MINERALS COUNCIL OF AUSTRALIA

SUBMISSION TO JOINT STANDING COMMITTEE ON TREATIES INQUIRY INTO PACER PLUS AGREEMENT

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EXECUTIVE SUMMARY

Debates on trade policy in Australia tend to focus largely on the benefits that trade agreements offer for our own economy, such as access to new export markets, cost of living improvements for consumers and the job-creating impact of inward investment. This domestic focus sometimes means less attention is paid to one of the most significant benefits of free trade, its contribution to reducing global poverty. However in considering the PACER Plus trade agreement between Australia, New Zealand and 12 Pacific island countries, economic development and poverty reduction should be an important focus. PACER Plus will certainly deliver economic benefits for Australia, but its most important benefits will come from its contribution to boosting growth, improving living standards and tackling poverty and development challenges for the people of the Pacific island countries.

There is a strong nexus between international trade, economic growth, development and poverty reduction. Economic theory emphasises the role of capital accumulation, productivity and institutions in growth and development. Trade contributes to growth by opening up new markets and by stimulating investment, innovation and productivity. An extensive body of research has confirmed that greater trade openness leads to faster growth and higher per capita incomes in developing countries. A first wave of research during the 1990s found significant correlations between trade volumes, trade openness and economic growth. Following a methodological debate in the early 2000s, a second wave of economic research using more sophisticated and robust methodologies has overwhelmingly confirmed that trade and trade openness boost growth and incomes.

In recent decades, the scale of poverty reduction associated with economic growth and trade has been unprecedented. Between 1990 and 2015, the number of people living in extreme poverty – surviving on less than $1.90 a day – fell by 1.26 billion. But there is still a long way to go. Just as trade has played a powerful role in the poverty reduction achievements of recent decades it can play an important role in the coming period, particularly for smaller developing economies such as the Pacific island countries. These Pacific island countries face particular development challenges such as small domestic markets, isolation from global production networks, and the impact of their geographic location on trade costs and opportunities. Reducing trade barriers, pursuing more open and inclusive international trading relationships, and providing trade-related aid and development assistance can all make positive contributions.

PACER Plus will help the Pacific island economies to meet their growth and development aspirations. It will improve their ability to participate in international trade, to tap into global production networks and to attract inward investment that will build local businesses, create employment opportunities, improve infrastructure and underpin government revenues. Key aspects of PACER Plus include:

- Trade in goods – PACER Plus locks in duty-free access to Australia and New Zealand for Pacific exporters while tariff cuts to be phased in over longer time frames by Pacific island countries will also provide opportunities for Australian goods exporters.
- Rules of origin – flexible rules of origin will foster regional economic integration and value-adding by Pacific island countries.
- Trade in services – Pacific island countries have made significant commitments to provide market access for foreign services suppliers including, in most cases, for mining services which are a key export interest for the Australian mining sector.
- Investment – PACER Plus parties undertake to treat each other's investors no less favourably than domestic investors, subject to a range of specified limitations. In most cases these national treatment commitments include the mining and quarrying sector (amongst other sectors). Together with a range of other investment-enhancing measures in PACER Plus, these commitments will help Pacific island countries attract new investment while ensuring their governments remain fully entitled to pursue public policy objectives.
- Economic development – PACER Plus's development and economic cooperation chapter and its associated implementation arrangement and work program commit Australia and New

Zealand to providing ongoing assistance to the Pacific island countries on a wide range of economic development activities.

PACER Plus is one of the most pro-development trade agreements Australia has entered. It will support economic development and poverty reduction in Pacific island countries through multiple mechanisms. PACER Plus's market access mechanisms, including lower barriers to regional trade in goods and services and duty-free access by Pacific island exporters to the big markets of Australia and New Zealand, will support growth and development. PACER Plus's rules-based disciplines in areas such as investment, technical standards, transparency, consultation and dispute settlement will improve the business and investment climate in Pacific island countries. This will help attract investment which will provide further support for growth and development. And PACER Plus's detailed provisions for Australia and New Zealand to engage in ongoing, practical development assistance activities will provide still further support for growth and development. All these pro-development mechanisms will complement and reinforce one another. Accordingly PACER Plus should be supported by those concerned to promote economic development and to reduce global poverty and inequality.

For these reasons, the Minerals Council of Australia supports PACER Plus. The MCA recommends that the Australian Government take binding treaty action and that the Australian Parliament pass the necessary implementing legislation and regulations. Given the important role that PACER Plus can play in promoting economic development in the Pacific, the Joint Standing Committee on Treaties may wish to consider recommending that the Australian Government report regularly to Parliament on progress in implementing the agreement, including progress in meeting Australia's commitments under its development and economic cooperation chapter.

TRADE, GROWTH AND POVERTY REDUCTION

Debates in Australia on trade policy often focus predominantly on the benefits and opportunities that trade liberalisation and trade agreements offer for our own economy. These benefits range from access to new export markets for Australian producers to cost of living gains for consumers from cheaper imports; from the job-creating impact of freer flows of foreign direct investment into Australia's economy to the ability for our manufacturers to tap into global production and supply chains; and from the improvements in productivity stimulated by more competitive markets to the millions of jobs that rely on trade in sectors as diverse as agriculture, mining, manufacturing, transport, education, tourism and services. The focus on these issues reflects the important role trade liberalisation has played in delivering Australia's 26 years of uninterrupted economic growth. As *The Economist* has put it, Australia's success in achieving this record run of growth 'was built on the structural reforms of the 1980s and '90s, when trade barriers crumbled and foreign-exchange controls were removed.'[1]

However, this focus on domestic impacts sometimes means less attention is paid in Australian policy discussion to one of the most significant benefits of free trade, its contribution to tackling global poverty. Trade contributes powerfully to growth, development and industrialisation in emerging economies. It has lifted many hundreds of millions of people around the world out of extreme poverty over recent decades. And it has the potential in coming years to transform the lives of people in developing economies which are yet to benefit fully from trade opportunities due to challenges of geography, scale, investment and infrastructure. As the former Secretary-General of the United Nations, Ban Ki-moon, has said:

> Without trade, my country could not have risen from the rubble of war to become a developed nation. Without trade, China could not have achieved the impressive growth that has slashed poverty. Wherever we look — from Indonesia to Brazil, from Australia to Europe — trade provides a path to accelerated growth and prosperity … where trade is absent, economies cannot grow. They stagnate. And when trade falters, the most vulnerable are the first to pay the price. That is why we need to promote trade that benefits as many as possible, especially women, young people and the least advantaged. Many least developed and land-locked developing countries have yet to fully benefit from increased global trade. We must integrate Africa, least developed and land-locked developing countries into the global economy through open, non-discriminatory and equitable trade … International trade is an essential component of an integrated effort to end poverty, ensure food security and promote economic growth. An ounce of trade can be worth a pound of aid.[2]

The poverty reduction impacts of trade liberalisation and trade agreements should be an important focus for the Joint Standing Committee on Treaties ('the Committee') in considering the PACER Plus agreement. PACER Plus will certainly deliver economic benefits for Australia. From the point of view of the mining and mining services sector, the agreement will improve opportunities for investments and commercial partnerships with governments and businesses in Pacific island countries as they look to develop their own resources sectors. But perhaps the most important benefits of PACER Plus will come from its contribution to boosting economic growth, improving living standards and tackling poverty and development challenges for the people of the Pacific Island nations. This means the case for supporting PACER Plus rests not just on its economic benefits but also on its contribution to the broader social and human welfare of the people of the Pacific island countries. Accordingly, this submission by the Minerals Council of Australia (MCA) will review the academic research literature on the role trade plays in boosting growth and promoting development before turning to specific features of the PACER Plus agreement and the benefits it will bring to Australia and its Pacific island partners.

