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Australia has gained from growth in Asia over the past half century

Australia has gained exceptionally from internationally-oriented growth in Asia over the past half century:

- but the open trading system that underpinned that growth is breaking down.

The breakdown arises from: inappropriate responses to a mixture of:

- valid (security, intellectual property rights integrity),
- spurious (bilateral trade imbalances),
- and possibly valid but possibly spurious concerns (public fiscal support for innovation; lower cost of capital in some countries).

The challenge is to address real concerns analytically, so that valid concerns can be met without undermining immense genuine benefits from open trade.



Causes of the current breakdown in international trade relations

The immediate causes of the breakdown include political reactions to:

- the grotesque distributional consequences of the effects of the Global Financial Crisis.
- stagnant and in some cases declining incomes and living standards for ordinary Americans and Europeans over the recent decades of expanding globalisation.
- some genuine weaknesses in the trade and investment rules, including weak enforcement of intellectual property rights, and massive tax evasion across national borders.
- the change in the balance of global political and strategic weight that has accompanied increased size of Asian relative to American and European economies.
- and the success of vested interests in shifting focus from valid to symbolic and nationalistic concerns, to block effective reform.



How Australia's economy could be damaged

Australia will be damaged economically through several mechanisms:

Internationally:

- Less growth globally and in Asia, reducing our terms of and gains from trade.
- Remaining growth less internationally-oriented, as decision-makers see international markets for supplies and sales being unreliable
- Australia's shares of each market will be smaller, as power replaces competitiveness in determining import shares (with special vulnerability for agriculture).

Domestically:

- reduced access to most competitive capital, capital goods and technology (especially damaging to energy-intensive heavy industry).
- less competitive market exchange, increasing oligopoly power.
- strengthening political economy of the rent seeking society.



Australian, US and Chinese interests

Australian interests are not coincident with those of the US or China. For example:

- return to the subsidy-dominated global agricultural trade of the 1980s disastrous for Australia, mildly damaging to the US and favourable to China.
- stronger protection for soundly based intellectual property rights universally beneficial but for excessive life of rights favourable for US and unfavourable for Australia.
- removal of distortions favouring Chinese infrastructure and heavy industry damaging for Australian commodity export prices, terms of trade and prospects for budget surplus.



Security concerns

There are valid security concerns in which our interests intersect closely with the US, but we need to be careful of going further than necessary for the security concerns:

- comprehensive decoupling of value chains beyond the security-related products hugely costly and unnecessary.
- excessively wide exclusion of Chinese enterprise from Australia can impose larger costs than targeted measures (e.g. higher costs in energy-intensive minerals processing).
- some Chinese innovation of high value and costly to be generally locked out of access to it.



The challenge

The challenge is to maintain the benefits of globalisation while dealing with the genuine weaknesses:

- requiring analysis, not knee-jerk political reaction.
- deal with wages stagnation and income distribution through fiscal not trade interventions
- careful integration of security and economic analysis, leading to cost-effective Alliance maintenance.
- independent analysis, not dominance of policy discussion by vested interests.
- maintaining plurality of open market access (mainly through complete domestic free trade but also through RCEP alongside AUSFTA).



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