



Economic impacts from an Australia– United States Free Trade Area



Prepared for

Conference: Australia-United States Free Trade Agreement
New Opportunities and Impacts

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The economic gain from AUSFTA

\$3.8643 billion



Accurate to four
decimal points



Why bother measuring effects

- Any policy change has benefits and costs
- To get a balanced view of benefits and costs means looking at:
 - indirect
 - invisible
 - long term, as well as
 - direct and visible
- Economy-wide models most valuable tool to achieve this balanced view

The 'broken window' fallacy

Window broken

WHAT IS SEEN

\$500 to glazier to fit new window

Glazier spends on supplier

Supplier spend on goods and services

More jobs

\$500 not spent on new suit

Loss of business for tailor

No spending

Fewer jobs

WHAT IS NOT SEEN

Net effect: economy minus one suit, not seen

Measuring benefits and costs means using a model

- Direct effect:** Increased exports to USA
- Indirect effect:** Less exports to, say, Japan
- Indirect effect:** Extra cost to produce export
- Direct effect:** Extra imports from USA
- Indirect effect:** Lower costs for users here

Have to have a global economy-wide model to capture all these effects



Models



- Make assumptions explicit
- Allows repeatability
- Distill debate down to things that we can focus on and advance knowledge



Why use economy-wide models: an example

Australia's economic performance
Asian Financial Crisis: 1997-98

But lower interest
rates boost
construction and
consumer durables

Exports hit
hard

Net effect predicted
by APG-Cubed
model borne out by
experience



Drivers behind results



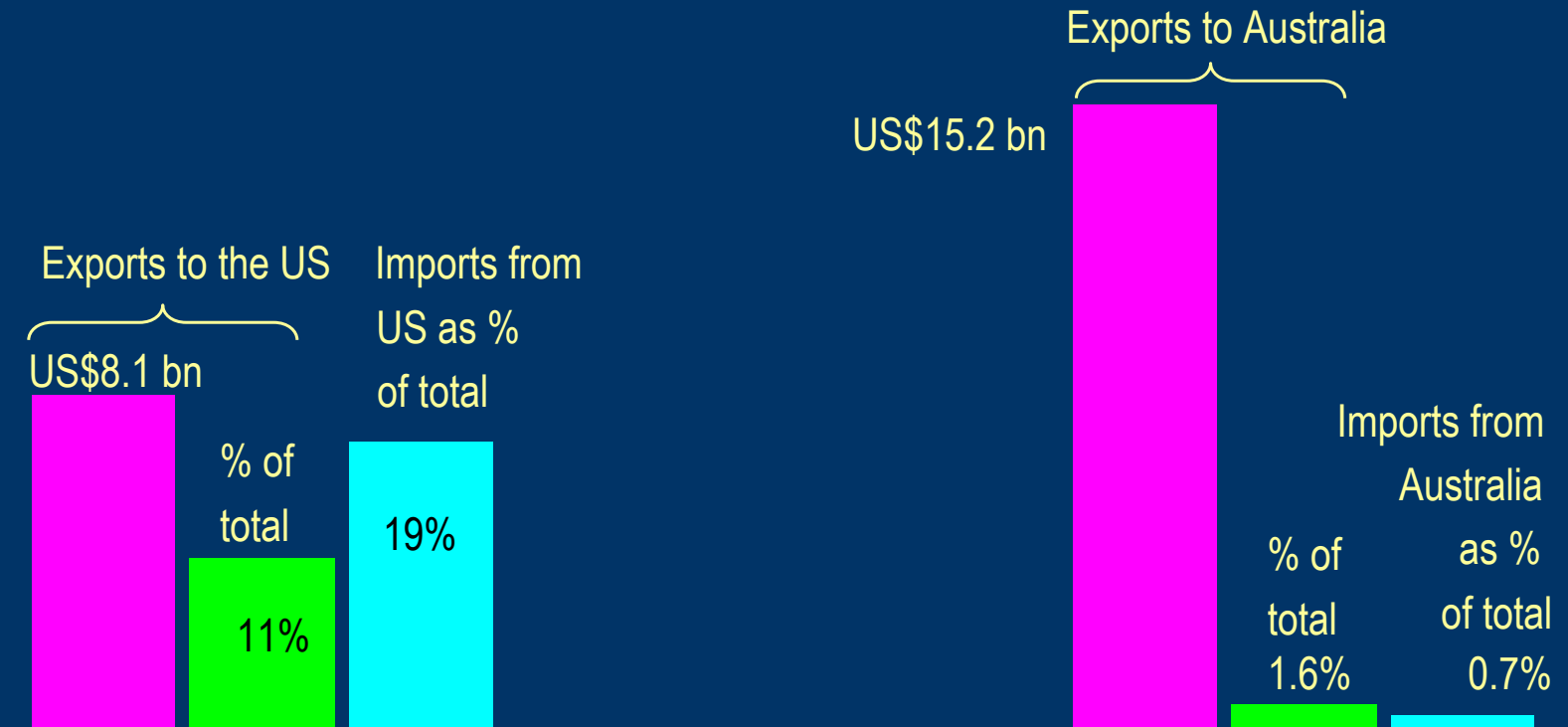
- Trade between countries
- Barriers to trade
- Assumptions of model
 - data
 - parameters
 - theory