[1] *The Economist*, "How Australia broke the record for economic growth", 6 September 2017, viewed 21 December 2017, https://www.economist.com/blogs/economist-explains/2017/09/economist-explains-3

[2] Ban Ki-moon, Speech to World Trade Organization Public Forum 2014, 1 October 2014, https://www.wto.org/english/news_e/news14_e/igo_01oct14_e.htm

Linkages between trade, growth and poverty reduction

There is a strong nexus between international trade, growth, development and poverty reduction. Economic theory suggests expanding international trade will boost a country's growth. Trade and economic openness promote growth through channels such as increasing specialisation in an economy's areas of comparative advantage, promoting more efficient allocation of resources within an economy, opening up access to export markets leading to economies of scale, encouraging investment in physical and human capital, promoting international transmission of knowledge, skills and technology, and boosting domestic productivity through the impact of international competition. The economic growth stimulated by trade in turn increases the incomes of individuals, lifting people out of poverty and generating rising living standards.

One of the leading economic experts on growth, Harvard University's Elhanan Helpman, summarises the linkages between growth and trade as follows:

- Economic growth is driven by investment in human and physical capital ('neoclassical growth theory')
- Productivity also plays a critical role ('new growth theory')
- Productivity growth comes from technology, innovation, education and institutions
- International trade creates incentives to invest, innovate, invent new products, upgrade existing products and adopt new technologies
- In this way, trade stimulates investment, innovation and productivity which, in turn, drive growth and reduce poverty.[3]

Research on the economic benefits of trade

First wave of research – empirical evidence trade boosts growth and incomes

With many developing countries adopting policies of trade liberalisation and economic openness over recent decades a large body of academic research has examined the impact of these policies on growth and incomes. The consensus which emerged from this research by the 1990s was that both trade policy openness and higher volumes of trade in countries' gross domestic product were correlated with higher economic output, after controlling for other factors which influence growth.[4]

A key study in this body of research is a 1995 paper by Jeffrey Sachs and Andrew Warner of Columbia University and the IMF which examined 122 countries, comprising 89 developing countries and 33 developed countries, over the period from 1970 to 1989.[5] Sachs and Warner's econometric analysis found that countries which were open to trade outperformed those with significant trade barriers on three main dimensions of economic performance: economic growth, avoidance of macroeconomic crises and structural change. Furthermore they found a close relationship between trade openness and economic 'convergence' – poor countries grew faster than rich countries when poor and rich countries were linked by international trade. During the period from 1970 to 1989, Sachs and Warner conclude:

> '[W]e find a strong association between openness and growth, both within the group of developing and the group of developed countries. Within the group of developing countries, the open economies grew at 4.49 per cent per year, and the closed economies grew at 0.69 per cent per year. Within the group of developed countries, the open economies grew at 2.29 per cent per year, and the closed economies grew at 0.74 per cent per year.'[6]

[3] E Helpman, *Understanding Global Trade*, Belknap Press, Cambridge, 2011, p. 171; E Helpman, *The Mystery of Economic Growth*, Belknap Press, Cambridge, 2004.
[4] R Wacziarg and KH Welch, 'Trade Liberalization and Growth: New Evidence', *World Bank Economic Review*, 22 (2), 2008, pp. 187-231 at 188.
[5] JD Sachs and A Warner, 'Economic Reform and the Process of Global Integration', *Brookings Papers on Economic Activity* 1, 1995, pp. 1-118.
[6] ibid. p. 36.

Studies finding causal links running from trade openness to growth include a well-known paper by Jeffrey Frankel and David Romer, from Harvard University and the University of California, Berkely, which finds a strong effect of openness on per capita incomes. Using data on 150 countries, Frankel and Romer estimate that every one percentage point increase in the share of trade in a country's economy (trade as a share of GDP) raises the per capita income of its people by between 0.5 and 2 per cent.[7] Another study by Harvard University's Alberto Alesina and colleagues using a model of the relationship between trade shares and the size of countries, found that higher trade as a share of GDP was associated with higher annual growth rates in per capita income.[8] Utilising cross-country growth regressions on data from 84 countries over the period from 1960 to 1989, this study estimated that a 10 percentage point increase in the trade share of a small economy would boost its annual per capita income growth rate by 0.4 to 0.75 percentage points.

Rodriguez and Rodrik's critique

The empirical foundations of this body of research on trade and growth were called into question by a methodological critique published in 2000 by Francisco Rodriguez and Dani Rodrik, from Torino Capital and Harvard University.[9] Rodriguez and Rodrik's critique focussed on methodological issues including difficulties in measuring trade policy openness, the possibility that earlier studies confounded protectionist trade barriers with other sources of poor economic performance, and the sensitivity of the empirical findings to the statistical specifications and econometric models utilised. They concluded that the relationship between trade policy and economic growth remained 'very much an open question' and argued that the relationship was likely to vary from country to country, depending on a range of contingencies, rather than to be a consistent, underlying relationship.

Rodriguez and Rodrik's paper created doubts about the earlier findings of a strong relationship between trade openness and growth, although it should be noted that their critique focussed on the impact of government policy measures, such as tariff cuts, rather than on the impact of changes in trade volumes on growth.

Second wave of research – robust analysis confirms trade boosts growth and incomes

This critique prompted a fresh wave of more in-depth research into the impact of trade andtrade policies policies on economic growth and development. These studies have employed more rigorous and sophisticated econometric techniques along with more robust approaches to measuring trade openness.

A study by Romain Wacziarg, for example, examines the impact of trade policy measures, rather than trade volumes or trade shares, on economic growth.[10] Wacziarg responds to the Rodriguez and Rodrik critique by developing a new index to measure trade openness, taking account of tariff barriers, non-tariff barriers and other government policy measures affecting international trade. Using data from a sample of 57 countries over the period from 1970 to 1989, he finds greater trade policy openness has a positive impact on economic growth. Wacziarg also seeks to identify the economic mechanisms through which trade openness boosts growth, finding the most important channels are investment, technology transmission and macroeconomic policy.

Another study by Romain Wacziarg and Karen Welch takes this approach further, using more robust indicators of trade policy to identify changes over time in the degree of openness of individual

[7] JA Frankel and D Romer, 'Does Trade Cause Growth?' *American Economic Review*, 89 (3), 1999, pp. 379-99 at 380-1.
[8] A Alesina, E Spolaore and R Wacziarg, 'Economic Integration and Political Disintegration', *American Economic Review*, 90 (5), 2000, pp. 1276-96.
9 F Rodriguez and D Rodrik, 'Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence', in B Bernanke and K Rogoff (eds), *NBER Macroeconomics Annual 2000*, Vol 15, MIT Press, Cambridge, Mass. pp. 261-338.
[10] R Wacziarg, 'Measuring the Dynamic Gains from Trade', *World Bank Economic Review*, 15 (3), 2001, pp. 393-429.

countries.[11] Using nearly 50 years of data to identify dates when countries embarked on significant trade liberalising reforms, they found countries liberalising their trade regimes recorded average annual growth rates about 1.5 percentage points higher than they had experienced before opening their economies. Investment growth rates rose by 1.5 to 2 percentage points after countries liberalised, supporting earlier findings that investment is one of the main linkages through which freeing up trade boosts economic growth.

