry and Trade**
Minister for Small Business
**Minister for Correctional
Services**
Minister for Gambling
Level 6, 45 Pirie Street
Adelaide SA 5000
GPO Box 464
Adelaide SA 5001
DX 336
Tel 08 8463 6560
Fax 08 8204 1960

Ms Patricia Scott
Presiding Commissioner
Review of Regional and Bilateral Trade Agreements
Productivity Commission
GPO Box 1428
CANBERRA ACT 2601

Dear Ms Scott

On behalf of the Government of South Australia, I am pleased to provide you with the State's submission to the Productivity Commission's Review of Bilateral and Regional Trade Agreements.

South Australia concurs with the premise that the benefits of trade liberalisation are generally greatest if undertaken multilaterally through the auspices of the World Trade Organisation (WTO) - as this results in the best possible access across most markets. Unfortunately, we are all too aware that progress in the current WTO Doha Round has been extremely slow and many countries, including Australia, have sought faster market access outcomes through bilateral and regional trade agreements.

Accordingly, while South Australia is a committed multilateralist, it notes that free trade agreements (FTAs) are here to stay and that they will become an even more important part of the trade policy architecture in the future. This, in part, reflects the political realities involved in negotiating trade agreements multilaterally in the WTO. From South Australia's perspective, it can be seen that total merchandise trade (including exports and imports) with all existing FTA-partner countries is currently around 38 per cent, which could well rise to around 70 per cent once all FTAs, currently under negotiation, come to fruition.

Following consultations with industry and other trade stakeholders in the State, South Australia considers that for trade policy to be most effective, in terms of delivering market access gains and removing distortions in the global economy (such as damaging agricultural subsidies), progress will need to be made across all three policy fronts - multilaterally in the WTO, regionally through forums like the Asia-Pacific Economic Cooperation (APEC) and the Cairns Group and bilaterally through FTAs. However, FTAs should only be considered when it can be demonstrated that their benefits more than outweigh their costs.

Yours sincerely

Hon Tom Koutsantonis MP
Minister for Industry and Trade

h
4 May 2010

Enc



**Government
of South Australia**

Submission to the Productivity Commission's Review of Bilateral and Regional Trade Agreements

March 2010

EXECUTIVE SUMMARY

- South Australia welcomes the opportunity to provide a submission to the Productivity Commission's Review of Bilateral and Regional Trade Agreements, and considers it timely in light of the global economic environment.
- The South Australian Government consulted widely with industry, industry organisations, academics and relevant agencies and their views have been incorporated into the submission.
- While South Australia has taken steps to promote trade in its areas of competitive advantage, such as through maximising use of programs like TradeStart and its Market Access Program, it recognises that for national trade policy to be most effective in terms of delivering market access gains and removing trade distortions such as damaging subsidies, progress will need to be made across all three policy fronts – multilaterally in the WTO, regionally through forums like APEC and bilaterally through FTAs.
- The breakdown of the WTO Ministerial talks held in Geneva in July 2008 was disappointing. The negotiations collapsed over issues of agricultural trade between the United States, India and China, in particular, disagreement between India and United States over the agricultural special safeguard mechanism. Though some momentum has been re-built through the WTO's Seventh Ministerial Conference held in Geneva in December 2009 where all members committed to the common objective of concluding the Doha Round in 2010, substantive progress has been slow and the prospects of an expeditious breakthrough in the near future are not particularly bright.
- Accordingly, while South Australia is a committed multilateralist and takes the position of supporting the WTO as the first-best approach to trade liberalisation, it also supports FTAs in principle, but not at any cost; that is, where the WTO processes are not leading to a result, the Australian Government should only enter into those FTAs where it can be demonstrated that their benefits more than outweigh their costs.
- Australia now has six FTAs in place and is in the process of negotiating a number of others, including with Japan, China and Korea. It is clear that FTAs are here to stay and that they will become an even more important part of the trade policy architecture in the future, which in part reflects the political realities in negotiating trade agreements multilaterally in the WTO.
- Statistics show that the share of South Australia's total merchandise trade (including exports and imports) that is undertaken with Australia's FTA partners is currently around 38%. Importantly, however, this share could rise to around 70% when Australia completes FTAs with those countries it is either currently negotiating with or contemplating trade agreements with.
- The consensus from those surveyed appears to be that, though multilateral trade liberalisation is the preferred option, FTAs have led to enhanced trade outcomes for some sectors, notably wine and education.
- Many of those surveyed consider that Australia's FTAs do on the whole lead to a reduction in trade barriers; that FTAs do lend support to multilateral processes and that there is scope for these agreements to further evolve over time and deliver even more benefits to Australia, all of which augurs well for the future of FTAs.

SOUTH AUSTRALIA'S SUBMISSION TO THE PRODUCTIVITY COMMISSION'S REVIEW OF BILATERAL AND REGIONAL TRADE AGREEMENTS

Introduction

The South Australian Government welcomes the opportunity to provide a submission to the Productivity Commission's (PC) Review of Bilateral and Regional Trade Agreements. South Australia understands the main purpose of the PC's study is, amongst others, to examine the effectiveness of Australia's free-trade agreements (FTAs), the impact of FTAs in boosting national trade performance and contributing to a lowering of trade barriers as well as efforts to boost Australia's engagement in the region. The State government fully supports this approach.

In light of the global economic environment, the South Australian Government considers the Commission's review into the effectiveness of Australia's FTAs to be timely. FTAs, which focus on market opening for goods, services and investment, are clearly an important element in trade performance and it stands to reason that if improvements to these agreements were to come about as a result of this review, Australia, and in particular, South Australia would see gains through greater exports.

South Australia is committed to increasing its export revenues as well as diversifying its export base since the State recognises that exports are a key element in delivering future economic gains. To increase exports, the State will continue to focus on its areas of competitive advantage, such as agricultural products, mineral ores, manufacturing, processed food and wine; through increasing exports to existing markets; developing new markets, increasing the numbers of exporters in the State and through fostering an export culture.