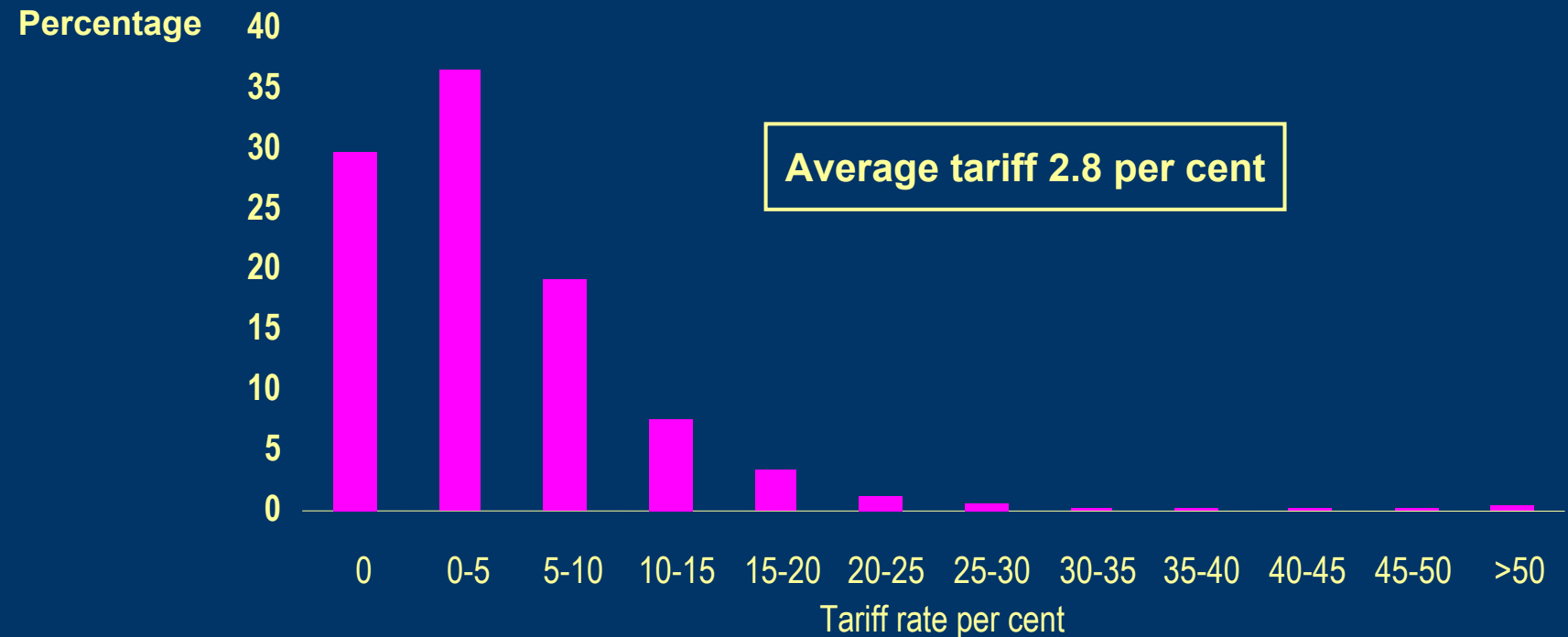
Importance of trade between Australia and the United States

Australia
(2001-02)

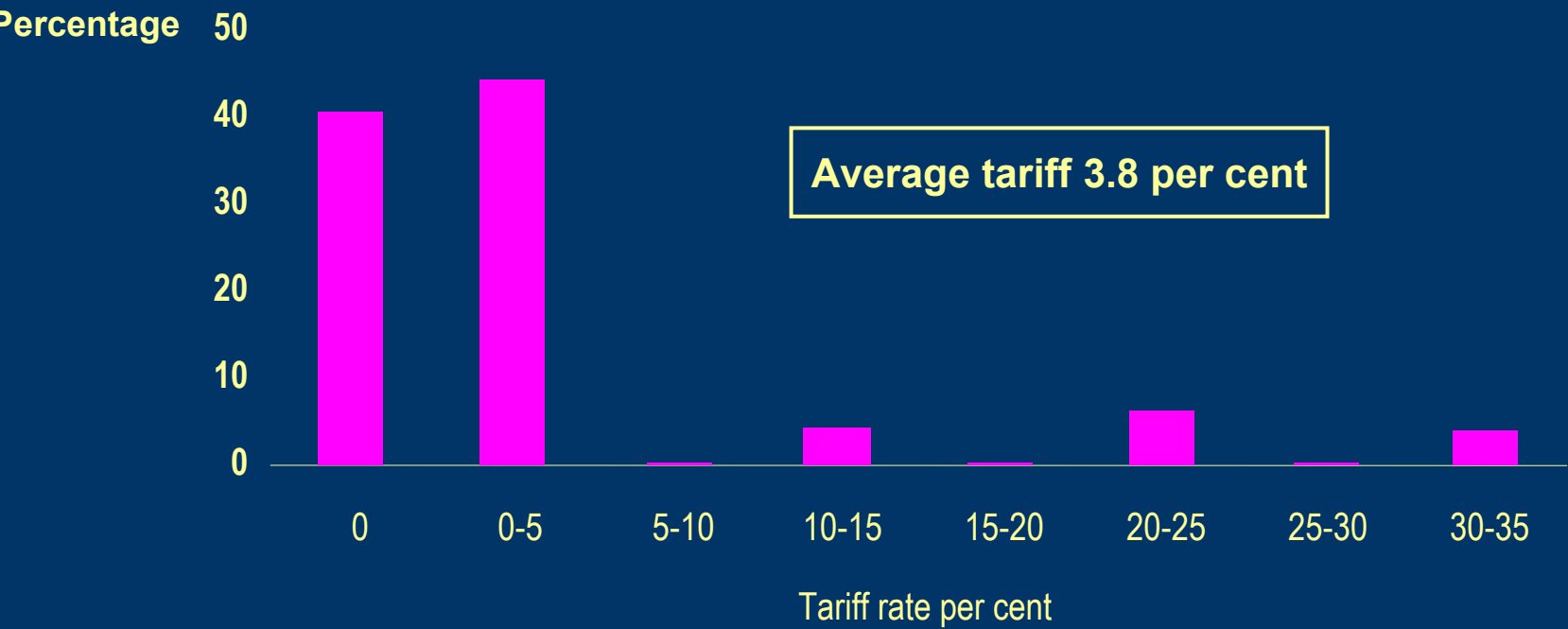
United States
(2001-02)