The Rodriguez and Rodrik methodological critique prompted some academics to employ the research strategy of examining 'natural experiments' from economic history. A study by Dartmouth College's James Feyrer used the closure of the Suez Canal triggered by the Six Day War in 1967 to examine the growth impacts of changes in trade costs and volumes.[12]

The closure of the Suez in 1967 and its subsequent reopening in 1975 affected the distance of seaborne trade between countries, in many cases dramatically. Since some country pairs were affected by the closure and others were not, it offered a natural experiment to examine how trade affects income. Feyrer found that for 79 country pairs which saw distance increases of over 50 per cent, the closure caused an average fall in trade of over 20 per cent. Trade between these countries recovered completely within three to four years of the Suez reopening. The closure and reopening were akin to imposing and then removing a trade barrier significantly increasing trade costs, with the Suez experience suggesting that lowering trade barriers will lead to increases in trade volumes. Feyrer analysed country by country data on trade volumes and incomes before, during and after the Canal's closure. His estimates suggest that every dollar of increased trade raises per capita income by about 25 cents.

In a separate study, Feyrer used the impact of changes in aircraft technology on effective trade distances between countries to construct a natural experiment looking at how changes in the costs of trading over time have affected incomes.[13] Again he concludes that the data shows that trade has a significant positive effect on country incomes, such that an increase of one dollar in trade will raise per capita income by around 50 cents.

Another significant strand of research has responded to the Rodriguez and Rodrik critique by bridging the country-specific case study or natural experiment approach with more robust cross-country and time series econometric techniques. Researchers have compared 'before and after' economic growth rates among countries introducing significant trade reforms, holding constant other variables affecting growth such as population growth, macroeconomic policies, investment and educational outcomes. Further comparisons have been made between groups of countries which have introduced trade reforms and similar countries which did not liberalise trade. These studies have provided new evidence supporting the earlier findings that trade liberalisation is associated with stronger growth in economic output and incomes, especially in developing countries. The new wave of trade and growth studies have utilised more robust empirical techniques which militate against the possible methodological shortcomings identified in the cross-country studies of the 1990s.

A study by Andreas Billmeier and Tommaso Nannicini, for example, used a 'synthetic control' method akin to randomised control methods used in clinical trials where a group of patients is administered a medical treatment and the outcomes are compared statistically to those among a control group which does not receive the treatment.[14] Billmeier and Nannicini identified 30 developing countries which introduced trade liberalisation policies between 1963 and 2000 (the treatment group). These liberalising economies were compared to 97 developing economies from similar regions which did not adopt trade reforms (the control group). They found that around two-thirds of the liberalising countries

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[11] R Wacziarg and KH Welch, op. cit.

[12] J Feyrer, 'Distance, Trade and Income – The 1967 to 1975 Closing of the Suez Canal as a Natural Experiment', Working Paper 15557, 2009, National Bureau of Economic Research, Cambridge, Mass.

[13] J Feyrer, 'Trade and Income: Exploiting Time Series in Geography', Working Paper 14910, 2009, National Bureau of Economic Research, Cambridge, Mass. See also the discussion of Feyrer's papers in Council of Economic Advisers, 'The Economic Benefits of US Trade', Executive Office of the President of the United States, May 2015 at p. 23.

[14] A Billmeier and T Nannicini, 'Assessing Economic Liberalization Episodes: A Synthetic Control Approach', *The Review of Economics and Statistics*, 95(3), July 2013, pp. 983-1001.

experienced significant increases in real GDP per head of population in the 10 years following the reforms. These increases were evident both in comparison to the liberalising countries' own records before they freed up trade and in comparison to outcomes amongst the non-liberalising developing economies over the same time periods. The growth in per capita incomes in liberalising economies compared to non-liberalising economies was clearest in Asia and Latin America where eight of the 10 liberalising economies recorded significantly higher real per capita GDP following trade reforms. The results were less consistent in sub-Saharan Africa where around half of the 16 economies introducing trade liberalisation benefited in terms of higher per capita GDP compared to similar but closed economies. Billmeier and Nannicini conclude that economic liberalisation tends to have a positive impact on the trajectory of real per capita income.

Another important study with robust empirical findings that trade liberalisation promotes growth and higher incomes is a 2013 paper by Antoni Estevadeordal and Alan Taylor of the Inter-American Development Bank and the University of California, Davis.[15] Estevadeordal and Taylor treat the World Trade Organization's Uruguay Round of multilateral trade negotiations between 1985 and 1994 as the opportunity for a large-scale natural experiment. The pattern of tariff cuts implemented under the Uruguay Round varied significantly amongst countries. Some cut tariffs substantially while others already had low tariffs and did not cut them further and still others had high tariffs and did not make significant cuts. Estevadeordal and Taylor collect data showing changes in tariffs among a sample of 75 countries between 1985 and 2000. They use 'difference in difference' regression estimation methodologies to examine the impact of tariff cuts on annual growth rates in real per capita GDP, while holding constant other variables affecting growth such as education, development levels, legal institutions and property rights. Their results show the liberalising countries – those cutting tariffs by more than the sample median – subsequently grew by about 0.7 to 0.95 percentage points per annum faster than the non-liberalisers.

More detailed analysis by Estevadeordal and Taylor found the positive association between trade liberalisation and growth was strongest when countries cut tariffs on imports of capital equipment and intermediate goods used as inputs for domestic production. This finding is relevant to developing countries, especially smaller developing countries such as those of the Pacific, which are more reliant on imports for capital and intermediate goods than developed or larger developing countries. Estevadeordal and Taylor's study also deployed a series of statistical stress tests which confirmed that their findings were robust, standing up to an array of methodological questions ranging from sensitivity to sample choice and the influence of individual observations on the results to possible impacts of omitted variables or endogeneity bias.

An annual growth rate dividend of 1 percentage point a year induced by trade liberalisation will generate meaningful improvements over time in living standards for people in developing countries. Estevadeordal and Taylor's analysis shows that by 2004, following the Uruguay Round reforms, per capita GDP in the group of liberalising countries was almost 10 per cent above its trend level in the 1970s and 1980s while in non-liberalising countries it had fallen almost 10 per cent, creating a 15 to 20 per cent gap in GDP per person outcomes.[16]

World Bank development economist Aart Kraay noted in 2007 that an extra 1 percentage point in annual growth rates would be sufficient on its own to meet the UN's Millennium Development Goals on poverty reduction in several developing countries and would contribute between a third and half of the goals in many other countries.[17] Estevadeordal and Taylor conclude:

> Our results show that there is quite strong support for the trade policy prescriptions of the Washington Consensus. The consensus claimed that lowering tariffs would promote growth in the developing world … The way to test the claim is after the fact, by looking at which countries took this 'medicine' and how

[15] A Estevadeordal and AM Taylor, 'Is the Washington Consensus Dead? Growth, Openness and the Great Liberalization, 1970s-2000s', *The Review of Economics and Statistics*, 95(5), December 2013, pp. 1669-1690.
[16] ibid, p. 1680.
[17] ibid, p. 1689.