South Australia will also focus on growing its education exports, not just the university sector, but increasingly vocational training and schools. In addition, the State is focusing on developing new exports in services such as, ICT, business services, knowledge intensive services and services involving cleantech and sustainable technologies. These are emerging industries in the State and they will grow in prominence in the next few years.

Clearly, all of these elements will be essential if the State is to achieve the export target set out in South Australia's Strategic Plan (SASP) of \$25 billion by 2014. In light of the current level of merchandise exports, this is clearly a 'stretch' target, but with the right strategies and conditions in place; with the current exploration boom translating into a fully fledged mining boom; with better developed export markets for wine, manufactured goods, autos and education; and with further improvements in market access and reduced trade barriers resulting from Australia's FTAs, the State has the potential to grow its exports substantially.

The State's export performance has been impacted by the challenging economic environment over the past year. This performance, in part, reflects a high Australian dollar impacting on export competitiveness and the relatively high degree of commodity trade that tends to be underwritten in US dollars. The weakening exports also reflects the global financial crisis that took place in 2008, and the ensuing

recession in key markets – the United States, UK, much of western Europe, Japan and closer to home, New Zealand. Since these comprise the State's key markets and a significant proportion of South Australia's exports are extremely sensitive to changes in income (for example, wine and automobiles), the State's exports dropped sharply.

At the same time, South Australia has taken steps to promote trade in its area of competitive advantage (for example, wine, agri-business products and copper) as well as diversify and increase exports through maximising use of programs like TradeStart (delivered in conjunction with Austrade), Market Access Program (MAP), and the targeted, strategic use of the Department of Trade and Economic Development's (DTED) trade managers and the South Australian overseas offices. The South Australian Government also has a more targeted approach to market development with a stronger focus now on four key markets – China, India, UK/Europe and the US.

On the general question of multilateral vs bilateral approaches to trade liberalisation, **South Australia is a strong supporter of the World Trade Organisation (WTO) Doha Round and recognises that a multilateral approach to trade liberalisation will offer the best outcomes for the State.** For example, freeing world markets from the highly distorting effects of the agricultural subsidies of the European Union and the US through the WTO is the best approach. However, while this is the most efficient method of trade liberalisation and the 'first best' solution, the State recognises the political realities of reaching agreement involving over 150 countries and therefore recognises that other approaches to trade liberalisation, such as through regional and bilateral free trade agreements, need to be pursued, a view supported by many industry organisations surveyed.

South Australia considers that for trade policy to be most effective in terms of delivering market access gains and removing distortions in the global economy such as damaging subsidies, progress will need to be made across all fronts – multilaterally in the WTO, regionally through forums like APEC, the Cairns Group and bilaterally through FTAs. In that context, the question rightly moves to one of evaluating the effectiveness of these trade agreements; hence the Productivity Commission study is highly relevant at this juncture.

Against this background, this submission will first briefly analyse the recent performance in South Australia's trade, especially in those markets where Australia had entered into FTAs in the last few years since this will allow comparisons to be made in those markets between trade before the FTAs were entered into and trade after (ie, pre and post FTA trade). A greater focus will therefore be on Singapore, the US and Thailand since meaningful comparisons can be made. The submission will then discuss prospects for further multilateral trade liberalisation via the WTO Round.

Following this, the paper will discuss the effectiveness of Australia's recent FTAs from a South Australian perspective in reducing trade barriers. The submission will then discuss the extent to which FTAs have delivered tangible and economic benefits for South Australia and examine whether FTAs actually lend support to the WTO or whether they cause trade diversion through creating distortions to trade flows that inevitably result from a global preferential tariff structure. Finally, the submission will

look at what features of the current FTAs provide scope for them to evolve over time and deliver additional benefits.

In preparing this submission, the South Australian Government consulted widely with industry, industry organisations, noted trade economists and academics, and relevant government agencies. Their views have been taken into account.

South Australia's Recent Trade Performance

Goods Trade

The latest figures from the Australian Bureau of Statistics show that South Australia exported \$8.3 billion of goods **in the 2009 calendar year**¹, which represents a fall of 21% compared to the previous calendar year. This compares to a decline of 12% for Australian goods exports as a whole.

Metals (including metal ores and metal scrap) were the biggest single export item, with export values of over \$2.6 billion (31% of the total exports). This was followed by confidential items (\$1.7 billion, 21% of the total exports – most likely to be uranium ores and bulk barley) and wine (\$1.4 billion, 17% of the total exports). The two main manufactured goods exports were vehicles (\$261 million) and machinery (\$343 million), which together accounted for 7% of all exports.

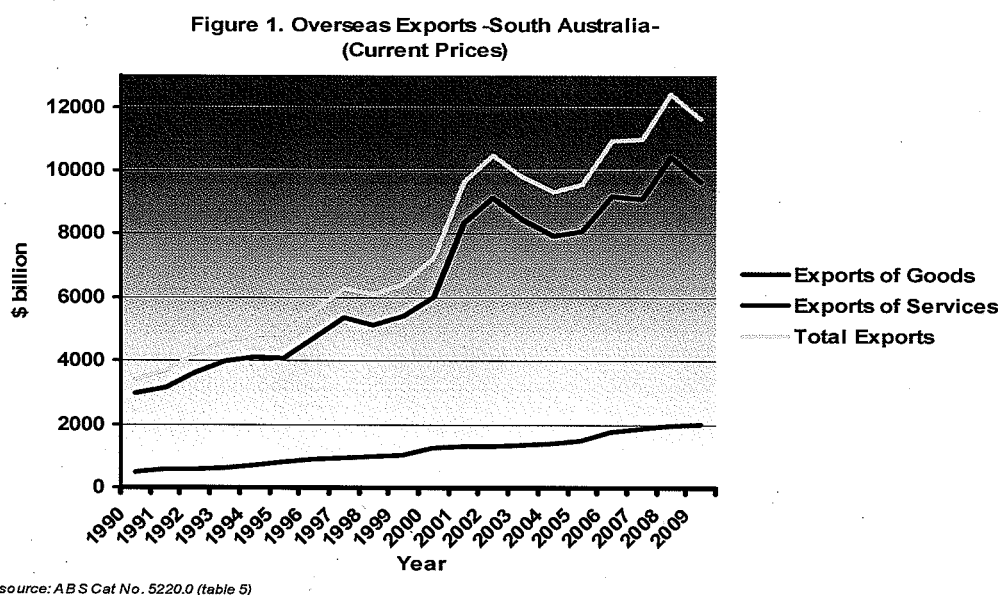
Almost 70% of the fall in South Australia's export values is due to a sharp reduction in vehicle exports (down \$1.5 billion or 85%). The fall in vehicle exports can be mainly attributed to two factors: a large fall in demand in the Middle East market and Pontiac in the US cancelling its contract with Holden for the Commodore Ute in addition to the poor economic conditions as a result of the global financial crisis. Copper (down \$240 million or 21%), wine (down \$220 million or 13%), wheat (down \$128 million or 18%) and lead exports (down \$95 million or 19%) also declined significantly.