Distribution of tariff rates — United States

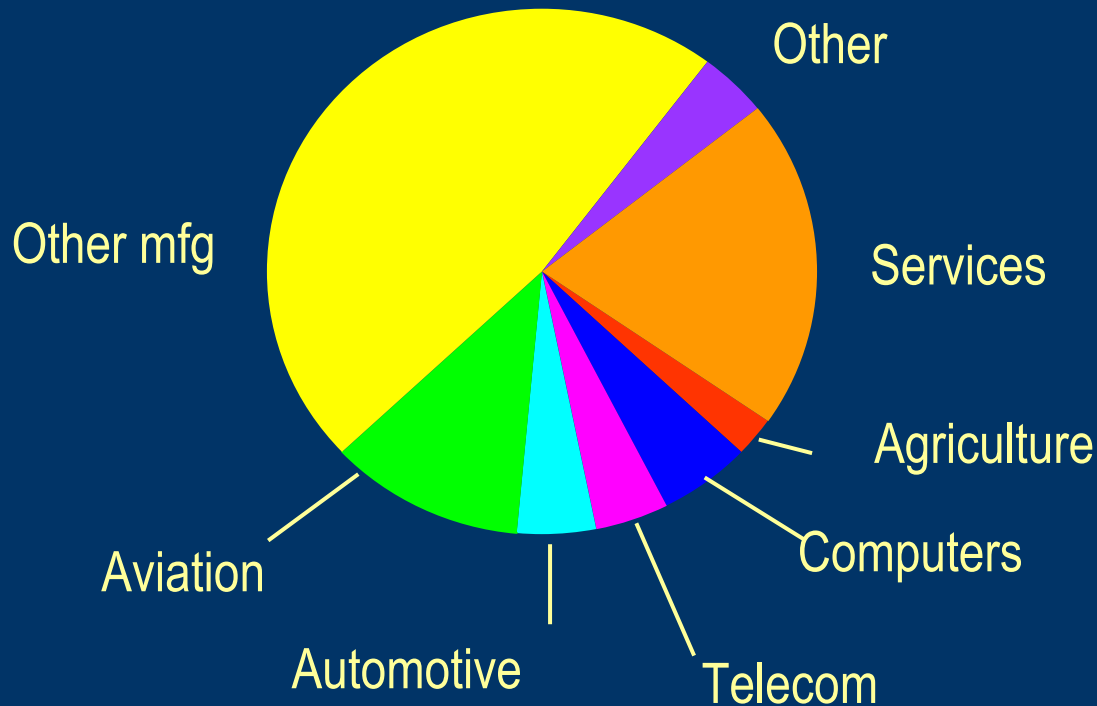


Distribution tariff rates — Australia

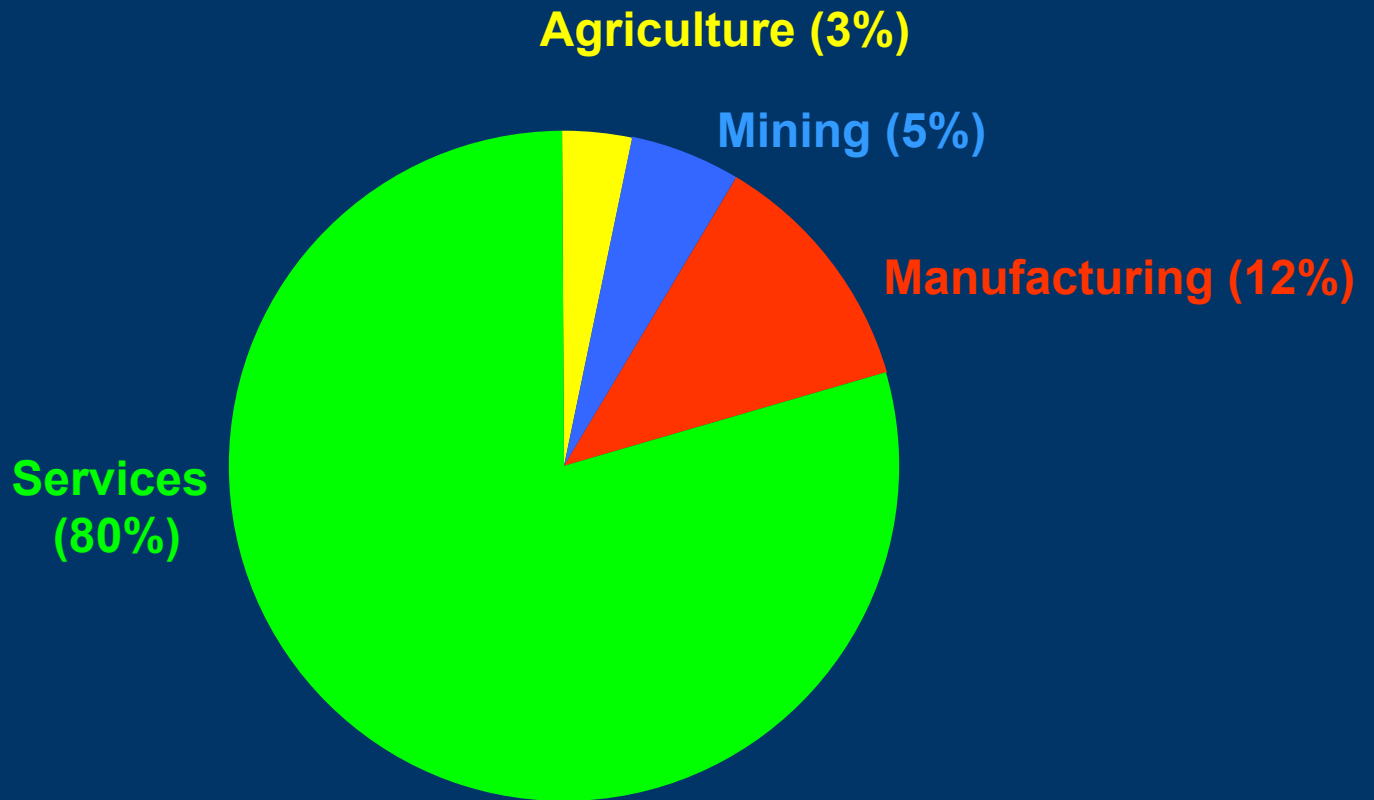


Australia's trade with the United States

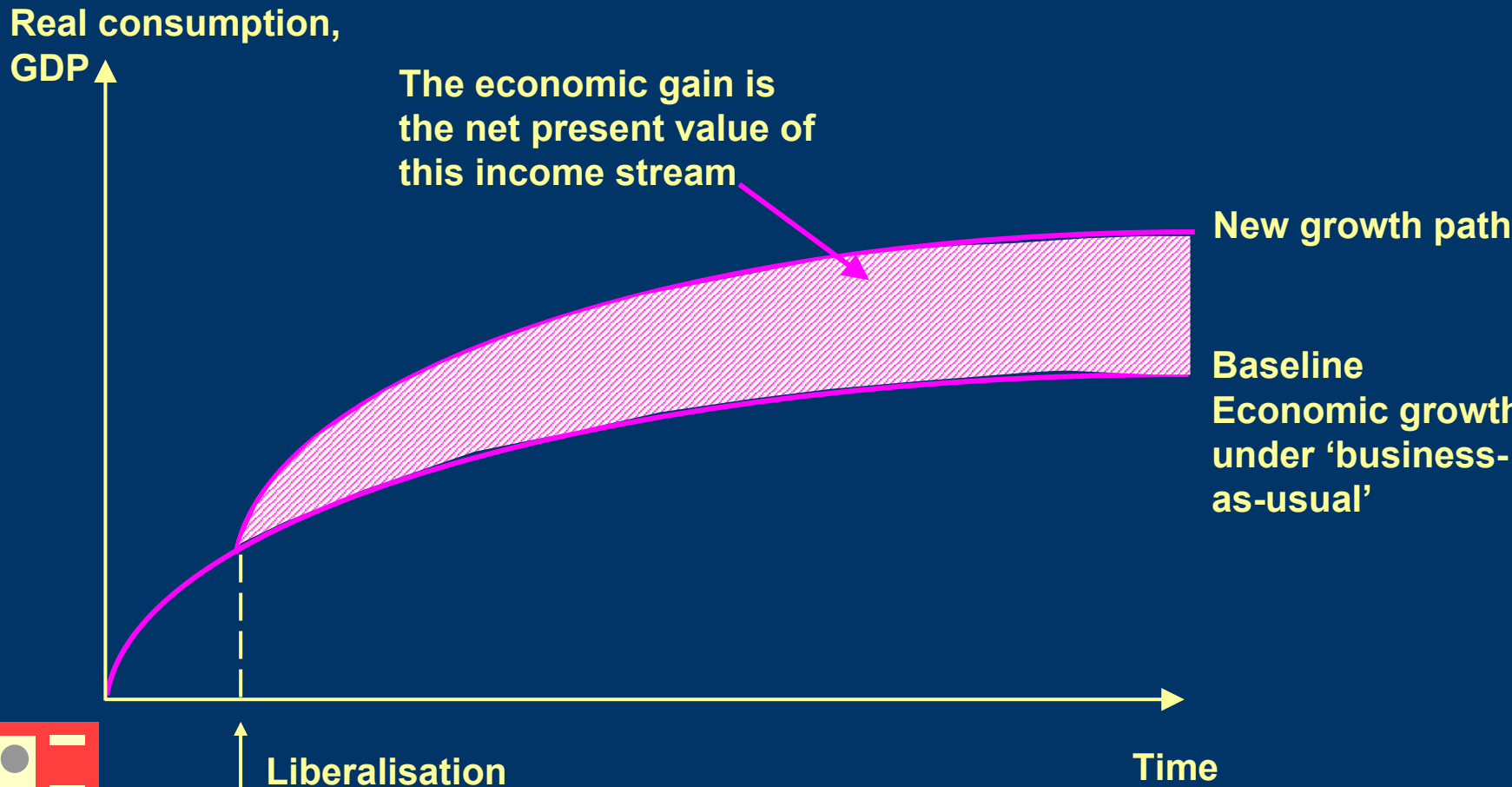
Products imported from the US (%)



