

Bankwest Curtin Economics Centre:

Submission to the Joint Standing Committee on Trade and Investment Growth:

Inquiry into the understanding and utilisation of benefits available to Australian industry and communities under Free Trade Agreements.

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Professor Alan Duncan

Dr Abebe Hailemariam

Dr Daniel Kiely

Dr Panos Sotirakopoulos

Bankwest Curtin Economic Centre

Curtin University

GPO Box U1987

Perth WA 6845

Web: bcec.edu.au

Email: bcec@curtin.edu.au

About BCEC

The Bankwest Curtin Economics Centre is an independent economic and social research organisation located within the Curtin Business School at Curtin University. The Centre was established in 2012 through the generous support of Bankwest, a division of the Commonwealth Bank of Australia. The Centre's core mission to deliver high quality, accessible research that enhances our understanding of key economic and social issues that contribute to the wellbeing of West Australian families, businesses and communities.

The Bankwest Curtin Economics Centre is the first research organisation of its kind in WA and draws great strength and credibility from its partnership with Bankwest, Curtin University and the Western Australian government. The Centre brings a unique philosophy to research on the major economic issues facing the State.

By bringing together experts from the research, policy, and business communities at all stages of the process – from framing and conceptualising research questions, through the conduct of research, to the communication and implementation of research findings – we ensure that our research is relevant, fit for purpose, and makes a genuine difference to the lives of Australians, both in WA and nationally.

The Centre is able to capitalise on Curtin University's reputation for excellence in economic modelling, forecasting, public policy research, trade and industrial economics and spatial sciences. Centre researchers have specific expertise in economic forecasting, quantitative modelling, micro-data analysis and economic and social policy evaluation. The Centre also derives great value from its close association with experts from the corporate, business, public and not-for-profit sectors.

Introduction

The Bankwest Curtin Economics Centre (BCEC) welcomes the opportunity to provide a submission to the Joint Standing Committee on Trade and Investment Growth: *Inquiry into the understanding and utilisation of benefits available to Australian industry and communities under Free Trade Agreements*.

The content and views expressed in this submission are primarily based on BCEC research and relate particularly to the following aspects of the inquiry:

- a) What level of understanding is present of the social and economic benefits provided by FTAs
- b) The uptake of economic benefits to Australian businesses created by FTAs across Australia
- e) How the Australian Government monitors and measures utilisation of FTAs and

These will be addressed in turn below.

a) What level of understanding is present of the social and economic benefits provided by FTAs

As a member of the World Trade Organisation (WTO), Australia has been committed to promote free trade as evident from the significant number of free trade agreements (FTAs) in force with a range of countries. So far, Australia has signed 18 FTAs and efforts are underway to increase the number of FTAs in force.

In line with the WTO rules, these FTAs eliminate tariffs and non-tariff barriers on goods and services traded with the member countries, creating reciprocity in key trade relationships. Given the country's commitments in promoting free trade, an in-depth understanding of the social and economic benefits is crucial to ensure that the scope of FTAs is comprehensive and that they deliver the best possible outcomes for Australia.

It is well established that free and fair trade contributes to economic growth and creates job opportunities in Australia. FTAs play an instrumental role in offering Australian consumers improved variety of imported goods and services at competitive prices that help lower the cost of living.

Australia continues to benefit from strong economic partnerships with key trading partners, thriving on trade relations built over decades. Such relations have benefitting areas such as the export of minerals, energy, agricultural products, education, tourism and health.

But little is known about the differential benefits at jurisdiction levels, as well as at household/individual levels. According to the results of a survey conducted by Pew Research Centre in the U.S, public concerns on income gaps due to FTAs at household or individual levels persist¹. In line with this, there is also evidence that FTAs impact low- and high-income households differently².

With increasing geo-political tensions and an increase in protectionist behaviour by some nations and political interest groups, it is important that all members of the Australian community understand the impact that FTAs, and trade more broadly, have on their lives and the inter-dependence of our connected economies.

¹ Pew Research Center (2015), [Free Trade Agreements Seen as Good for U.S., But Concerns Persist](#). May 2015.

