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FOR INTERNATIONAL POLICY

Committee Secretary
Joint Standing Committee on Treaties
PO Box 6021
Parliament House
Canberra ACT 2600

Submission on KAFTA

Dear Committee Secretary

Following is a brief personal submission to the Joint Standing Committee on Treaties regarding the Committee's consideration of the Free Trade Agreement between the Government of Australia and the Government of the Republic of Korea (KAFTA).

These agreements are by their nature very technical and are the result of detailed negotiations over an extended period covering a wide range of Australia's trading relations with Korea. It is easy to get lost in the detail and overlook some wider aspects of such agreements.

In focusing on the specific outcomes from the agreement, particularly if this is done at an industry or sector level, while the benefit to the Australian exporters involved may be significant, the overall impact of the treaty may seem modest. This is also the case when looking at the overall benefits from the agreement. The National Interest Analysis for the agreement notes that economic modelling indicates that KAFTA will provide nearly \$5 billion in additional national income over five years. While \$5 billion is a large amount, its significance may be reduced when it is recalled that this gain will come over 15 years and it is compared with the size of the Australian economy. The 2010 Productivity Commissions research report on Bilateral and Regional Trade Agreements concluded that the increase in national income from preferential bilateral trading agreements was modest. As noted, the same assessment could be made regarding the estimated overall benefits from KAFTA. Nevertheless it has to be remembered that while the benefits may be modest, they are still positive and represent a gain to the Australian economy.

It is, however, also important to approach these agreements in a wider context and recognise the positive benefit that can come from strengthening the broader economic and political relationship between the countries involved, along with the prospect that they may contribute to wider liberalisation processes in both countries. This later aspect is often overlooked. These agreements make further headway in reducing protectionist strongholds, particularly when it comes to agricultural products. Such a process can contribute to a wider reform momentum. This is potentially particularly important for Australia's major trading partners, such as Korea. Any outcome that can contribute to advancing wider liberalisation

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and reform in Korea, which will in turn help strengthen the Korean economy, will be important to Australia. The contribution to wider reform efforts from agreements such as KAFTA are difficult to assess, may well be modest, but are positive and need to be considered.

As also mentioned, these trade agreements can be significant in helping to promote broader economic relations between the countries involved. In addition, there are indirect positive flow-on effects that can come from increased bilateral investment that may take place as a result of the agreement. Such indirect benefits are unlikely to be captured in the economic modelling of KAFTA.

Some provisos are also important. The 2010 Productivity commission report noted that domestic economic reforms that offer large economic benefits should not be delayed to retain 'bargaining coin' to be used in bilateral trade negotiations. This is an important point. The bulk of the gains to the domestic economy from the deals do not come from increased exports, but from the investment and productivity gains generated by more import competition.

Another conclusion from the Productivity Commission report was that the benefits from trade liberalisation are greatest if liberalisation is undertaken on a multilateral basis. This is correct, although as noted in the Regulation Impact Statement for KAFTA, progress with the Doha Development Round has been very protracted. The agreement at the Bali December 2013 WTO Ministerial Meeting was, however, significant and has hopefully put renewed energy into the prospect of more multilateral outcomes. It will be important for the Australian Government to continue to push for multilateral trade liberalisation and not see bilateral deals such as KAFTA as an alternative. On the contrary, it should seek to use the benefits gained from KAFTA to help drive multilateral outcomes.

Yours faithfully

Mike Callaghan
Director, G20 Studies Centre
Lowy Institute for International Policy