Composition of Australia's GDP



The economic gains from liberalisation






Baseline





- Baseline matters
 - for example, other FTAs
 - other announced tariff cuts
- Example of beef





What should be in 'new' growth path

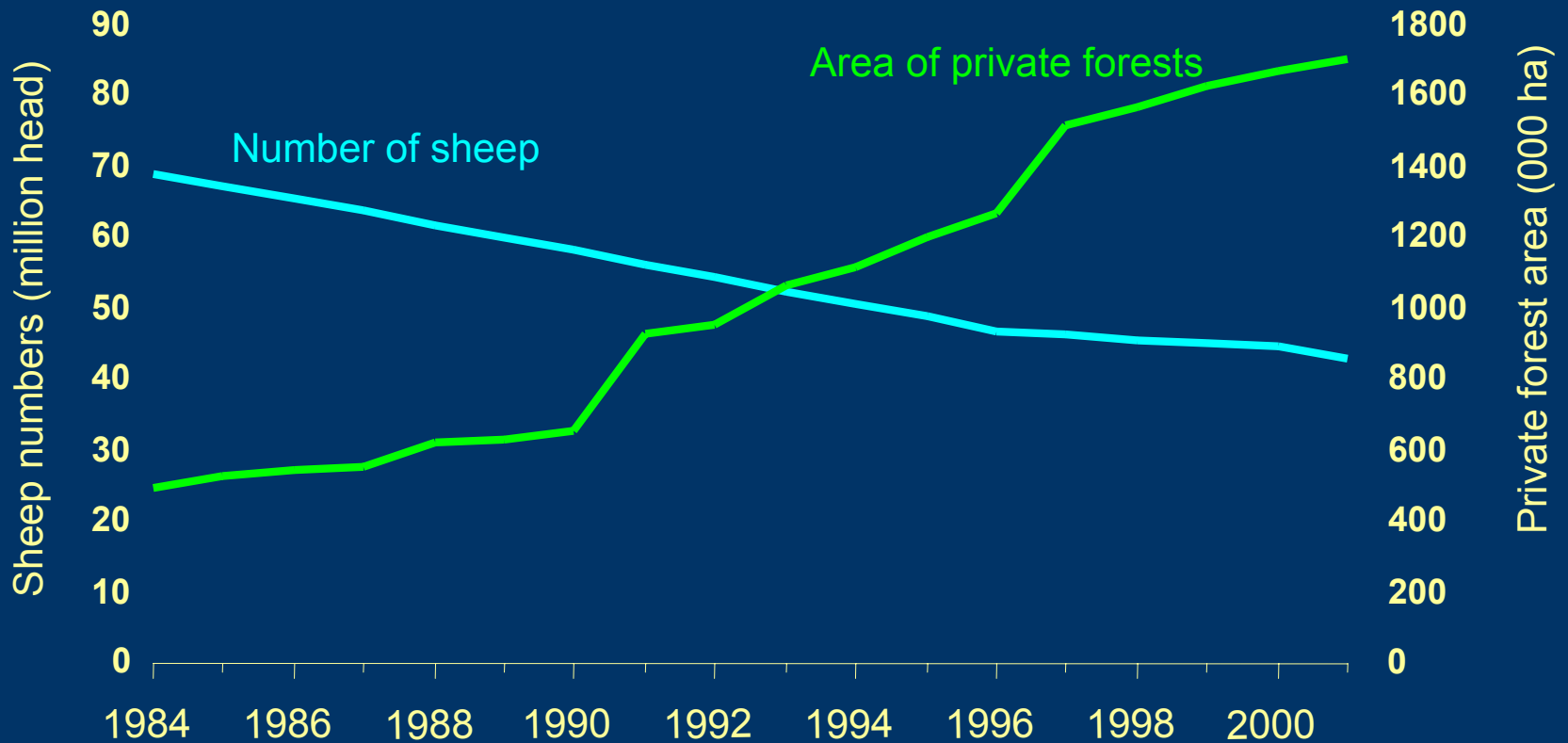


- Trade creation
 - Trade diversion
 - Resource costs
 - Extra competition — 'dynamic' effects
 - Strategic response of other trading partners
 - Impact on multilateral trade talks
 - Other costs, for example rules of origin
- 

Dynamic effects: domestic Wagyu beef production, Japan



Benefits of New Zealand reform



Trade leads to growth

A 1 percentage point
increase in the ratio
of trade to GDP ...



leads to




... a 2–3 per cent
increase in income
per person





In practice

- Hard to put a number on dynamic effect
 - Some services/investment barriers notoriously hard to calculate
 - Baseline for some commodities difficult
 - Intellectual property hard to quantify
- 

Scorecard

Previously: Full liberalisation, extra 0.4 per cent of real GDP above baseline

POSITIVES

- Extra beef
- Faster liberalisation on many products
- Government procurement
- Investment laws
- Faster economic growth
- Other

NEGATIVES

- No sugar
- Not all on dairy
- Lower MFN on cars and textiles
- Intellectual property?
- Part Jones Act relaxed
- Rules of origin
- Other



Bottom line



- Compared to previous estimate of **0.4** per cent of real GDP above baseline there are some ‘overs’ and ‘unders’
- Where the balance turns out requires detailed investigation