Turning to the State's key export markets, the largest being the ASEAN, which accounted for over \$1.2 billion. This is followed by China (\$1.2 billion), the European Union (\$1.1 billion with exports to UK accounting for about half), and the US (\$1.1 billion). Other important markets include Japan (\$706 million), Middle East (\$611 million) and Malaysia (\$404 million).

As noted earlier, the fall in exports reflects the sharp decline in global growth resulting from the global financial crisis and the ensuing fall in demand for some of South Australia's key export items – especially those that are very sensitive to income changes, most notably vehicles and wine.

¹ ABS Cat No 5368.0.

Figure 1 shows South Australia's export revenues since 1990.



At the same time, the recent sharp drop in exports needs to be seen in a broader perspective within the context of the performance of the past decade. As Figure 1 shows, total merchandise exports have grown moderately since the early 1990s with export growth in services being slightly higher than the growth in goods exports over the period from June 1990 to June 2009. At the same time, export growth outperformed economic growth in South Australia. Reflecting this, the share of overseas exports in South Australia's Gross State Product rose from 10.5% to 14.7% between June 1990 to June 2009.

Services Trade

South Australia's total exports of services in 2008/09 were around \$2 billion, and account for about 19% of total exports, a share slightly less than Australia's (21%). However, trade in services is difficult to measure and it is probable that the above figure is understated.

Importantly, albeit from a small base, South Australia's services trade has shown steady, moderate and consistent growth since the early 1990s and unlike goods trade has not been subject to sharp fluctuations. This bodes well for the future as despite strong domestic performance, the services sector has underperformed in exports, thus having great potential for further development.

The South Australian Government recognises the growing importance of services to the South Australian economy and is placing more emphasis on developing service-based exports. This includes:

- Growing education service exports through attracting more overseas students to South Australia and seeking significant strategic partnerships with overseas educational institutions of note, for example, the opening of Carnegie Mellon University Adelaide and the University College of London, School of Energy and Resources Australia.

- Promoting the growth of the knowledge-intensive services sector, such as creative industries, biotechnology and ICT etc.
- Building a strong tourism brand overseas, based on a number South Australia's natural features, such as Kangaroo Island, the Flinders Ranges and the State's wine regions.
- Dedicating resources to promote increased service industry growth, including exports, and
- Developing a strategic framework that better coordinates efforts across the South Australian Government focussed on fostering development of the knowledge intensive services sector, which is a key driver to all services exports.

Prospects for further multilateral and regional trade liberalisation and the question of multilateralism vs bilateral FTAs

The breakdown of the WTO Ministerial talks held in Geneva in July 2008 was disappointing. The negotiations collapsed over issues of agricultural trade between the United States, India and China, in particular, disagreement between India and United States over the agricultural special safeguard mechanism. Though some momentums was re-built through the WTO's Seventh Ministerial Conference held in Geneva in December 2009 where all members committed to the common objective of concluding the Doha Round in 2010, substantive progress has been slow and the prospects of an expeditious breakthrough in the near future are not particularly bright.

This is disappointing for South Australia since a settlement of the Round would have resulted in enhanced openings for most markets and most sectors and this would lead to increased exports.

The July 2008 meeting represented a missed opportunity in terms of reaching an agreement, since there was for the first time since the commencement of the Round, a considerable narrowing of positions, particularly in the difficult agriculture negotiations. That meeting's drafted texts for agriculture and non-agricultural market access (NAMA) still represent a good way forward, and the State is hopeful that these texts can form the starting points for future negotiations. The South Australian Government would expect that a successful conclusion to Doha would see a major reduction in EU and US agricultural export subsidies. As the agricultural sector is of vital importance to the State's exports, such an outcome will result not only in higher export returns but also higher farm-gate prices for the State's grain, meat and dairy producers. Accordingly, the Government concurs with the South Australian Farmers' Federation (SAFF), which was consulted for this submission, when it stated that *"the best way to achieve meaningful, widespread market access for Australian farmers is by pursuing agricultural trade reform through the WTO, which means working to maximise the opportunities and outcomes for farmers from the Doha Round."*

A narrowing of positions also occurred for non-agricultural market access (NAMA) and services which offer a glimmer of hope for the Doha negotiations to be successfully concluded in the near future. Whilst there clearly is much ground to be

made up, as a small state with a heavy dependence on the export sector, gains in market access for agriculture, manufactures and services will be of critical importance to the State's economy. With regard to tariff cuts, South Australia is pleased with recent developments in Doha which indicate a future reduction in bound rates across all industrial and agricultural sectors, so that differences between countries' applied and bound rates fall. This gives more certainty to exporters, particularly for the State's horticultural producers (which were affected by Indonesia raising its applied tariffs to its legal bindings) and winemakers, since it reduces the incidence of countries arbitrarily raising tariffs to WTO-legal bound rates.

With regard to services, South Australia is hopeful that negotiations in the WTO will lead to meaningful outcomes in terms of better access to overseas markets across all service supply modes. South Australia supports Australia's key objective in the General Agreement on Trade in Services (GATS) negotiations, which is to improve market access for Australian services exporters, particularly in areas like education and tourism which are growing in importance to the State's trade and economy. At the same time, South Australia understands that in order to secure meaningful market access, it is important for Australia to offer equivalent access to foreign services exporters seeking to export their services to Australia. In addition to education and tourism, the State is hopeful that meaningful progress can be made in the GATS negotiations in areas like business services, ICT, cleantech, energy and environmental services.