> they fared relative to those that did not, using a classic treatment and control method to detect [growth] acceleration effects … Based on our empirics … the impact of tariff reduction looks quite beneficial and has a plausible magnitude consistent with theory. The effects we find are not so large as to be dismissed as implausible but at the same time our effects are still large enough to make a nontrivial cumulative difference in outcomes over the longer run … [I]s there any other single policy prescription of the past twenty years that can be argued to have contributed between 15 per cent and 20 per cent to developing country incomes?[18]

Overwhelming research consensus on benefits of trade

To summarise this review of the literature on trade and growth, a substantial body of research was conducted during the 1990s using cross-country growth regressions.[19] Several studies established clearly that countries with higher shares of trade in their economies grew more rapidly. Other studies looked at the impact of trade policies, as distinct from trade itself, and concluded that countries changing trade policies by moving to greater openness recorded higher growth and incomes. However, the statistical validity of these findings was called into question by a critique published in 2001 by Francisco Rodriguez and Dani Rodrik which identified a number of methodological shortcomings. Rodriguez and Rodrik were not arguing that countries with trade barriers performed better economically than those with free trade policies, but that the empirical jury was still out on whether reducing trade barriers improved economic outcomes. Economists responded to this methodological critique with a new wave of quantitative research during the 2000s and 2010s which has generated stronger and more robust findings of a positive impact of trade liberalisation on growth and incomes, especially in developing economies. As Dartmouth College trade economist Douglas Irwin says: 'These papers … have really responded to that Rodriguez and Rodrik critique and now we can say with much more confidence that there is empirical evidence that countries with more open trade policies, or that move to freer trade, will perform economically better.'[20]

There is now a large body of academic research – including rigorous theoretical analysis, quantitative empirical studies based on economic data, and qualitative case studies examining the real-world experiences of individual countries – which demonstrates the links between trade, economic development, income growth and poverty reduction. The appendix to this submission provides the Committee with a select bibliography of the research literature finding empirical evidence of the positive impact of trade on growth and incomes. The role of trade liberalisation in promoting per capita income growth is not only well-grounded in economic theory but has been confirmed empirically through robust quantitative analysis as well as qualitative case studies examining the role of trade in the economic development of a diverse range of countries.[21] There is an overwhelming consensus amongst economic and trade policy experts that trade expansion, trade liberalisation, economic openness and related policies contribute to faster growth and higher incomes, particularly in developing economies. Those who argue against greater economic openness and in favour of protectionist trade barriers are taking a stance which is at odds with the empirical evidence and detrimental to the welfare of people living in developing countries, including some of the poorest people in the world.

[18] ibid, pp. 1688-9.

[19] This summary draws on D Irwin, 'The Case for Free Trade since David Ricardo', Lecture, Texas Tech University, 23 March 2017, https://www.youtube.com/watch?v=HL3pggvB-sk, accessed 9 January 2018.

[20] ibid, at 26'05".

[21] Case studies have covered both historical periods, such as Japan's 19th century emergence from economic autarky, and more contemporary trade policy changes in developing counties from the 1960s to the 2000s, including countries such as India, China, Turkey and Latin American countries. See, for example, DM Bernhofen and JC Brown, 'An Empirical Assessment of the Comparative Advantage Gains from Trade: Evidence from Japan', *American Economic Review*, 95(1), March 2005, pp. 208-25; IMD Little, T Scitovsky and MF Scott, *Industry and Trade in Some Developing Countries: A Comparative Study*, Oxford University Press, London, 1970; AO Krueger and OH Aktan, *Turkey: Trade Reforms in the 1980s*, ICS Press, 1992.

Scale of poverty reduction – and the role of trade in meeting future challenges

> ‘More people have exited poverty globally in the past 30 years than in all of prior human history.’
>
> *Adam Posen, President, Peterson Institute for International Economics*

As developing economies have grown over recent decades the scale of global poverty reduction has been enormous. In 1990, 1.96 billion people, or almost 40 per cent of the world’s population, lived in extreme poverty (defined as living on less than $1.90 a day at 2011 purchasing power parity prices). By 2015, the number in extreme poverty had declined to an estimated 702 million, or just under 10 per cent of the world’s population.[22] In one generation, 1.26 billion people around the world have been lifted out of extreme poverty – and this during a period of rapid population growth.

China has been a major part of the poverty reduction story – and trade has been central to China’s growth. When China embarked on its economic reforms in 1978, its share of the world’s merchandise exports stood at around 1 per cent and 64 per cent of its population lived in extreme poverty. By 2010 China’s share of world exports had risen to more than 10 per cent and the incidence of extreme poverty had fallen below 10 per cent of its population. [23]

But global poverty reduction during the era of greater trade openness is not just a China story. Exports have been central to the rapid growth of Asian Newly Industrialised Countries such as Singapore, Hong Kong, South Korea and Taiwan which started in the late 1960s and which has been taken up more recently by South-East Asian economies such as Indonesia, Malaysia, Thailand and the Philippines. And Jagdish Bhagwati and Arvind Panagariya have shown that India’s embrace of reforms in the 1990s reversing its earlier policies of trade and investment autarky saw its growth accelerate, beginning a massive process of poverty reduction.[24] There have also been strong reductions in poverty in Mexico, Brazil and other Latin American emerging market economies.

The scale of poverty reduction has been unprecedented. As the president of the Peterson Institute for International Economics, Adam Posen, has put it: ‘More people have exited poverty globally in the past 30 years than in all of prior human history.’ [25] But there is still a long way to go. Eradicating global poverty is an important social as well as an economic challenge – and trade policy is one element of an array of measures needed to meet this challenge. Just as trade has played a powerful role in the poverty reduction achievements of recent decades it can play an important role in the coming period, particularly for smaller economies such as the Pacific island countries which face particular development challenges. Reducing trade barriers, pursuing more open and inclusive international trading relationships, and providing trade-related aid and development assistance can all make positive contributions for these countries.

Some of the most onerous remaining barriers to trade in goods, for example, are in markets for agricultural products like grains, dairy products, meat, sugar and cotton which are important for developing economies. Freeing up trade in farm products would be especially beneficial to the poorest people in the world. Agriculture is a significant share of the economies of developing countries, especially the least developed countries or LDCs (which typically have per capita Gross National Incomes of less than US$1,000 a year). Agriculture employs around half of the labour force in developing economies globally and accounts for a significant share of export income for LDCs.[26]

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[22] M Cruz, J Foster, B Quillin and P Schellekens, ‘Ending Extreme Poverty and Sharing Prosperity: Progress and Policies’ World Bank, Policy Research Note, PRN/15/03, October 2015.