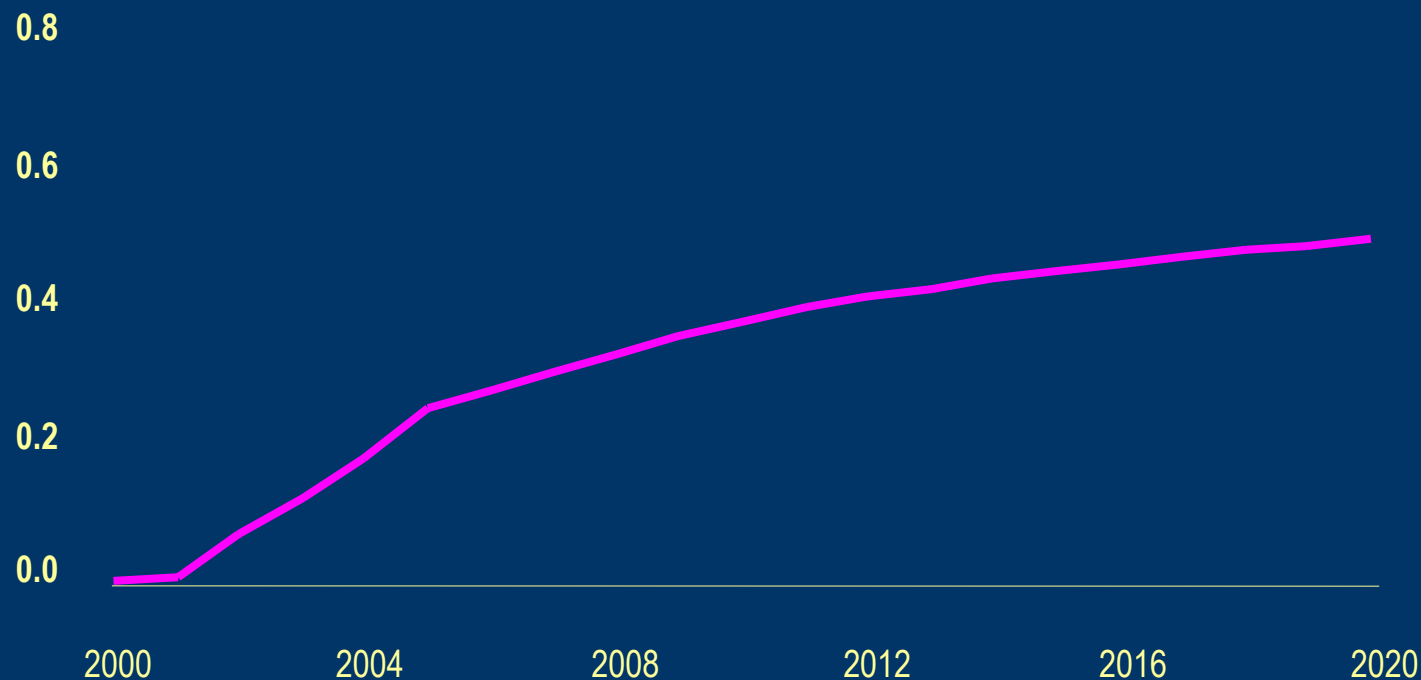


Decomposition of welfare gain to Australia

	<i>Source of welfare gain</i>					<i>Overall result</i>
	<i>United States liberalisation</i>		<i>Australian liberalisation</i>			
	Australian terms of trade	Income effect	Allocative efficiency	Australian terms of trade	Reduction in services costs	
CIE	+ve	+ve	+ve	-ve	+ve	+ve
ACIL	+ve	?but small	+ve	-ve	nil	-ve

Australia: APG-Cubed results

Real consumption (% deviation from baseline)



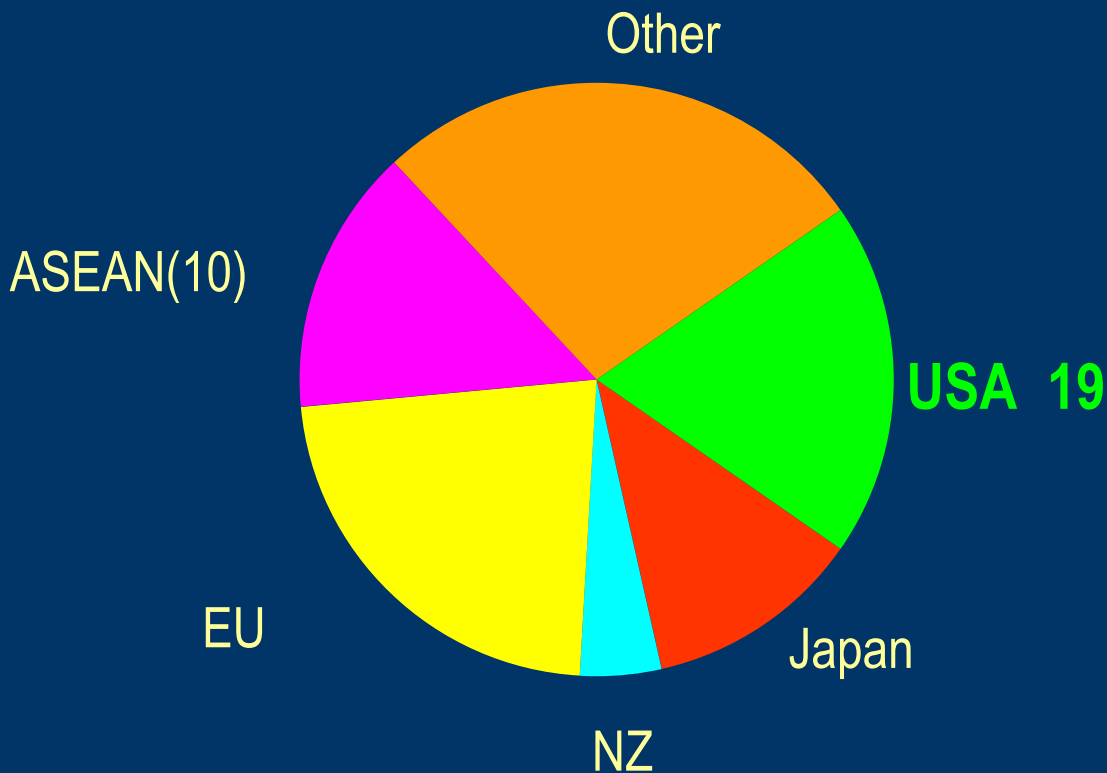
Australia: APG-Cubed results

Real imports and exports (% deviation from baseline)



Australia's trade with the United States

Australian imports (%)