The South Australian Government is a strong supporter of the multilateral process and sees the WTO Doha Round as offering the best outcomes for the State. Numerous studies have shown the gains to the global economy and individual countries and states that accrue from free trade and open access. For example, the World Bank (as reported in the Commonwealth Business Council, Promoting Global Trade and Investment for Shared Prosperity, 2004) has estimated an annual gain of US\$2.8 trillion by 2015 from the elimination of trade barriers and trade-related reforms on all goods and services, with large gains coming from services liberalisation in both developed and developing countries. The recent comprehensive study by the Department of Foreign Affairs and Trade shows that trade liberalisation added 2.5-3.5% to the Australian economy over the past two decades and benefited the average Australian working family by up to \$3,900 per annum.²

Studies such as these illustrate the possible gains that could be achieved as a result of a successful conclusion to the current Doha Round. Higher global growth translates directly into increased South Australian exports, given the income sensitivity of many export items from the state; hence the rationale for the State seeking to emphasise the greater, relative efficacy of the WTO processes to trade liberalisation.

It is also worth noting that one important advantage of negotiating through the WTO is the high reward-to-effort ratio of the multilateral approach; for much the same effort that would have been expended in negotiating a major FTA, a similar effort could yield much greater market access benefit and global reach through the WTO. That said, the South Australian Government is mindful of the considerable difficulties

² *Benefits of Trade and Trade Liberalisation*

involved in securing outcomes that involve negotiations amongst 160 or so countries, especially in contentious areas like agriculture and industrial tariffs and thus takes a pragmatic view; that is, it supports efforts to enhance access through other mechanisms such as FTAs where these offer WTO-plus benefits and where outcomes can be reached in quicker timeframes, and where these FTAs are fully consistent with WTO rules. In other words, whilst the WTO approach is still the 'first-best', the State recognises that, in the absence of meaningful progress in the WTO given the political realities of global trade, FTAs do present a good opportunity for substantial market access gains in a relatively shorter period of time. These are gains that cannot be ignored, and for the most part, reflect sentiments expressed by industry organisations, companies and influential individuals surveyed.

In saying so, the State recognises that there are downsides to FTAs, most notably, when the effects of trade diversion (when trade is diverted from more efficient, non-FTA partners) more than offset any trade creation (when new trade is created as a result of an FTA) gains. **The State, therefore supports FTAs in principle, but not at any cost; that is, where the WTO processes are not leading to a result, the Australian Government should only enter into those FTAs where it can be demonstrated that their benefits more than outweigh their costs.** South Australia is aware that this view has been echoed by many of the industry organisations and stakeholders canvassed.

Australia presently has six FTAs in place – with New Zealand, the USA, Thailand, Singapore, Chile and the ASEAN countries. At the same time, there are a number of other FTAs that are either under negotiation (China, Japan, Korea, Malaysia and Gulf Co-operation Council) or being studied (India and Indonesia). Even though the Singapore FTA has been in place for nearly 7 years and the US and Thailand FTAs have been in place for 5 years, it is considered too early to assess the real impact of these FTAs in terms of delivering benefits (most studies indicate that at least 10 years of data is required before real gains can be quantified). Nevertheless some qualitative assessments can be made and these will be discussed in the sections that follow.

Have Australia's FTAs delivered tangible economic and trade benefits to South Australia?

As noted earlier, Australia has six FTAs in place (New Zealand, the USA, Thailand, Singapore, Chile and the ASEAN countries). The FTA with New Zealand (ANZCERTA) has been in place since 1983; the one with Chile for about one year, and the one with the ASEAN bloc since 1 January 2010. So for purposes of analysis, meaningful data comparisons (e.g. export and import growth since the FTAs came into being) can be made for the FTAs with Singapore, US and Thailand. Initially, though it is useful to see the proportion of trade that flows from the State to the FTA countries, both those that are current FTA partners and those that Australia is presently in the process of negotiating with (ie, China, Japan, Korea, Malaysia, the Gulf Countries) and considering (India and Indonesia).

Table 1: Value of South Australia's Merchandise Trade in 2008-09 with Current FTA Countries

Country	Exports (\$m)	Imports (\$m)	Total (\$m)
New Zealand	451	188	639
Singapore	178	1,050	1,228
USA	1,708	629	2,337
Thailand	270	393	663
Chile	6	60	66
ASEAN *	853	378	1,195
Total	3,466	2,698	6,128

* Note that ASEAN excludes trade with Thailand and Singapore and only includes trade with Brunei, Indonesia, Laos, Malaysia, Burma, the Philippines, Vietnam and Cambodia.

As shown from Table 1, the State's aggregate merchandise exports to all current FTA partner countries total around \$3.5 billion, which account for about 36% of the State's total export revenues. Imports from FTA countries total around \$2.7 billion, and their proportion of the State's aggregate imports (which were \$6.9 billion in 2008-09) is slightly higher than that for exports – 39%. These statistics underline a major point – that the State's share of total trade (including exports and imports) destined to FTA partner countries is currently quite substantial (38%) – and, notably, this share will grow as new FTAs enter into force in the future.

Table 2 reports the value of current South Australian trade with those countries the Australian government is currently negotiating FTAs with or under study or review. These include China, Japan, Malaysia, Korea, the Gulf Countries (amongst others, Saudi Arabia and United Arab Emirates (UAE)), India and Indonesia. At the time of writing, FTAs with some of these countries (eg Korea) appear more likely than others (China, Japan). Nevertheless, the value of current trade flows with these countries provides an indication of the potential extent of overall trade with FTA partners.