² Carroll D and Hur S (2019), [The Winners and Losers from Trade](#). Federal Reserve Bank of Cleveland Economic Commentary Number 2019-15. September 2019.

Impacts at household level

One gap identified by BCEC research relates to enhancing the understanding of how trade and FTAs benefit the average Australian household in different geographic locations.

This gap was also acknowledged by industry. Through interactions with their members, the Australia China Business Council (ACBC) commissioned BCEC to explore the impact of trade with China on Western Australian households (2022 study)³ and, on the back of the success of this report, commissioned a report on the impact of trade with China on Australian households (2024 study).⁴

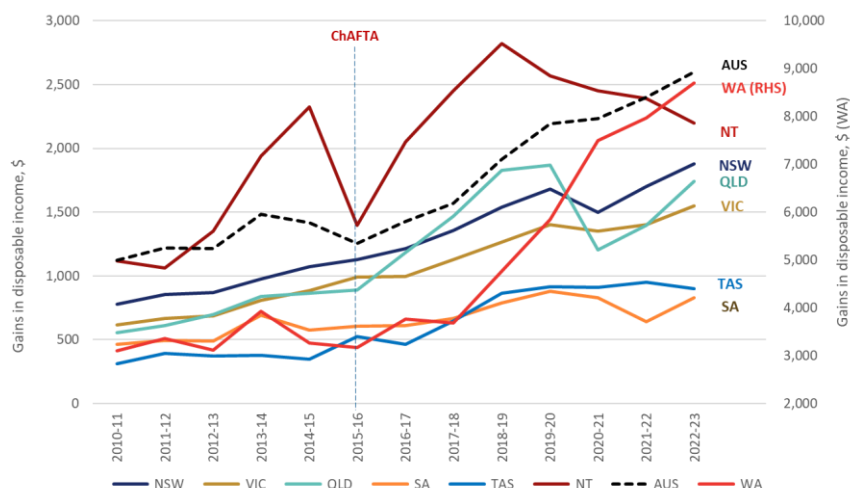
BCEC identified key and measurable channels through which trade impacts households, namely employment, household disposable income and cost-of-living effects.

It is crucial to precisely quantify the benefits of FTA to households and individuals residing across the various states and territories as these benefits depend on the trade intensities of local jurisdictions and the local area socio-economic characteristics. This ensures that the social and economic benefits of FTAs are appreciated by the broader community and draws broader support to policies that aim to maximise the benefits. Taking the China-Australia Free Trade Agreement (ChAFTA) as a case study, BCEC estimated the benefits of China-Australian trade to Australian households by state and territory.

The gains in household disposable income

In terms of gains in household income, ChAFTA elevates the average Australian household disposable income to \$2,600 in 2022-23, compared to the counterfactual case of no trade with China. The benefits vary significantly across states and territories depending on the trade intensities (Figure 1).

Figure 1 Gains in disposable income from trade with China per household by state and territory: pre- and post-ChAFTA



Source: BANKWEST CURTIN ECONOMICS CENTRE | [Australia's Trade and Economic Relationship with China: Benefits to Australian Households](#), June 2024

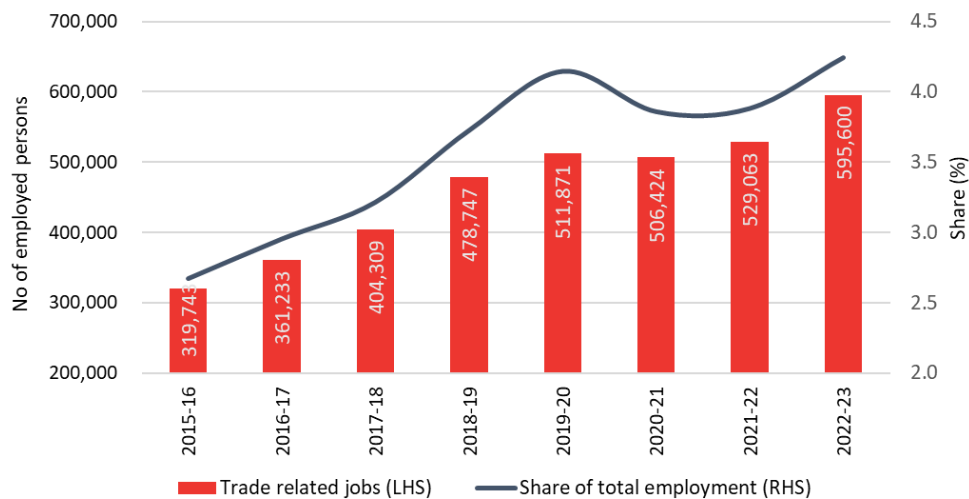
³ Duncan AS, Hailemariam A and Kiely D (2022). [Western Australia's Trade and Economic Relationship with China: Benefits to Western Australian Households](#), Commissioned report for Australia-China Business Council, WA Branch. November 2022.