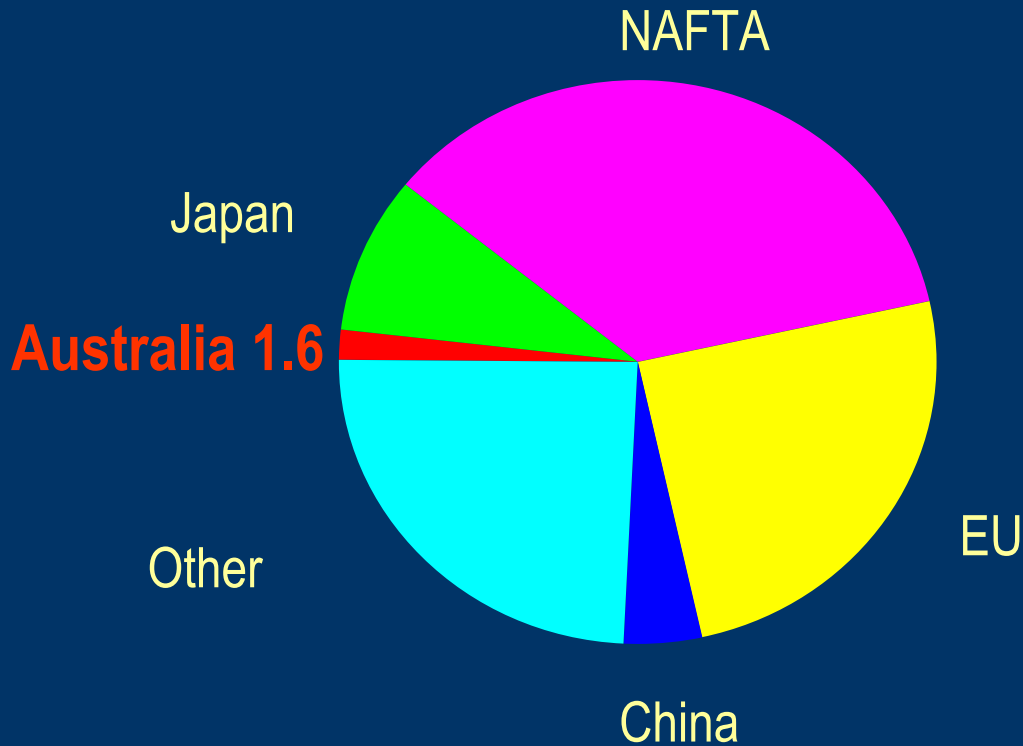


Some issues not modelled

- Subsidies
- Quarantine
- Intellectual property
- Government procurement
- Single desk
- Rules of origin

Australia's trade with the United States

US exports (%)