[23] China’s share of exports: A Subramaniam and M Kessler, ‘The Hyperglobalisation of Trade and Its Future’, Working Paper WP 13-6, Peterson Institute for International Economics, 2013, Table 2.2, p 45. Incidence of poverty: M Ravallion, ‘Looking beyond averages in the trade and poverty debate’, World Bank Policy Research Working Paper 3461, 2004, p. 7; and World Bank, World Development Indicators 2015, World Bank, Washington DC, p. 32.

[24] J Bhagwati and A Panagariya, *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries*, PublicAffairs, New York, 2013.

[25] AS Posen, ‘Debate: The Case for Growth’, Peterson Institute for International Economics, 30 July 2015, https://piie.com/commentary/op-eds/debate-case-growth?ResearchID=2814, accessed 9 January 2018.

[26] World Trade Organization, *World Trade Report 2014*, WTO, Geneva, 2014, pp. 135-6.

Yet global agriculture markets are characterised by significant barriers to trade and other market distortions. Rich countries like the US and Japan, and the member states of the European Union impose tariffs and quotas on agricultural imports, making it harder for developing countries to export their farm goods into those markets (although the impact of these barriers is softened in some cases by developing country preferences). The US and the EU also provide large subsidies to their own farmers. The impacts of subsidies on agricultural markets are complex, but they can significantly disadvantage farmers in developing economies by depressing world prices for farm goods.

World Bank modelling has found that removing all remaining barriers to trade in merchandise goods would reduce global poverty and inequality.[27] This study, whose authors include the University of Adelaide's Professor Kym Anderson, estimated that freeing up trade would reduce the number of people living on less than US$2 a day by nearly 90 million (or 3.4 per cent). The modelling predicted that freeing up trade would generate:

- Higher incomes for poor country farmers as their exports rise – real agricultural GDP is estimated to increase by six per cent across all the world's developing countries
- Higher wages for unskilled workers in poor countries – their wages are estimated to rise by three to six per cent in real terms across all developing countries.

A separate modelling exercise which looked at 15 developing economies in Asia, Africa and Latin America estimated larger poverty reduction benefits from freeing up trade, with particularly large impacts in some countries. This study found that trade liberalisation would see the incidence of extreme poverty fall by 28 per cent in Thailand, 24 per cent in Vietnam, 12 per cent in Chile and 10 per cent in Brazil.[28]

The impact of trade and associated economic growth in developing countries extends beyond lifting people out of the most extreme levels of poverty. It also raises the living standards of those who may not meet the official definitions of poverty but whose living standards lag well behind those of most citizens of developed economies. In this way, economic development and growth not only tackle the most extreme poverty but also bolster the ranks of the world's middle-income population and, in this way, reduce global inequality.

Inequality has been an increasing focus for policy and political debates in developed economies since the global financial crisis of 2007-08. While the focus has been on rising domestic or within-country inequality in developed nations, this should not overshadow the impact of economic growth in reducing levels of global or between-country inequality, narrowing the gap between incomes in rich and poor countries.

The former lead economist at the World Bank's research department, Branko Milanovic, has made the point that the globalisation of the last two decades has driven the most profound changes in global inequality in the last 200 years.[29] Milanovic's analysis of changes in global income distribution between 1988 and 2008 shows the biggest winners have been the middle classes of the large emerging market economies of China, India, Indonesia, Brazil and Egypt while significant advances have also been made by hundreds of millions of the world's poorest people:

> Global income distribution has changed in a remarkable way. It was probably the most profound global reshuffle of people's economic positions since the Industrial Revolution. Broadly speaking the bottom third, with the exception of the very poorest, became significantly better off and many of the people there escaped absolute poverty. The middle third or more became much richer, seeing their real incomes rise by approximately 3 per cent per capita annually.[30]

[27] K Anderson, J Cockburn and W Martin, *Would Freeing Up World Trade Reduce Poverty and Inequality? The Vexed Role of Agricultural Distortions,* Policy Research Working Paper WPS 5603, 2011.
[28] TW Hertel and R Keeney, 'Poverty Impacts in 15 Countries: The GTAP Model' in K Anderson, J Cockburn and W Martin (eds), *Agricultural Price Distortions, Inequality and Poverty,* World Bank, Washington, 2010.
[29] B Milanovic, 'Global Inequality in Numbers: in History and Now', Global Policy, 4(2), May 2013, pp. 198-208.
[30] ibid, p. 202.

There is also evidence that greater trade openness reduces inequality *within* countries. Countries with higher shares of trade in their economies tend not only to have higher incomes overall but to lower income inequality within their populations. A study published last year by IMF economists Diego Cerdeiro and Andras Komaromi seeks to identify the causal role played by trade, as opposed to other factors, in these relationships.[31] Based on data from more than 100 countries for the period 1990 to 2015, their results indicate that a 1 percentage point increase in trade openness raises per capita real incomes by 2 to 5 per cent. Further, they find that trade reduces inequality with a 1 percentage point increase in openness causing the incomes of a country's poorest 10 per cent to rise by about 4 per cent relative to the incomes of the country's top 10 per cent.

Poverty and economic, social and human disadvantage and inequality remain major international problems. A key challenge for the future is to maintain and extend the gains achieved in recent decades. The imperative should be to ensure that people in smaller developing countries facing difficulties such as geographic remoteness, underinvestment in infrastructure, education and skills, and lack of scale are able to benefit from economic growth. Trade alone is not a panacea for global poverty – but it has a key part to play in meeting this challenge. Economic development is fostered by investment in physical and human capital, innovation, technology and economic, legal and political institutions. By boosting investment and improving productivity, and by giving small developing countries access to international markets and production networks, trade helps to promote economic growth. That means it is an important part of the policy mix needed to tackle global poverty and underdevelopment.

[31] DA Cerdeiro and A Komaromi, 'Trade and Income in the Long Run: Are There really Gains, and Are They Widely Shared?' IMF Working Paper 17/231, October 2017.

BENEFITS OF PACER PLUS

The MCA supports the Pacific Agreement on Closer Economic Relations Plus (PACER Plus).

The overwhelming reason PACER Plus should be supported is because it will help Australia's neighbours in the Pacific region, including some of the world's least developed countries, to meet their economic development challenges. The agreement will help improve living standards and lift people out of poverty by providing opportunities for Pacific island countries to develop and grow their economies. It will improve the ability of these economies to participate in international trade, to tap into regional and global production networks, and to attract the inward investment needed to build and expand local businesses, create jobs and training opportunities, and underpin government revenues needed to provide public services and infrastructure.

PACER Plus will also deliver benefits for Australian exporters in the form of improved market access for goods and services and an improved regulatory and institutional climate for Australian businesses looking to invest in Pacific island countries. This will include potential opportunities for Australian mining services, equipment and technology exporters and for outward Australian investment in developing Pacific island countries' minerals and energy resources.

PACER Plus should also be supported because it will promote stability, security and prosperity in the Pacific. This is not only in Australia's national interests – it is also part of our regional responsibilities as a significant regional power and developed economy. PACER Plus has a strong economic development and cooperation focus, including a built-in work program for Australia and New Zealand to assist and engage with Pacific island member countries in implementing and securing the benefits of the agreement. These aspects of PACER Plus will help build stronger economic, legal and political institutions in Pacific island countries, improve Australia's bilateral relations in the region and enhance broader regional cooperation and institutions such as the Pacific Islands Forum. These aspects of the agreement should be implemented in coordination with Australia's overseas development assistance program and other foreign policy and diplomatic initiatives in the Pacific.