Table 2: Value of South Australia's Merchandise Trade in 2008-09 with Expected Future FTA Partner Countries

Country	Exports (\$m)	Imports (\$m)	Total (\$m)
China	1,095	1,117	2,212
Japan	804	784	1,589
Malaysia	410	205	616
Korea	304	266	570
Saudi Arabia	292	16	308
UAE	205	10	215
India	273	178	449
Indonesia	150	119	269
Total	3,533	2,695	6,228

As shown from Table 2, when trade with potential FTA countries is taken into account, their share of the State's overall exports and imports is substantial. Taken together, the share of total trade accounted by both these groups of countries is

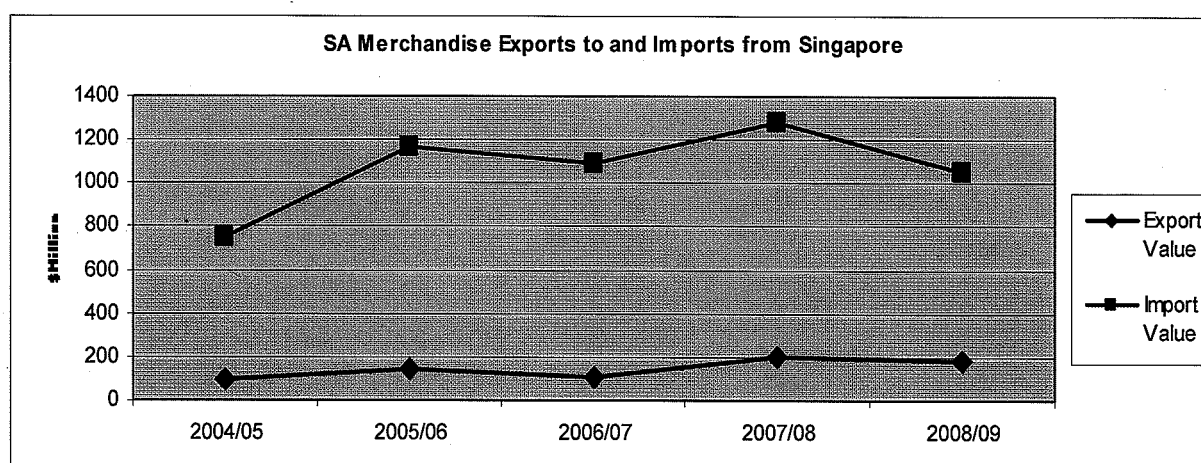
about 70%, being 68% for exports and 74% for imports³. Clearly, FTAs are a crucial part of the national trade policy architecture and will become increasingly important in developing the State's export policies, programs and strategies. At the same time, their role in delivering tangible gains to the State will grow considerably over time.

It is also a useful exercise to examine the State's export and import performances in the three FTA partner markets where there is some data to observe growth patterns – Singapore (in place since 2003), USA (in place since 2005) and Thailand (in place since 2005). The trade and growth performances for these markets are reported in Tables 3, 4 and 5.

Table 3: Value and Growth of South Australia's Merchandise Exports and Imports with Singapore

Year	Export Value (\$m)	Growth	Import Value (\$m)	Growth
2004/05	96	10%	745	36%
2005/06	141	48%	1,163	56%
2006/07	107	-24%	1,090	-6%
2007/08	200	87%	1,279	17%
2008/09	178	-11%	1,050	-18%

Figure 2: SA Merchandise Exports to and Imports from Singapore



It can be seen that both South Australia's export and import growth with Singapore has been uneven since the FTA came into force, but overall the trend is positive on both counts. On average, export growth has been healthy, growing at a compound annual rate of 17% in the four years between 2005-06 and 2008-09, while imports have grown at 9% annually over the same period. However, unless a proper econometric study is conducted (for which many more years' data would be required), one cannot conclude with any certainty that it was Australia's FTA with Singapore that led to this growth. In all likelihood, a number of factors (eg, economic growth, increased demand, value of the Australian dollar and higher commodity

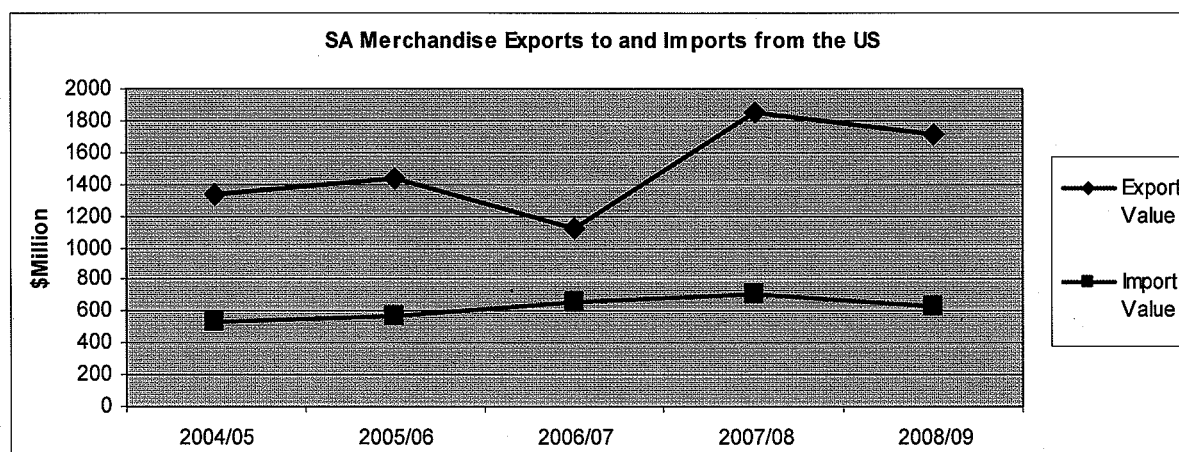
³ Trade figures of Indonesia and Malaysia in Table 2 are excluded.

prices) would have contributed to this growth, and the Singapore FTA *may* have been one. Nevertheless, *prima facie*, the fact that robust export growth did take place since the coming into force of the FTA does augur well for the agreement.