⁴ Buckland A, Duncan AS, Farhad M, Hailemariam A, Kiely D, Sanchez Arenas V and Sotirakopoulos P (2024). [Australia's Trade and Economic Relationship with China: Benefits to Australian Households](#), Commissioned report for Australia-China Business Council. June 2024

Employment benefits

FTAs support productive and high-wage jobs. Following ChAFTA, the number of jobs in Australia related to trade with China is estimated at 595,600 in 2022-23. The benefits across states and territories largely depend on the two-way trade intensities. WA benefits the largest with an estimated trade related jobs of 220,600 followed by NSW (142,000), Victoria (110,000) and Queensland (96,100).

Figure 2 Trade-related employment in post-ChAFTA period



Source: BANKWEST CURTIN ECONOMICS CENTRE | [Australia's Trade and Economic Relationship with China: Benefits to Australian Households](#), June 2024

Reduced cost of living benefits

Trade also helps Australian households enjoy the variety and low-cost imported goods in comparing the counterfactual of the cost of living that would have been born by Australian households in the absence of free trade. This is particularly important to middle-class Australians as whose consumption constitutes significant size of imported goods and services. For example, the findings from the recent BCEC Trading Up report⁵ reveal that Western Australia would experience a 4.3 percent rise in expenses if the same imported goods were to be sourced from countries outside of Australia's primary trading partners.

The findings from BCEC's *Trading Up* report for the case of ChAFTA provides a vivid depiction of the benefits of FTA to at disaggregated levels, including at jurisdiction and household levels. The report finds that Australian households pay about 4% lower to imports from China following ChAFTA comparing the case if those imports were sourced from other countries.

In addition to the benefits of reduced costs to consumers, FTAs also help businesses to access low-cost imported inputs and technologies that lowers the cost of production of final goods and improve productivity of firms and further increases the variety of goods for Australian consumers.

⁵ Buckland, A., Duncan, A., Farhad, M., Hailemariam, A., Kiely, D., Sanchez Arenas, V., and Sotirakopoulos, P. (2023), "Trading up: International trade futures and the Western Australian economy", Bankwest Curtin Economics Centre, Focus on Industry Report Series, No. 8, July 2023.

Figure 3 Distributions of benefits across jurisdictions



Source: BANKWEST CURTIN ECONOMICS CENTRE | Research findings from [Australia's Trade and Economic Relationship with China: Benefits to Australian Households](#), June 2024. Design by ACBC.

b) The uptake of economic benefits to Australian businesses created by FTAs across Australia

Small businesses' exposure to international trade

Not surprisingly, most small businesses (0-19 employees) provide goods and services to their local communities and local regions. This is to be expected. Many small businesses support the larger end of town. Larger businesses have the scale and capacity to engage on national and international fronts and can balance risk with a portfolio approach.

However, many small businesses may look to expand their businesses to international markets. This includes building international trade partnerships and attracting international investment from overseas, particularly for the start-up sector.