Major barriers: USA

Dairy products 24%

Sugar 80%

Light commercial vehicles 25%

Wearing apparel 12%

Textiles 6%

**Lamb, beef, wine, peanuts, cotton,
ships and services**

Major barriers: Australia

Textiles **10%**

Wearing apparel **16%**

Leather products **8%**

Paper products **5%**

Motor vehicles **15%**

**Metal products, wool products,
cheese, food products, machinery,
services**



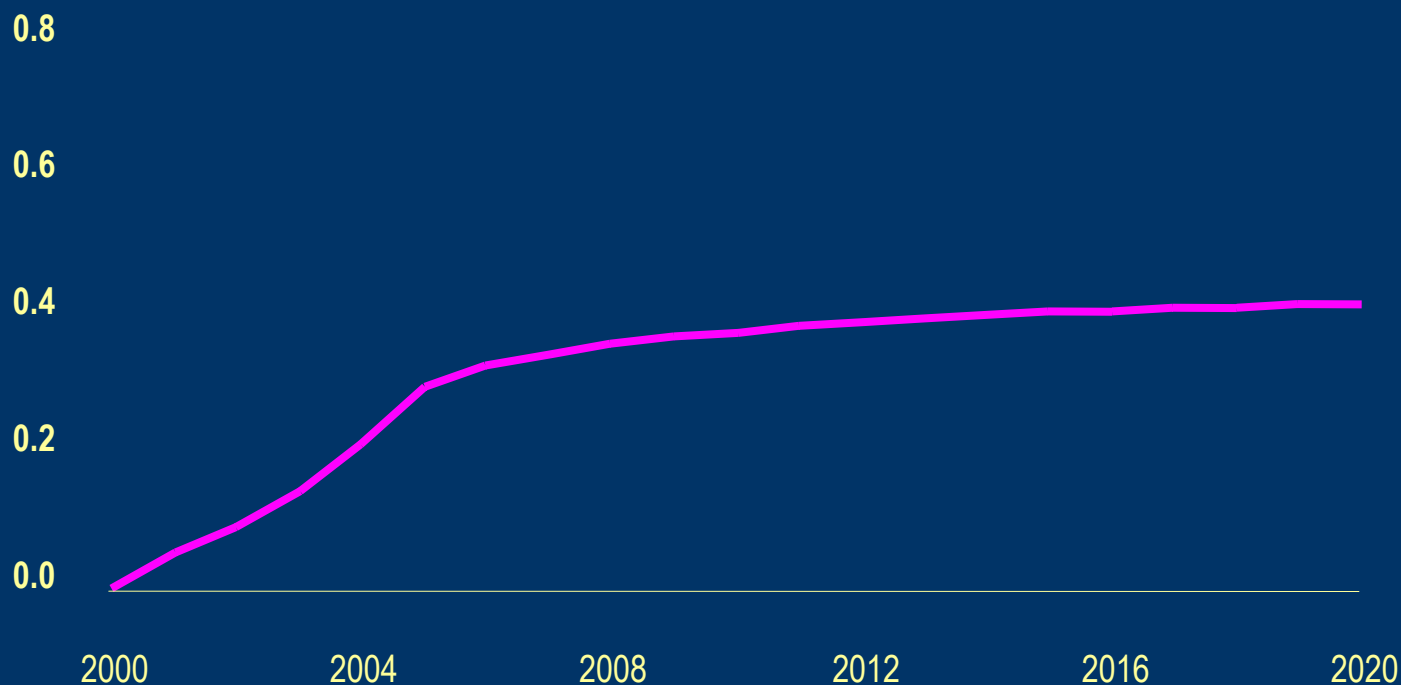
Services



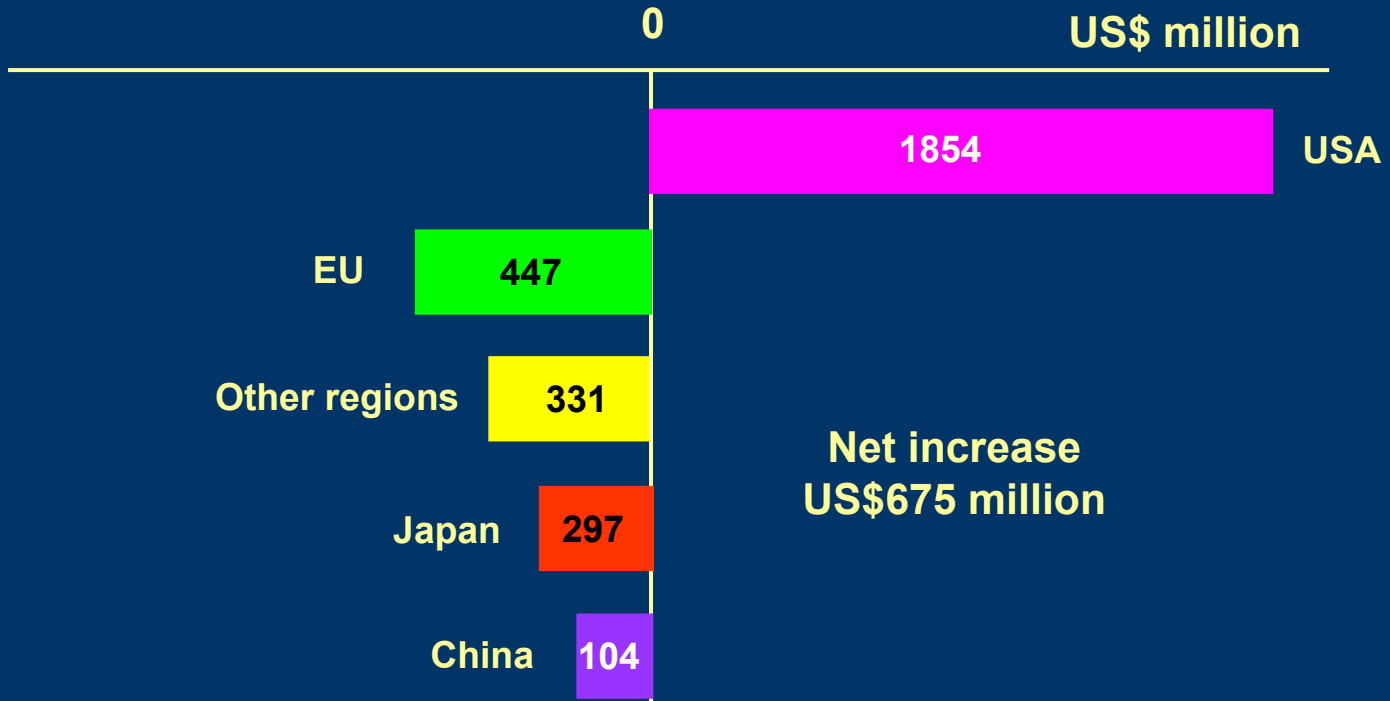
- Aviation
 - Banking and finance
 - Shipping services and *Jones Act*
 - Retail trade
 - Professional services
 - Telecommunications
 - Media ownership & content
 - Health
- 

Australia: APG-Cubed results

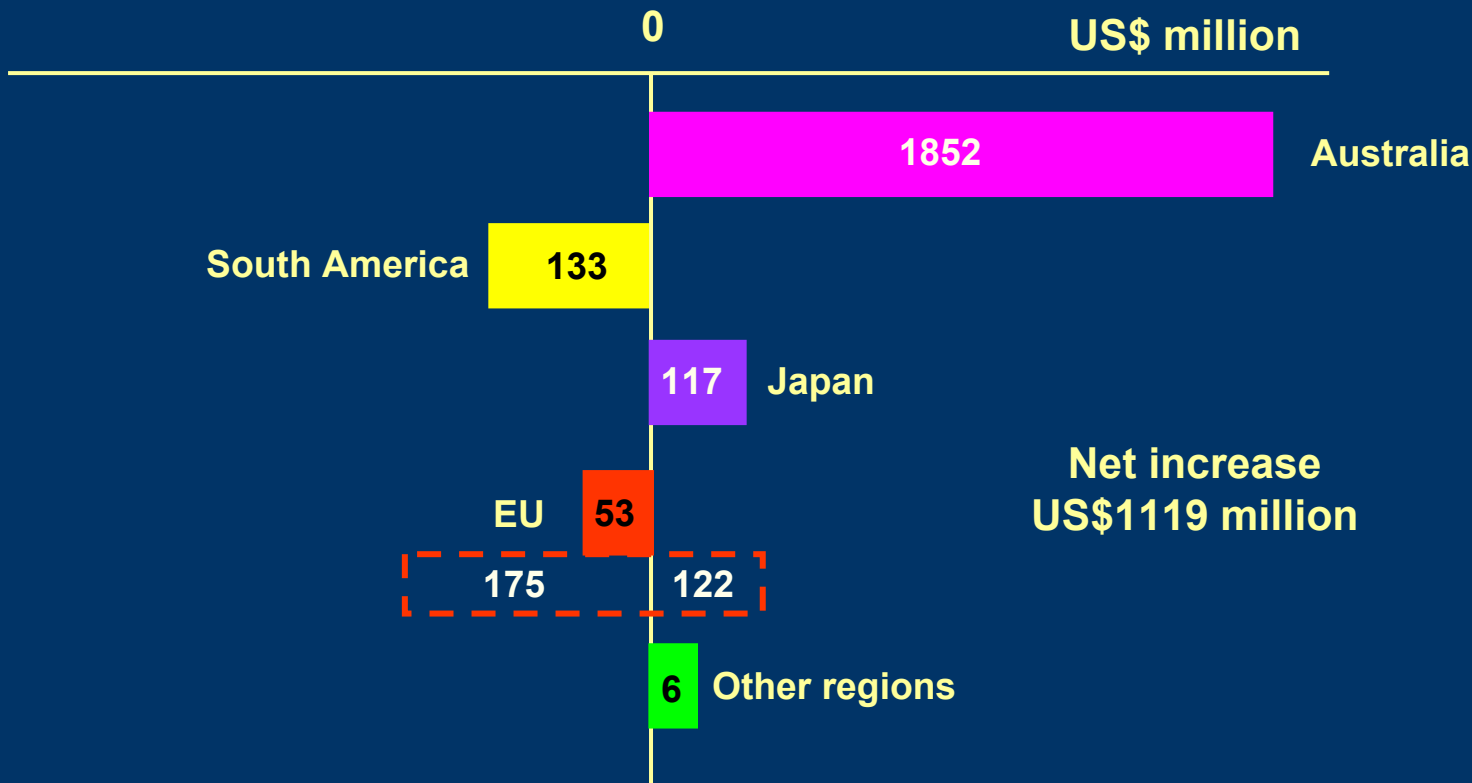
Real GDP (% deviation from baseline)



Exports to Australia from ...