Table 4: Value and Growth of South Australia's Merchandise Exports and Imports with the United States

Year	Export Value (\$m)	Growth	Import Value (\$m)	Growth
2004/05	1331	-4%	534	-18%
2005/06	1438	8%	562	5%
2006/07	1122	-22%	655	17%
2007/08	1855	65%	708	8%
2008/09	1708	-8%	629	-11%

Figure 3: SA Merchandise Exports to and Imports from the US



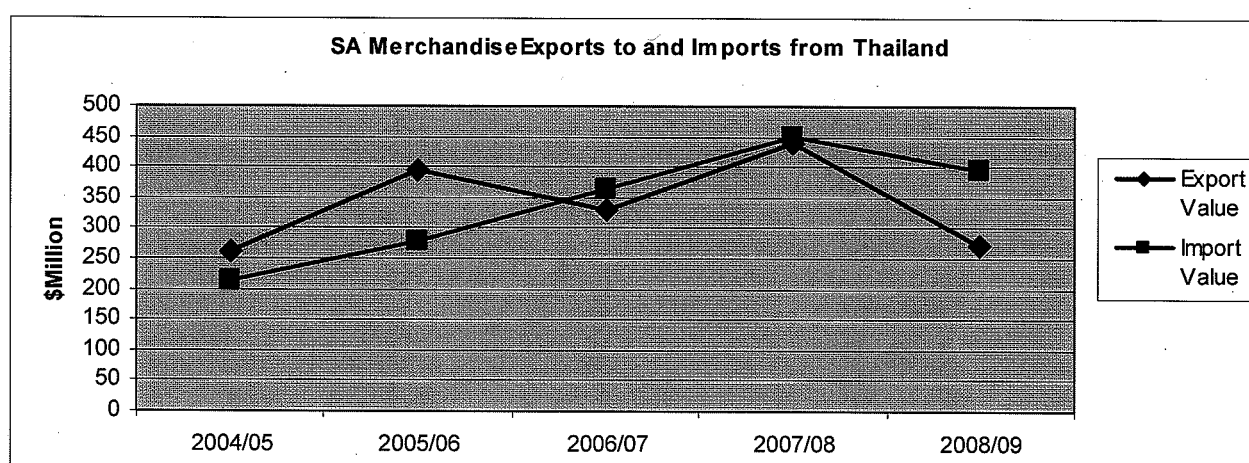
Over a four year period from 2005-06 to 2008-09, exports to the US grew at a compound annual rate of 6%, though it is clear that no pattern has emerged (indeed, in one year, export growth was 65%). Imports from the US have grown steadily since 2005-06, growing just over 4% a year. Again, on the face of it, it is difficult to say whether or not the FTA with the US has had any impact on the State's trade with that market. The sharp export growth experienced in 2007-08 reflected a large increase in the State's automobile exports to the US, mainly brought about by General Motors Holden exporting the V8 'Pontiac' (specifically made for the American market).

The US FTA may have been a contributing factor to the decision to make this model for the US, but this was equally driven by demand conditions and a conscious decision by this multi-national company to assemble the car in Adelaide. On the whole, a more detailed, econometric study in the medium term (when more data can be analysed) would assist to determine the economic impact of the US FTA on the State.

Table 5: Value and Growth of South Australia's Merchandise Exports and Imports with Thailand

Year	Export Value (\$m)	Growth	Import Value (\$m)	Growth
2004/05	260	56%	214	10%
2005/06	395	52%	276	29%
2006/07	330	-17%	364	32%
2007/08	437	33%	447	23%
2008/09	270	-38%	393	-12%

Figure 4: SA Merchandise Exports to and Imports from Thailand



Since the Thailand FTA came into force in 2005, there was reasonable growth in exports from 2005-06 to 2007-08, but with the sharp fall in exports in 2008-09 (down 38%), export revenues in 2008-09 returned to almost the pre-FTA levels (\$270 million), indicating that over a four year period, the effect of the FTA on exports has been negligible. With imports, a clearer pattern appears to be emerging with South Australia experiencing steady annual growth in imports of around 17% over the same period. It would appear, *prima facie*, that the Thailand FTA has been better for imports than South Australian exports to that country. Again, with only 4-5 years of data, it is difficult to be confident of any conclusions or trends.

Overall, the trade data for the three countries examined show that the FTAs do coincide with export (and import) growth, though the extent to which this growth can be attributed to the trade agreements is difficult to determine. However, the fact that there has been export growth for South Australia in the various FTA partner markets bodes well for the future FTAs that are expected to come in to force over the next few years. They also lend support to the Australia government's three-pronged approach to trade policy, meaning that if access through the WTO processes is not forthcoming, then access achieved through the FTAs is of benefit to exporters.

What benefits have industry experienced from FTAs?

Most of the industry groups surveyed consider that Australia's FTAs have delivered tangible benefits to their particular sectors. The State's peak industry organisation, Business SA, which represents businesses' interests to government through advocacy and lobbying, supports the pursuit of both multilateral trade liberalisation efforts through the WTO as well as bilateral and regional FTAs. It informed us that multilateral trade liberalisation is the preferred course of action and therefore should be the priority, but that where FTAs can benefit South Australian businesses, FTAs should also be pursued. As an example, the organisation notes that with the coming into force of the Australia-Thailand FTA, the reduction in wine tariffs did contribute to an increase in wine exports from South Australia, and that other export commodities also benefitted, though to a lesser extent.

The agricultural and wine industries which collectively account for around 38% of the State's exports support the Australian government's FTA program and consider that their sectors did benefit through the FTAs. It is worth noting that while South Australian Farmers Federation (SAFF) supports free trade agreements since better market access is required for South Australian producers, it has expressed disappointment that the current FTAs *'have not delivered as many opportunities as South Australian agriculture would have hoped'*. The organisation expressed concern that the US government has continued to support its grain and livestock producers and partly due to this level of subsidy, it is difficult to get South Australian grain and livestock products exported to the US. It is issues like these that need to be addressed in periodic reviews that are part and parcel of any FTA.

South Australia understands that there is a review of the US FTA (AUSFTA) currently underway and would urge the reviewers to examine the issue of agricultural support by the US government since supports such as these harm the interests of Australian farmers. SAFF considers that for FTAs to be effective, there needs to be a level playing field with a reduction in support for agriculture to be of the same level as in Australia and that FTAs need to be more comprehensive to deal with issues like domestic supports, especially when they impinge on the interests of partner countries' industries. The South Australian government concurs with these sentiments.

