Protection in Australia

6

Multiple Choice

1	C	**6**	A	**11**	D	**16**	B
2	B	**7**	D	**12**	A	**17**	A
3	B	**8**	B	**13**	C	**18**	C
4	C	**9**	B	**14**	C	**19**	C
5	B	**10**	D	**15**	A	**20**	D

Short Answers

Question 1

(a) A bilateral trade agreement is an agreement with provisions for free trade between only two nations, such as Australia's Closer Economic Relations Trade Agreement (CERTA) with New Zealand. On the other hand, a multilateral agreement allows for free or preferential trade between many nations, usually on a regional basis, such as the Association of Southeast Asian Nations.

(b) Australia's main multilateral trade agreement is the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) established in 2009. Consisting of a total of 12 member nations, the members of the agreement account for 21 per cent of Australia's total trade in goods and services, worth approximately $104 billion in 2010-11. Prior to the agreement in 2010, around 67 per cent of Australian exports to AANZFTA members were tariff free. By 2020, 96 per cent will be tariff free as protection is reduced in key industries such as agriculture, automotives and pharmaceuticals. Reductions in protection across a broad range of Australian exports has the impact of boosting Australia's export markets, leading to increased Australian economy growth and living standards.

(c) Global protectionist policies harm Australia's trade performance and impede the process of structural change in Australia. Global protectionist policies in the agricultural sector prevent Australian exports from increasing their market share in large overseas export markets such as the EU and US. The heavy use of agricultural subsidies also drives down global prices for agricultural products which lowers the price Australian producers receive for their agricultural exports, decreasing export revenue. As a result, Australian exporters face low global prices and reduced market share, thereby reducing overall output in the Australian economy. Protection also plays a role in reducing services trade in the global economy (for example, financial services such as banking). Government regulations such as licensing laws and restrictions on foreign ownership prevent efficient Australian service exporters from accessing overseas markets. The impact of restrictions to trade in services is significant for a service-based economy such as Australia.

Question 2

(a) Australia has lower protection than most other nations. Australia's average tariff level (2 per cent in 2010) is similar to other high income economies, such as the United States and the European Union (both just below 2 per cent). In addition, Australian subsidies are very low compared to other industrialised economies – particularly in the agricultural sector where the US, EU and Japan maintain high protection. Australia has fewer non-tariff barriers than other developed nations, although it is sometimes criticised for using quarantine laws as a means of preventing agricultural imports.

(b) A reduction in protection should lead to an overall improvement in productivity in the economy. Lower protection exposes industries to increased foreign competition, forcing them to become more productive through improving the efficiency of production, lowering costs or by becoming more innovative. If the firm closes, the resources which were previously used by the firm, can be reallocated to more productive areas of economic activity, leading to an improvement in productivity in the economy overall.

(c) The Australian government administers export assistance programs through Austrade under the Export Market Development Grants (EMDG) scheme. This involves assistance with identifying and entering potential export markets, advice on marketing and limited forms of financial assistance, with the goal of assisting Australian firms and industry to penetrate and expand their export markets. EMDGs have a limited duration and size, and are not comparable to export subsidies.

(d) A reduction in protection should be of overall benefit to the economy, but it can create costs, especially in the short run. A reduction in domestic protection would harm import-competing firms, which relied upon protection to remain competitive. These firms would be forced to restructure or close. However, a reduction in protection levels would reduce input costs for other firms that use the previously protected goods in their production processes. Lower protection may see individuals who were previously employed in an import-competing industry become structurally unemployed due to the lack of jobs available in the industry. However, as consumers, individuals would benefit from lower prices, a greater variety of international goods and services available, as well as an improvement in material living standards. In the short term, the government would experience a loss of revenue if the protection was tariff-based, or a reduction in expenditure in the case of a subsidy. However, in the long run, lower protection should generate higher levels of economic growth, leading to an increase in company and income tax revenue. The government may, however, experience political obstacles to removing protection in the short run, particularly in industries with a large amount of domestic employment.

Question 3

(a) The global resources boom during the decade since 2003 has had a substantial impact on Australia's export base. Increases in export revenue from iron ore, coal, bauxite and copper over the last two decades have seen minerals and metals grow from 33 per cent to 54 per cent of total export earnings between 1989-90 and 2011-12. Over the same time, rural exports have declined from 23 per cent to 11 per cent of total exports, reflecting the impact of slower growth in agricultural output (due to natural resource constraints and difficulties in accessing export markets because of protectionist policies overseas).

(b) A reduction in protection is likely to worsen the current account balance in the short term. Lower protection levels would result in lower domestic production of import competing products as inefficient domestic firms are forced to close or restructure. Furthermore, domestic consumers would be encouraged to spend more on imports as a result of lower prices, or the superior quality of overseas products, worsening the balance on goods and services and the current account deficit. However, in the long run, resources will flow away from inefficient import-competing industries to efficient export industries in which Australia has a comparative advantage. Exporting firms will also have lower input costs, improving their competitiveness. In addition, those import-competing firms which are able to restructure may find niche export markets in which to specialise. Over time as the economy restructures, the volume of exports should increase, improving the balance on goods and services and improving the current account deficit.

(c) During recent years, debate over the future structure of Australian industries has been at the centre stage of economic debate due to the impact of the resources boom. While there is always some cyclical volatility in commodity prices, overall it is expected that most of the increases in resources prices will be sustained, fuelling further growth in the mining sector, which has more than doubled the value of its exports in the past decade. The shift in employment and other economic resources to the mining sector, and the high exchange rate caused by Australia's strong terms of trade, have made conditions far more difficult for other industries, in particular manufacturing, which is both domestic and export markets because of its decline in international competitiveness. The high dollar is the main economic mechanism causing a restructuring of the Australian economy, as skilled workers, investment and capital shift out of other sectors into mining. Other trends in the global economy such as increased tourism and growing international education demand are likely to continue to generate new markets for Australian exports, although they will be constrained by the high value of the dollar.