The MCA represents Australia's minerals industry which is the country's biggest export earner, responsible for more than half of Australia's total exports of goods and services. Given the importance of mining exports to the Australian economy, and future opportunities not only for extractive mining exports but also for exports of Australian mining services, equipment and technology, the MCA strongly supports open international markets, a rules-based global trading system and continuing efforts by governments to dismantle barriers to trade through bilateral, regional and multilateral trade agreements. This section of our submission examines specific aspects of PACER Plus which will contribute to economic development, growth and opportunities in the Pacific, including aspects which are relevant to Australian mining, mining services and mining investment.

Trade in goods

PACER Plus will reduce costs and barriers for merchandise trade between member countries by reducing tariffs on a wide range of products. The structure and timing of the tariff reductions reflects the disparity between the levels of economic development of Australia and New Zealand, on the one hand, and the Pacific island member countries on the other. Under the agreement, Australia and New Zealand bind tariffs on all imported goods from the Pacific island member countries at zero.

This preferential duty-free access to Australia and New Zealand for all goods will make Pacific island exporters more competitive in the two biggest markets covered by the agreement. It will help offset non-policy related trade costs faced by Pacific exporters such as transport costs. By binding duty-free access to Australia and New Zealand for Pacific island countries, PACER Plus will improve certainty, creating a stronger platform for Pacific exporters to develop business models, enter distribution arrangements and secure finance for exporting to Australia and New Zealand.

Pacific island countries covered by PACER Plus will also reduce and, ultimately, eliminate tariffs on a large number of Australian and New Zealand exports, albeit over extended time frames in the cases of a number of the less developed economies. The first round of tariff cuts on Australian goods will commence when PACER Plus enters into force for the Cook Islands, Kiribati, Niue, Samoa and Tonga.[32] For the Republic of the Marshall Islands, the Federated States of Micronesia, Nauru and Palau, tariff cuts will commence 10 years after PACER Plus enters into force while for three of the Pacific island countries which have UN LDC (Least Developed Country) status tariff cuts may commence at a later date, linked to their levels of economic and social development. Pacific island member countries as a whole have agreed to eliminate tariffs on 91.5 per cent of their tariff lines, covering 88.5 per cent of Australian exports in 2016, by around the middle of the century.[33]

The long time lines for phasing in these tariff reduction commitments reflects the concept of 'special and differential treatment' for developing countries which is an accepted feature of trade policy including in World Trade Organization (WTO) multilateral agreements. Special and differential treatment afforded to developing countries in trade negotiations recognises the difficulties such countries may face in reducing tariffs rapidly, such as the vulnerability of local businesses to import competition and the impact of tariff cuts on government revenues. Developing countries may also need longer timeframes in implementing trade commitments so they can build capacity and systems in areas such as customs administration.

An interesting aspect of PACER Plus is that some Pacific island countries are moving to reduce tariffs rapidly, despite their developing country status. The Cook Islands will eliminate tariffs under PACER Plus within three years of the agreement entering into force. Kiribati, which is an LDC, has already eliminated all of its ordinary customs duties and effectively binds its duty-free treatment of imports in PACER Plus.[34] Economic research suggests that tariff cuts such as these will generate economic benefits for the importing country: lower consumer prices and improved living standards in the case of tariff cuts on final goods and lower business input costs in the case of tariff cuts on capital and intermediate goods used by domestic producers.

In the light of research showing that tariff cuts on capital and intermediate imports have particularly strong positive impacts on economic growth for smaller developing countries, which rely heavily on imports for these inputs, it might have been desirable for more PACER Plus Pacific island member countries to have decided to make faster reductions in tariffs as Kiribati and the Cook Islands have done.[35] However, the MCA accepts there is a valid case for special and differential treatment, given the potential fragility of these economies. There are also valid issues for Pacific island country governments in terms of the trade-offs and short-term costs involved, such as loss of government revenue and difficulties adjusting to rapid tariff liberalisation. Accordingly, the MCA's view is that the tariff cuts agreed under PACER Plus are an acceptable outcome in the light of the wide economic disparities between the developed and developing country members.

The tariff reductions agreed by most PACER Plus member countries include products of interest to the Australian minerals and mining equipment sector including metals and metal products, specialised machinery and equipment and mineral fuels.[36]

Rules of origin

Rules of origin are needed in bilateral and regional trade agreements to establish whether products qualify for preferential access. The issue typically arises where production is spread across borders. Where a country imports raw materials or components, further processes and adds value to these

[32] Department of Foreign Affairs and Trade, 'National Interest Analysis with attachments, Pacific Agreement on Closer Economic Relations Plus (PACER Plus)', 2017, p. 8, Table 1.
[33] National Interest Analysis, op. cit, p. 2, paragraph 10
[34] National Interest Analysis, op. cit, p 8, Table 1.
[35] Estevadeordal and Taylor, op. cit.
[36] National Interest Analysis, op.cit, p 3, paragraph 12.

goods, and then exports the final products to a third country with which it has a trade agreement, the agreement's rules of origin will determine whether those goods qualify for preferential access.

PACER Plus adopts flexible rules of origin which will foster regional economic integration and value-adding by Pacific island countries. This will give PACER Plus members considerable scope to engage in value-adding utilising inputs sourced from other Pacific island economies and, importantly, from countries outside the PACER Plus trade area without losing their preferential access to one another's markets.[37]

The MCA supports the use of rules of origin in PACER Plus which are less restrictive and more flexible than those in existing trading arrangements.[38] This will ensure that the agreement does not inadvertently discourage Pacific island economies from taking part in regional and international production networks and supply chains. Pacific island countries face significant challenges of economic geography because of their distance, both physically and commercially, from the world's larger markets and production centres. Flexible rules of origin will ensure PACER Plus does not act as a barrier or disincentive to their integration into wider production networks and value chains. They will encourage investment in regional production and processing operations by ensuring the benefits of duty-free access to key regional markets are maintained when production is spread across borders. The combination of duty-free access to Australia and New Zealand with flexible rules of origin will maximise the export and economic integration opportunities created for Pacific island countries by PACER Plus.

Trade in services

PACER Plus is a modern, comprehensive and WTO-consistent regional trade agreement which includes significant commitments to liberalise trade in services.

The agreement's services chapter commits member countries to treat service suppliers from other PACER Plus member countries no less favourably than domestic suppliers. These market access and national treatment obligations are important for services trade where domestic regulations and practices can restrict access for foreign suppliers relative to local service providers, acting to impose barriers on trade and restrict competition.

The specific market access and national treatment commitments made under PACER Plus, including any limitations, are set out in each country's schedule of services commitments (Chapter 7, Annex 7-A). They apply to services delivered through cross-border trade, consumption of services abroad, and commercial presence of service suppliers in export markets – the first three of the WTO General Agreement on Trade in Services' four defined modes of service delivery. The fourth mode – service delivery by movement of natural persons – is dealt with in a separate chapter.