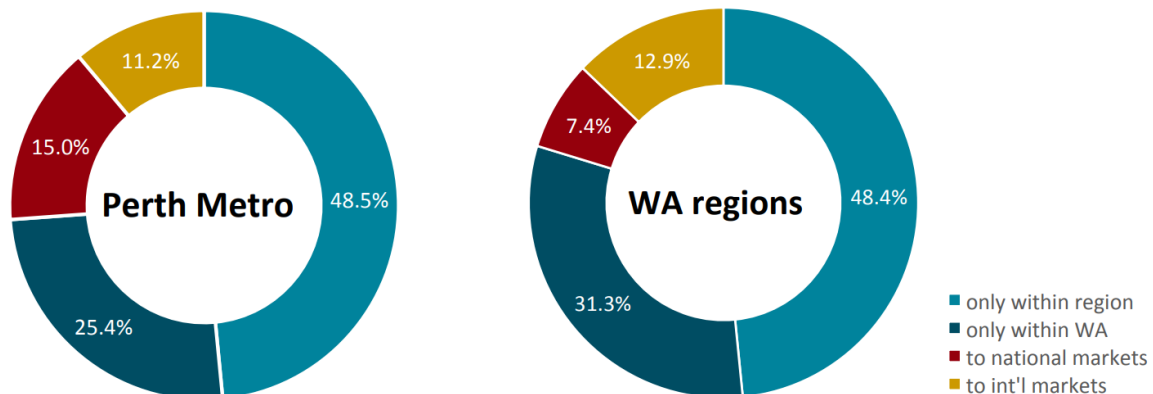
Using a series of unique *BCEC Small Business Surveys* conducted in 2017 and 2020, BCEC was able to track the sales reach of small businesses across Western Australian regions over time.

The 2020 report⁶ was co-funded by the WA Department of Jobs, Tourism, Science and Innovation as part of the WA State Government's Recovery Plan. The aim was to help better understand the impact of COVID-19 on WA businesses and to inform the State Recovery Program.

The research found that just over 11 per cent of small businesses based in the Perth metropolitan area sell to international markets. A slightly greater share of small businesses in WA's regions sell internationally, with one in eight regional small businesses (12.9%) selling into markets outside of Australia. These are primarily in the agriculture sector.

⁶ Cassells R, Duncan AS and Kiely D (2021), [Back in Business?: WA small businesses and the impact of COVID-19](#), Bankwest Curtin Economics Centre Focus on Western Australia Report Series #14. February 2021.

Figure 4 International reach of small businesses: Perth metro area and WA regions, 2020



Source: BANKWEST CURTIN ECONOMICS CENTRE | Cassells, Duncan and Kiely (2021).

This research also found a slight increase in engagement with international markets between the 2017 and 2020 survey periods. There was a 3.3 percentage point increase in the share of regional businesses surveyed that sell into international markets between 2017 and 2020, compared to a 1.3 percentage point increase for Perth based businesses. FTAs are likely to have played a role here, but the full extent to which FTAs affect businesses based on business size needs to be better understood.

International trade brings additional risks to the small business community. Small businesses in the agriculture industry are most exposed to fluctuations in external markets and global demand, with 27.5 per cent of sale volumes going to international markets in 2020⁷. This was up 14.9 percentage points on the levels reported in 2017.

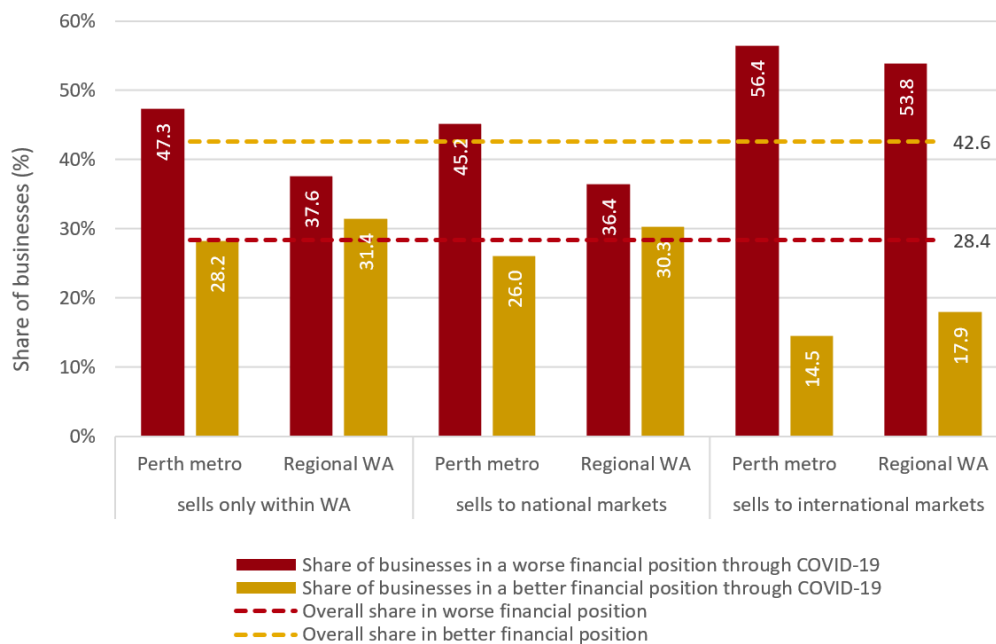
And this research⁸ found that well over half of small businesses that sell to international markets were “in worse financial shape as a result of the pandemic, both in metropolitan Perth (56.4%) and in regional WA (53.8%)”. In contrast, only 14.5 per cent of metropolitan and 17.9 per cent of regional small businesses that sell to international markets reported doing better through COVID-19 (Cassells et al., 2021).