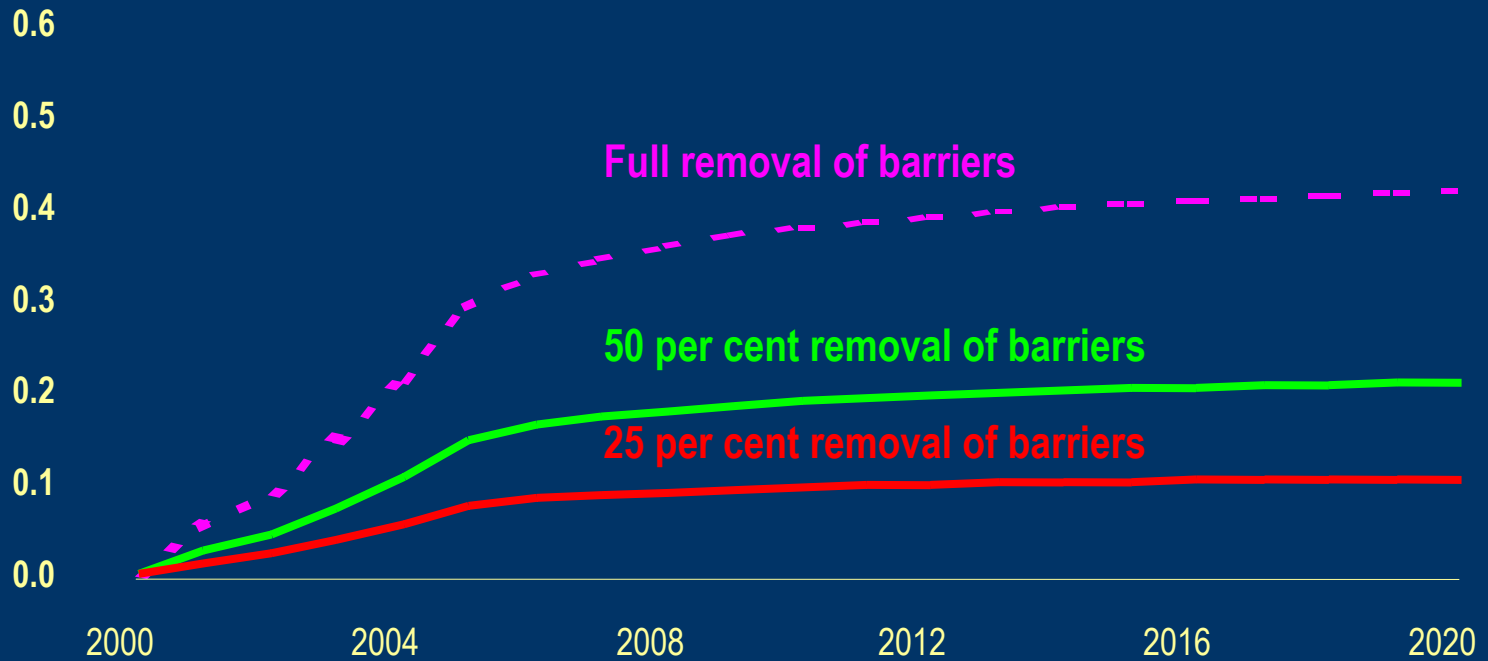


Exports to United States from ...

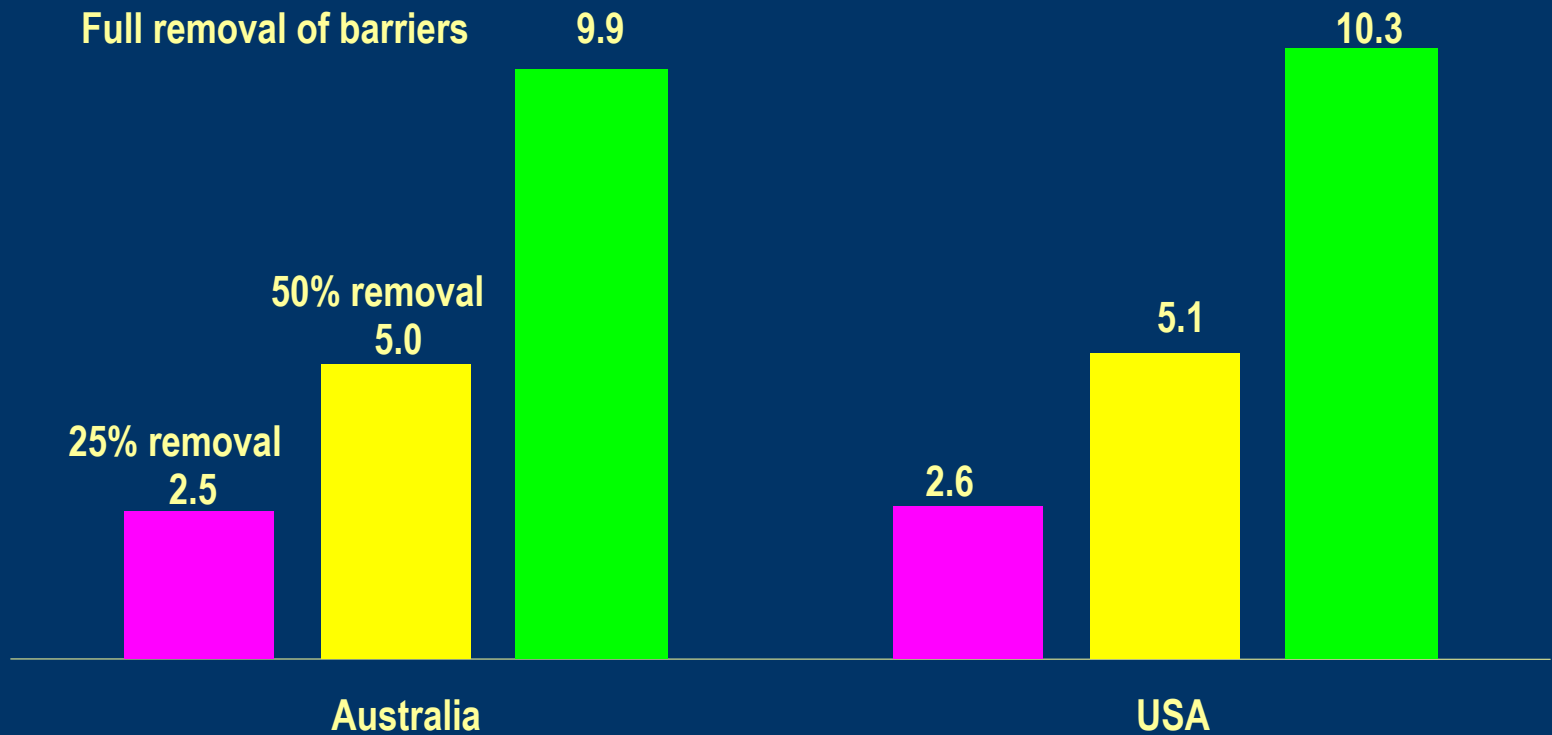


Comparison of full versus partial liberalisation

Australia: Real GDP (per cent deviation from baseline)



Net present value of real consumption



Gains from full implementation of a Australia-US FTA

Representation of gain