These market access commitments will provide greater opportunities for cross-border services trade amongst the PACER Plus member countries. They will improve access for Australian services exporters in Pacific island economies and for Pacific services businesses in Australia. The agreement's services provisions also include mechanisms designed to ensure greater transparency and clarity about local regulations and approval processes, which will also improve the ability of PACER Plus member countries' services suppliers to engage in cross-border trade by improving business and investment certainty.

The PACER Plus schedules of services commitments cover a wide range of services sectors including business and professional services, such as legal, accounting and computer services, communications, construction and engineering, wholesaling, retail trade and distribution, education, financial services, healthcare, tourism, travel and transport. The commitments made by most

[37] Department of Foreign Affairs and Trade, PACER Plus Fact Sheet: Trade in Goods, September 2017, http://dfat.gov.au/trade/agreements/pacer/fact-sheets/Documents/trade-in-goods.pdf, accessed 11 January 2018.
[38] National Interest Analysis, op.cit, p 22.

countries are comprehensive and liberalising, with many countries undertaking to provide full market access and national treatment subject to relatively minor limitations and reservations.

The MCA welcomes the inclusion of a number of services relevant to mining in the PACER Plus services commitments. Mining is already Australia's biggest goods export industry. The MCA has identified mining services as a key new area of future Australian export opportunity.[39] Australia's minerals sector includes not only extractive miners but also world-leading mining services providers including such professions and activities as exploration and prospecting, engineering, geoscience, metallurgy, information technology and data analysis, legal services, accounting services, mine management and mining-related environmental management. There is considerable potential for Australia to leverage its role as a major global exporter of minerals commodities to secure new export opportunities in mining services.

Mining in Pacific island countries is relatively under-developed but as these countries look to grow and develop their minerals resources there will be opportunities for Australian mining services providers to work with local partners. PACER Plus will support such opportunities with most of the member countries including the business services sub-sector 'services incidental to mining' in their schedule of commitments. The following countries have made commitments to provide market access and national treatment for services incidental to mining: Australia, the Cook Islands, the Federated States of Micronesia, Kiribati, Nauru, Niue, the Republic of the Marshall Islands, Samoa, Tonga, Tuvalu and Vanuatu. These commitments on mining services have been made without any sector-specific limitations (apart from an Australian limitation allowing preference to be given to Queensland suppliers for services at Mount Isa Mines). Only New Zealand, Palau and the Solomon Islands have not listed services incidental to mining in their schedules of services commitments.

All of the PACER Plus member countries have also made broadly liberalising commitments to the following services sectors and sub-sectors which are relevant to mining services: legal services, accounting services, computer and related services, technical testing and analysis services, scientific and technical consulting services, construction and engineering services, and environmental services. These also have the potential to create export opportunities in the Pacific for a wider range of Australian mining services and technology businesses.

Investment

Investment is critical to the ability of developing countries to grow. A central insight from the economic literature on growth is the importance of accumulating physical and human capital. Investment allows existing business to expand and new businesses to be established, generating new sources of income and employment. It funds the development and construction of new infrastructure, buildings, factories and plants. It allows new and more productive capital equipment and technology to be utilised, improving the competitiveness of businesses in international markets. It provides the start-up funds and working capital needed to get new business ventures off the ground and to allow existing businesses to pursue new commercial opportunities, including the export opportunities created by more liberal trading environments. Investment enables developing countries with relatively narrow economic bases to diversify into new sectors and activities.

For the Pacific island countries, boosting investment will improve living standards by generating economic growth and creating new jobs, training and skills development opportunities. It will fund the development and construction of new infrastructure, plant, equipment and technology in sectors such as agriculture, fishing and forestry, minerals and energy, marine resource development, manufacturing, tourism and transport, and services. Investment will improve the economic resilience of Pacific island countries and the sustainability of their natural resources industries. It will also provide additional sources of government revenue to fund public services and public investment.

[39] Minerals Council of Australia and Trading Nation Consulting, *New Frontiers: South and East Asia*, MCA, Canberra, 2017.

However, smaller developing nations like the Pacific island countries have limited domestic savings to tap in to for investment. This means they rely heavily on foreign capital to fund their investment needs. Foreign direct investment, in particular, is an important potential source of the capital needed to allow the Pacific island countries to realise their economic development aspirations. PACER Plus will help Pacific island countries to attract new foreign direct investment by establishing a more transparent, consistent and stable set of rules around investment. The agreement's investment provisions and broader provisions on transparency in economic rule-making and regulation will improve the business and investment climate in these countries. They will make Pacific island countries more attractive destinations for inward investment by enhancing business certainty, reducing transaction costs and reducing risk. These aspects of PACER Plus will create a more stable, predictable and rules-based legal and regulatory framework for investment in the region. This aspect of PACER Plus is particularly important given the emphasis in the economic development literature on the importance of institutions and governance in fostering economic growth.

The PACER Plus investment chapter includes a national treatment commitment whereby by member countries agree to treat each other's investors no less favourably than they treat their own investors.[40] This core national treatment or non-discrimination undertaking will be afforded in sectors and subject to limitations set out by each party in its schedule of commitments on investment (Chapter 9, Annex 9-A) In addition, the PACER Plus investment chapter contains important additional commitments including:

- According investors from PACER Plus parties the minimum standard of treatment under customary international law, including fair and equitable treatment and full protection and security
- Allowing foreign nationals to be appointed to senior management and board positions in foreign-invested enterprises
- Non-discrimination against foreign investors in providing compensation for losses due to conflict, civil strife or states of emergency
- Ensuring investments can only be expropriated or nationalised for public purposes, in a non-discriminatory manner in accordance with due processes of law and with payment of adequate compensation.
- Allowing free inward and outward transfers of funds relating to investments by investors from other PACER Plus member countries.[41]

Under PACER Plus, Pacific island countries will remain fully entitled to pursue their own public policy objectives and to apply local laws, regulations and standards to foreign-invested enterprises. This is achieved by Article 5 of Chapter 9 which provides that foreign investors are subject to the local laws, regulations and standards of the host country. Article 5 also affirms the importance of foreign-invested enterprises following internationally-recognised standards, guidelines and principles of corporate social responsibility that have been endorsed by the host country. There is no requirement to give foreign enterprises any special or preferential treatment or to exempt them from local regulations or policies, as sometimes claimed by groups conducting scare campaigns against trade and investment. On the contrary, the core obligations in the PACER Plus investment chapter are for member countries to treat foreign investors the same as local investors. Furthermore, this national treatment obligation is also subject to specific limitations made by PACER Plus member countries in their schedules of commitments. Most PACER Plus member countries have, for example, included limitations in their investment schedules allowing them to retain existing laws prohibiting foreign nationals or foreign-owned enterprises from acquiring freehold interests in land. Many PACER Plus member countries (including Australia) have included limitations allowing the use of foreign investment screening and approval processes, the use of economic needs or economic benefit tests in considering foreign investment proposals and the imposition of conditions on foreign investment approvals.

[40] PACER Plus, Chapter 9, Article 6.
[41] PACER Plus, Chapter 9, Articles 9, 10, 11, 13 and 14.

In this way PACER Plus provides a stable, clear and non-discriminatory regulatory environment conducive to foreign investment while maintaining the sovereignty of local governments to legislate, regulate and pursue public policy objectives and goals in their own jurisdictions.