The impacts of border closures and supply chain disruptions had an immediate and sizeable effect on the balance sheets of small businesses.

⁷ Cassells R, Duncan AS and Kiely D (2021), [Back in Business?: WA small businesses and the impact of COVID-19](#), Bankwest Curtin Economics Centre Focus on Western Australia Report Series #14. February 2021.

⁸ *ibid.*

Figure 5 Financial impact of COVID-19 on small business by market reach



Source: BANKWEST CURTIN ECONOMICS CENTRE | Reproduced from Cassells, Duncan and Kiely (2021).

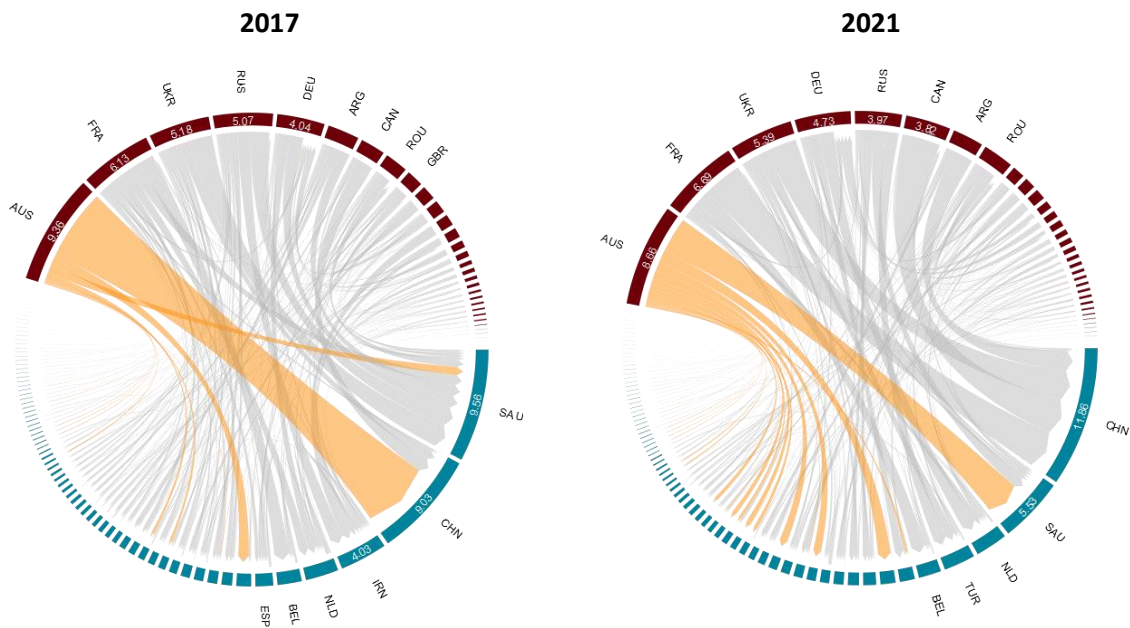
Likewise, Chinese tariffs and trade restrictions imposed on Australian exports such as barley, wine, lobster, and beef, impacted trade and the household level through changes in trade intensity.