The South Australian wine industry is a strong supporter of FTAs and considers they have delivered benefits. When surveyed, the industry association indicated that FTAs represented an important mechanism for locking in meaningful market access for Australian wine exports and it cited the case of the Australia-Thailand FTA (TAFTA) which resulted in a reduction of the MFN duty rate of around 60% (applicable to all WTO members) to the TAFTA rate of 28%, resulting in higher export sales. A cursory glance at the trade figures supports this; though off a low base, South Australia's wine exports to Thailand increased from around \$5.3 million in 2005-06 to nearly \$8 million in 2008-09. At the same time, the industry expressed disappointment that Indonesia and Malaysia excluded wines from tariff commitments as part of the Australia-NZ-ASEAN agreement and while acknowledging the political consideration surrounding this exclusion, it asks the Australian government to pursue a comprehensive FTA agenda by not carving out negotiations on market access for wine.

The mining industry in South Australia also considers that Australia FTAs have produced benefits, though more in the area of inwards investment rather than through enhanced market and/or tariff access. A big focus of the industry in recent years has been inwards investment for mineral exploration and mining projects. Not surprisingly, the industry looks to FTAs as a facilitator for investment. As an example, the impact of trade agreements on mining was noticed following the signing of the Australia-China Nuclear Material Transfer Agreement and Nuclear Cooperation Agreement. Though this was not part of an FTA (indeed the China-Australia FTA talks are still continuing), this agreement signalled that Australia was open for business on uranium developments and the confidence that that delivered to Chinese investors flowed on to investment interest in other mineral commodities. There is now a substantial and long term Chinese investment in South Australia's resource sector, covering areas such as gold, steel, iron ore and copper.

The South Australian education industry has also indicated that FTAs were beneficial to the industry. Education services are the state's biggest source of services exports, accounting for nearly 45% of all service export receipts – around \$900 million. The State boasts leading regional universities like the University of Adelaide, Flinders University and the University of South Australia and also now is home to world renowned universities like Carnegie-Mellon and Cranfield. In addition, the state's schools, English language institutions and TAFE colleges also attract large numbers of overseas students and generate export revenues. According to industry sources, the Singapore-Australia FTA led to an improvement in the mutual recognition of university degree courses and this has allowed greater flexibility for Australian education providers to deliver courses onshore. It also led to an increase of students from Singapore studying in South Australian universities, since their qualifications are now recognised by the Singapore authorities (a case in point is the recent recognition of law graduates from the University of Adelaide). It is worth adding that mutual recognition of qualifications has also had the effect of encouraging the movement of workers between the two countries. Though it has only been in place for one year, the Australia-Chile FTA has encouraged the flow of scholarships and student and staff exchanges, and this is likely to lead to increasing numbers of Chilean students studying in South Australia's educational institutions.

The tourism industry has indicated that Australia's FTAs have had no impacts on exports, either positively or negatively. For the tourism industry, FTAs have no bearing whatsoever on the main barrier to trade, this being visa issuance restrictions in certain markets, and where it is the case, they are addressed at the federal government level. There are apparently some ongoing issues with regard to the expeditious issuing (or lack thereof) of visas for Chinese tourists, but again these do not fall under the auspices of FTAs, but rather are issues settled at the federal level.

Overall, the consensus from the survey appears to be that, though multilateral trade liberalisation is the preferred option, FTAs have led to increased trade outcomes for some sectors, notably wine and education. At the same time, concerns were expressed that, despite AUSFTA, the US government continues to subsidise its grain and livestock industries and this has hampered efforts to increase farm exports to the US. On the whole though, there appears to be evidence supporting the role of FTAs contributing to better export outcomes. As shown earlier by the statistics, South

Australia's trade with 3 recent FTA partners, the US, Thailand and Singapore has increased. These findings are encouraging; especially considering that in the foreseeable future, around 70% of the State's total trade (including exports and imports) will be with countries that Australia will have FTAs with. This leads to the next question as to whether Australia's FTAs have contributed to reduced trade barriers.

Have Australia's FTAs contributed to a reduction in trade barriers?

The responses from those surveyed on this question have, for the most part, been positive. There have been some downsides; as most consider that Australia's FTAs have contributed to a reduction in trade barriers, particularly lower tariffs, but their record on non-tariff measures has not been as good. At the same time, FTAs have generally not led to unilateral liberalisation on the part of non-FTA countries, though this could probably, in part, be attributed to the global financial crisis and subsequent recession in many parts of the world.

Business SA considers that while FTAs have resulted in a decrease in tariffs and an improvement in quotas for a number of products, including for agriculture, this was not the case for some non-tariff measures (NTMs), and indeed some of these may have been increased in recent months, though this was probably due to the global financial crisis which had unfortunately seen instances of backdoor protectionism in many countries. One particular downside of FTAs that has been noted is that they have unfortunately created more 'red tape' and paperwork required to ensure qualification under a particular FTA and this can prove to be a trade barrier in itself as many exporters do not wish to 'jump through hoops' to make a sale. As an example, the FTA with Thailand has had a negative effect on the administrative procedures involved with export documentation. Nevertheless, the organisation notes that a reduction in tariffs does provide an incentive for the importing country to choose Australian product over another country's.

With regard to services and investment, Business SA considers that FTAs have contributed to higher investment and services flows between countries though no significant trends have been identified through its export documentation function. Some downsides have been encountered which include foreign equity limitations, lack of recognition of qualifications, restrictions on the rights of practice, constraints on commercial presence, poor quality intellectual property rules and protections and tax rules.

The State's peak agricultural body, SAFF, considers that while there is still considerable progress to be made, tariff levels are slowly being reduced, and these reductions have been accompanied by increased exports of meat and animal products, cereals, citrus and wine to various ASEAN countries. At the same time, the organisation does not think that FTAs have resulted in liberalisation of NTMs such as quarantine, health and safety and product standards and administrative and customs procedures.