From Australia's perspective, PACER Plus will improve the business and investment climate in our Pacific island neighbours. It will provide greater incentives for Australian businesses to consider investments in the Pacific region, including entering partnerships and joint ventures with local enterprises in PACER Plus member countries. From an Australian mining industry perspective, this may create opportunities to work with Pacific island countries in areas such as minerals exploration and development. A welcome aspect of the PACER Plus investment schedules is the inclusion by most member countries of national treatment commitments for investments in mining and quarrying.

Economic development

As the Department of Foreign Affairs and Trade has noted, PACER Plus is a development-focussed agreement.[42] This is reflected in the special and differential treatment embodied in the tariff reduction commitments for goods trade and in a number of other provisions of the agreement in areas such as services, investment, customs procedures, sanitary and phytosanitary measures, technical regulations and transparency. The development focus of PACER Plus is also, importantly, reflected in the inclusion of a chapter on development and economic cooperation (Chapter 10).

PACER Plus is a pro-development agreement in the sense that its trade liberalising commitments and investment-friendly provisions will contribute to growth and economic development in the Pacific. The agreement's provisions improving regulatory transparency and governance processes in Pacific island economies will also contribute to their development, reflecting the central role that legal, regulatory and political institutions play in the processes of development and growth. In addition to these mechanisms, PACER Plus includes a series of specific commitments by Australia and New Zealand to provide practical and ongoing development support.

Under Chapter 10, the PACER Plus parties agree to improve their existing development partnerships, taking into account the needs identified by the developing country parties.[43] These cooperative activities are to focus on trade and investment and related areas including targeted measures whereby Australia and New Zealand will assist Pacific island country governments in building capacity and skills. The chapter is supported by a detailed development and economic cooperation work program which has been agreed as part of the separate Implementing Arrangement for Development and Economic Cooperation under Pacific Agreement on Closer Economic Relations Plus. The chapter also provides for institutional arrangements, implementation arrangements and review mechanisms for the work program of activities on cooperation and development.

The work program sets out activities and objectives in six main areas linked to various aspects of PACER Plus: rules of origin and other aspects of implementation of the tariff commitments; customs; sanitary and phytosanitary measures; technical regulations, standards and conformity assessment procedures; services trade; and investment. The MCA notes that Pacific Island Forum countries have identified assistance for minerals prospecting in an assessment of their trade-related needs which is included in the implementing arrangement and work program. Australia would be well-placed to explore how it could respond to this need through discussions between Geoscience Australia and relevant agencies in Pacific island countries. There is also scope for engagement by Australia's broader academic and private sector geoscientific and minerals exploration community with Pacific island government and business representatives.

The implementing arrangement and its associated work program are particularly promising aspects of the pro-development focus of PACER Plus. These are detailed documents, mapping out a clear and

[42] Department of Foreign Affairs and Trade, Fact Sheet: PACER Plus at a Glance, September 2017, http://dfat.gov.au/trade/agreements/pacer/fact-sheets/Pages/pacer-plus-at-a-glance.aspx, accessed 11 January 2017.
[43] PACER Plus, Chapter 10, Article 2.

measurable agreed program of activities to support the general commitments and objectives of the development and economic cooperation chapter. If properly resourced, they will ensure that PACER Plus's pro-development objectives are translated into ongoing, concrete and practical support by Australia and New Zealand for the growth and development of their Pacific island partners.

The Australian Government has committed $4 million and the New Zealand Government NZ$4 million for a Readiness Package of assistance to developing country parties to help ratify and implement PACER Plus. In addition, under the implementing arrangement, Australia has agreed to provide funding of $19 million for the management and delivery of the ongoing cooperation and economic development work program over the next five years. New Zealand has agreed to provide NZ$7 million towards work program activities. Australia and New Zealand have also agreed to improve trade and investment-related assistance under their broader aid and development relationships with Pacific island countries. In Australia's case, total official development assistance to the Pacific is estimated to be $1.1 billion in 2017-18, and the Australian Government has a target of directing 20 per cent of the Pacific aid budget to 'aid for trade' activities. New Zealand has made a similar commitment to a 20 per cent target for aid for trade activities under its broader Pacific aid program.[44]

These financial commitments by the Australian and New Zealand Governments are welcome and should ensure that the specific activities and objectives set out in the work program are able to be achieved. The prospects for successful outcomes would be enhanced by regular pubic reporting by the PACER Plus parties of the activities undertaken and outcomes achieved.

PACER Plus is one of the most pro-development trade agreements Australia has entered. It will support economic development and poverty reduction in Pacific island countries, which include some of the poorest people in the world, through multiple mechanisms. PACER Plus's market access mechanisms, including lower barriers to regional trade in goods and services and duty-free access by Pacific island exporters to Australia and New Zealand, will support growth and development. PACER Plus's rules-based disciplines and reforms in areas such as investment, technical standards, transparency, consultation and dispute settlement, will improve the business and investment climate in Pacific island countries. This will help attract investment which will provide further support for growth and development. And PACER Plus's detailed provisions for Australia and New Zealand to engage in ongoing, practical development assistance activities will provide still further support for growth and development. All these pro-development mechanisms will complement and reinforce one another. Accordingly PACER Plus should be supported by all those concerned to promote development and to reduce poverty and global inequality.

Recommendations

Negotiations for PACER Plus commenced in 2009 under Australia's former Labor Government and were concluded in 2017 under the current Coalition Government. This reflects the broad bipartisan support for trade liberalisation which has contributed to Australia's record 26-year run of uninterrupted growth, and the commitment of both major political parties to Australia's role in promoting development and cooperation in the Pacific. The agreement has been signed by 10 countries: Australia, the Cook Islands, Kiribati, Nauru, New Zealand, Niue, the Solomon Islands, Tonga, Tuvalu and Vanuatu. The Australian Government expects a further three countries – the Federated States of Micronesia, Palau and the Republic of the Marshall Islands – to sign in the coming period.[45] Ratifying and implementing PACER Plus are the next steps needed to ensure it delivers benefits to Pacific island countries, plays its part in tackling poverty and underdevelopment in our regional partners, and supports Australia's national interest in a stable, secure and prosperous Pacific.

For these reasons, the MCA supports PACER Plus and recommends that the Australian Government take binding treaty action and that the Australian Parliament pass the necessary implementing

[44] National Interest Analysis, pp. 4-5, Paragraphs 21 and 29; Implementing Arrangement, Paragraphs 4-9.
[45] National Interest Analysis, op. cit, p. 1, paragraph 2.

legislation. Australia should complete these processes expeditiously to show leadership and so that it can move to the next phase of rolling out the practical measures, engagement and assistance needed to maximise the benefits of the agreement for Pacific island countries. Given the important role that PACER Plus and Australia's broader trade and aid policies can play in promoting economic development in the Pacific, the Committee may wish to consider making recommendations that the Australian Government report regularly to Parliament on progress in implementing the agreement, including progress in meeting Australia's commitments under PACER Plus's chapter on development and economic cooperation and the associated implementation arrangement and work program.

APPENDIX

Select Bibliography: Empirical evidence of positive relationship between trade and growth

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