Some sectors, such as barley, were able to pivot to new markets, while others, for reasons such as niche markets (some wine exports), and the importance of geographically close trading partners for fresh produce exports (such as lobster exports) have more difficulty in doing so.

In the case of barley, Chinese tariffs impacted the composition of Australia's exports, with exports to China essentially disappearing in response to these measures.

Barley exports quickly pivoted to other markets. A major increase in exports from Australia to Saudi Arabia occurred, with some additional exports of barley to Japan as well. Meanwhile, China sought imports of barley from other nations such as France, Canada and the Ukraine.

Figure 6 Global trade in barley by quantity (tonnes): main country trade partners, 2017 and 2021



Notes: Value labels indicate sum of exports + imports.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Buckland, A. *et al.* (2023), Trading Up: International trade futures and the Western Australian economy (Figure 27).

International markets and FTAs can present growth opportunities to the small business sector, especially start-ups. But there are risks too from the added exposure that many small businesses in the regions face from a global slowdown in sales, or from trade tensions that could adversely affect ease of access to international markets.

Some sectors, such as small businesses in the agricultural sector, may be more exposed to geopolitical tensions and the impact of changes to bilateral agreements.

There is a need to track the impact of trade opportunities and disruptions on the SME sector and the speed at which small businesses can react to, and recover from, shocks to their trade system.

Additional supports for small businesses to address risk management strategies and opportunities for risk sharing need to be explored.

With the emergence of new technologies, green trade and an ever-increasing global nature of trade, it is even more important now than ever before for Australian businesses, of all sizes, to engage in global trade and international investment opportunities.

Additional information/data is required to track the rapidly changing trade ecosystem, in particular, as it relates to understanding if SMEs have the information, knowledge, and skills required to maximise the full potential of trade and the benefits of existing and new FTAs.

This needs to address not only the direct benefits and engagement of SMEs with the opportunities presented by FTAs, but also to understand the role SMEs play in supporting larger businesses, who have a greater capacity and risk appetite for international engagement, in achieving their international growth.

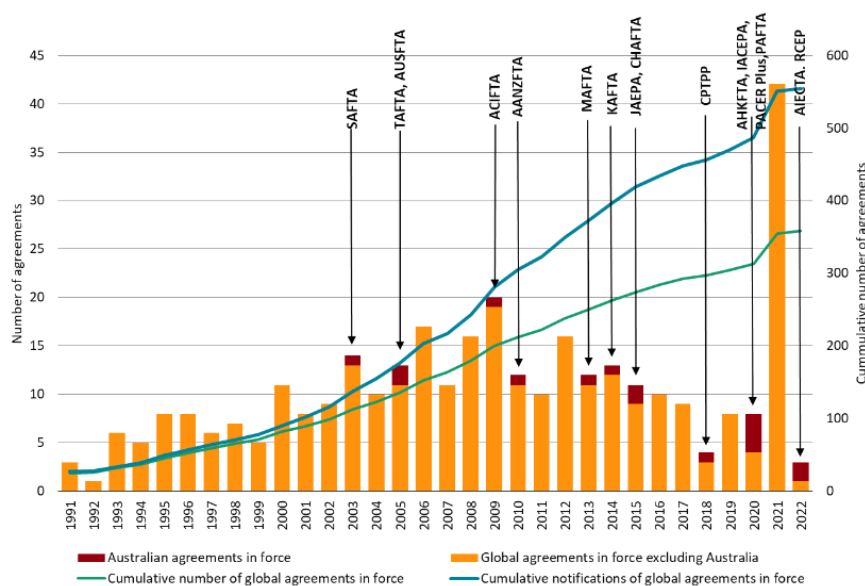
And relatedly, having data that informs the impact of trade shocks not only on those businesses directly impacted by trade, but also on the shape of those businesses indirectly linked to the global trading system.

e) How the Australian Government monitors and measures utilisation of FTAs

There are different ways the Australian Government measures FTA utilisation. For example, agencies like the Department of Foreign Affairs and Trade (DFAT) and Australia Trade and Investment Commission (Austrade) measure FTA utilisation by tracking export and import data and analysing trade flows. These metrics help in understanding which sectors and regions are benefiting and identifying areas that require additional support.