The wine industry too, while commenting favourably on the effect of FTAs on tariffs, has not been as complimentary on the question of NTMs. It notes that FTAs have

delivered little benefit to the wine sector and that technical barriers to trade remain a 'real risk' to trade in wine. The industry has commented that serious impediments to trade can arise from differences in regulatory philosophies for wine around the world, especially in areas like different oenological practices, maximum residue levels (MRLs), certification and labelling. In addition to raising them in other forums, these issues need to be addressed in FTAs. The South Australian government supports moves to address NTMs for wine in the current batch of FTAs being negotiated.

On the other hand, the education industry considers that Australia's FTAs do a reasonably good job in contributing to reduced trade barriers (NTMs) and liberalisation in general. Generally speaking, the industry notes that FTAs tie the partnering country to the future economic growth and development of Australia which in turn creates a conducive environment for reducing trade barriers. For example, FTAs improve mutual recognition of courses and degrees to facilitate the movement of students and workers as well as making it easier for Australian education providers to undertake offshore training and education in the partner country. Other intangible benefits of FTAs include enhancing the transparency of education structure as well as improving the level of education quality and associated accreditation and auditing processes.

Professor Christopher Findlay, a leading trade academic from the University of Adelaide, commented that, especially for services trade, most of the main barriers are regulatory, which are difficult to handle via FTA negotiations. Professor Findlay believed that FTA negotiations could facilitate market access in say the operation of licensing schemes in ways that favour particular suppliers but the reactions of other trading partners and the negotiation of FTAs which subsequently discriminate against Australian suppliers may leave exporters no better off. This was apparently one risk inherent in FTAs. He considered that FTAs would have an advantage if they could become building blocks for common regulatory reform across a region, in other words, if they were mechanisms for trade facilitation. Overall, Professor Findlay considered that the multilateral process is better suited to addressing trade barriers in services.

On the question of whether Australia's FTAs have encouraged further unilateral liberalisation, a view has been expressed that FTAs affect the attitude of exporters to the WTO processes, especially when preferential access via FTAs could be undermined by commitments in the WTO which multilateralise those FTA commitments. It was noted that while this has long-term benefits, the short-term loss of privileged market access may dull the enthusiasm among exporters for the WTO round.

On the whole, the responses from those surveyed indicate support for FTAs in enhancing market access for goods via tariffs, but less enthusiasm for reducing trade barriers in services. It is likely that reductions to barriers in services trade are more likely to come about through the multilateral processes of the WTO, notwithstanding that negotiating rounds are taking longer and longer to complete.

Do FTAs lend support to the international trading system and the WTO, or do they cause trade diversion?

The responses to this question from industry and academia were mixed though they generally indicate that FTAs do support the multilateral process. One respondent remarked that inherent in the application of FTAs, and their subsequent preferential tariff structure, was a risk of trade diversion as more efficient exporting countries lose business to the FTA-partner country. However, the evidence of widespread trade diversion appears inconclusive, and overall, the impacts on border barriers like tariffs and NTMs appear to be small. Another respondent commented that even though there was likely to be some trade diversion following an FTA, it was difficult to measure the magnitude of such diversion. An important point was whether FTAs weakened or supported multilateral trade liberalisation depended a lot on the design of the agreements themselves and in this context at least Australia's FTAs were more supportive of the multilateral system. On balance, it would appear that FTAs do lend support to the international trading system, particularly where there is trade creation, though the possible negative impacts of trade diversion need to be monitored closely.

What features of Australia's FTAs provide scope for them to evolve over time and deliver benefits?

A number of important features for future FTAs (as well as those presently under negotiation) were made by survey respondents and they include:

- That FTAs must be 'bold and comprehensive';
- That FTAs must cover substantially all trade between the countries, which incidentally is a requirement imposed upon Australia from its membership of the WTO;
- They must be 'WTO-plus', that is, they must deliver trade liberalisation outcomes for Australia beyond those that would have come about from the usual WTO negotiations;
- FTAs should limit the exclusion of 'sensitive' products;
- That agriculture must be at the heart of any trade agreement being negotiated by Australia and that the Australian government must seek full and open access for all Australian agricultural products;
- That FTAs should aim for transparency in policy making, including in services, and focus on the benefits of domestic or structural reform and with that goal in mind, work out how international commitments in the WTO or in the various FTAs can support reform; and
- That there should be an increasing focus on trade facilitation and reducing transaction costs in international trade.

These are all worthwhile suggestions for further improving FTAs and ensuring that they continue to deliver benefits for Australia, and to that end, the South Australian government supports them.

Concluding remarks

The Productivity Commission's inquiry into the efficacy of Australia's FTAs is particularly timely, considering the recent fall in the State's export revenues. While South Australia has taken steps to promote trade in its area of competitive advantage (for example, wine, agri-business products and copper) as well as increase exports through use of trade programs, it considers that for trade policy to be most effective, progress towards greater trade liberalisation needs to be made across all three policy fronts – multilaterally in the WTO, regionally through forums like APEC and bilaterally through FTAs.

It is clear from this exercise that FTAs are here to stay and that they will become an even more important part of the trade policy architecture in the future, which in part reflects the political realities in negotiating trade agreements multilaterally in the WTO. From South Australia's perspective, it can be seen that total trade (including exports and imports) with all FTA-partner countries is currently around 38% and that this could well rise to around 70% once all FTAs currently under negotiation or being contemplated come to fruition.

Many of those surveyed also consider that Australia's FTAs do, on balance, lead to a reduction in trade barriers (though more for tariffs than for NTMs), that they do lend support to multilateral processes and that there is scope for them to further evolve over time and deliver even more benefits to Australia. All of this augurs well for the future of FTAs.

The State therefore takes the position of supporting the WTO as the first-best approach to liberalisation while also supporting FTAs in principle, but not at any cost; that is, where the WTO processes are not leading to a result, the Australian Government should only enter into those FTAs where it can be demonstrated that their benefits more than outweigh their costs. This position is, for the most part, supported by South Australian industries that export.