Australia has signed 18 FTAs over the past twenty years with various countries or groups of countries, with the federal government currently negotiating three more FTAs.

Figure 7 Australian FTAs currently in place



Source: BANKWEST CURTIN ECONOMICS CENTRE | Buckland, A. *et al.* (2023), *Trading Up: International trade futures and the Western Australian economy* (Figure 23).

BCEC's previous work and methodological approach has provided insights on the utilisation of FTAs by exploiting variations in trade flows between countries.⁹ The empirical strategy in this research is based on a gravity model, which has been extensively utilised to estimate the impact of FTAs on trade.^{10,11,12,13}

⁹ Buckland, A., Duncan, A., Farhad, M., Hailemariam, A., Kiely, D., Sanchez Arenas, V., and Sotirakopoulos, P. (2023), *"Trading up: International trade futures and the Western Australian economy"*, Bankwest Curtin Economics Centre, Focus on Industry Report Series, No. 8, July 2023.

¹⁰ Productivity Commission, 2010. *"Bilateral and Regional Trade Agreements."* Research Report, 13 December.

¹¹ Armstrong, S. (2015). *The economic impact of the Australia–US free trade agreement*. Australian Journal of International Affairs, 69(5), 513–537.

¹² Timsina, K. P., & Culas, R. J., 2020. *"Do free trade agreements increase Australian trade? An application of Poisson pseudo maximum likelihood estimator."* Journal of East-West Business, 26(1), 56-80.

¹³ Timsina, K. P., & Culas, R. J., 2022. *"Australia's Free Trade Agreements (FTAs) and Potentiality of Wheat Exports: A Panel Gravity Model Approach."* Journal of East-West Business, 28(1), 61-88.

Building on existing literature, BCEC investigated the effects of Australia's FTAs on overall trade creation and diversion. This modelling exercise formally quantifies the relationship between trade value between countries and factors such as their relative economic size, resource endowments, domestic consumption, export tariffs, and commodity prices, along with measures of trade agreements and barriers.

Specifically, this model estimates the overall change in trade value due to FTAs. It takes into account consistent differences between countries, global events over time, and various factors that can influence trade. Findings demonstrate a net increase in overall trade flows due to the implementation of FTAs compared to a counterfactual scenario where no FTA was in place.

Findings demonstrate the following estimated outcomes following the implementation of FTAs between Australia and specific countries:

- Exports to China increased by \$275.4 billion
- Exports to Japan increased by \$99.1 billion
- Exports to Korea increased by \$40.7 billion
- Exports to Thailand increased by \$57 billion

The approach can be further parameterised and adapted to estimate the benefits of FTAs across different populations groups, sectors and regions. This would enable the quantification of gains among specific groups of Australian businesses, for example First Nations enterprises. However, there is a need for detailed survey data at a disaggregated level to estimate such effects.

Recommendations

- Continue to monitor the impact of tariffs and the removal of such on Australian exporters. This includes the extent to which sectors can pivot to new markets and the impact on volumes, value and the timeline to recovery. This is particularly important in the case of environmental goods given that Australia has a proven potential to be a leader in the global effort for decarbonisation.
- Develop effective communication strategies of findings of key studies on the economic benefits of FTAs at granular levels by geography and demography.
- A survey of representative households and individuals across demographic groups about their perceptions of the impact of FTAs on their personal financial conditions would be informative to enhance the understandings on heterogeneous impacts of FTAs.
- Detailed and accessible firm level data (for example, using longitudinal surveys) would provide greater insights into the take up of opportunities presented by FTAs. Such data would add light to the benefits across industry by business size and other business characteristics (such as location, industry, ownership structure, gender, etc.). This would also inform barriers to engaging in international trade and inform policy to further support the business community.
- Disseminate research findings in a manner that is accessible to policy makers, industry and the broader public. Examples such as the roundtables and media engagement discussed here are good cases in point to help bring researchers, policy makers, industry and the broader community together.