



barriers come tumbling down

Australia has recently signed a number of free trade agreements (FTAs) and has another in the pipeline with India. The landmark deal with China and the largest free trade agreement, the Trans-Pacific Partnership (TPP) between 12 Asia-Pacific nations, including the United States will have a significant impact on all Australians.

As tariff barriers fall like dominoes, we can all profit from a greater understanding of the potential benefits, and pitfalls, for local businesses, consumers and investors.

The potential upsides

An FTA is an international treaty which removes barriers to trade. They are designed to strengthen trade and commercial ties between participating countries. FTAs can link two economies or cover entire regions with multiple participants.

Under the Australia-China FTA, for example, 95 per cent of Australian goods exported will be tariff free when the agreement is fully implemented. China is Australia's largest export market so the significance of gaining easier entry into their rapidly developing market should not be underestimated.

Almost 100 per cent of Australia's merchandise exports to Korea will enter duty free once that FTA is implemented. In Japan, high tariffs on Australian beef exports have been cut. Many of our agricultural exports can now enter Japan duty free, including prawns, lobsters, asparagus, cherries, grapes, macadamia nuts and almonds.

And it's not just all about food and minerals. In a world where service industries are increasingly central, free trade agreements often cover areas such as government procurement, intellectual property rights and competition policy.

The potential downsides

There's no argument that growing international trade is vital for Australia's long-term prosperity. But opinions differ on whether trade

should be negotiated multilaterally or through FTAs, which are also referred to as 'preferential trade agreements'.

Australian governments have been enthusiastic about FTAs, having agreed to nine since 1990. But a recent Productivity Commission report was less enthusiastic, arguing that preferential trade agreements add to the complexity and cost of international trade for businesses, grant legal rights to foreign investors not available to Australians and expose Governments to potentially large legal costs in disputes with foreign corporations and other investors.ⁱ

Other potential pitfalls are the ability of powerful countries to tilt the economic playing field in their favour and the risk that large trading blocs will create global economic instability.

The FTA backlash

Organisations such as consumer advocacy group Choice worry that the TPP may benefit foreign businesses at the expense of Australian consumers. In particular, there's concern the agreement may allow the Australian government to be

sued by companies for making laws in the public interest.

There are also fears the TPP may lock in laws that result in Australians paying higher prices than people elsewhere in the world for a wide range of goods from cars to computers and cosmetics. The Australian Medical Association has expressed concern that multinational pharmaceutical companies could have greater power to determine how the Pharmaceutical Benefits Scheme, which provides Australians with subsidised medicines, operates.ⁱⁱ

Unprecedented opportunity

While the (multilateral) TPP will be significant, all FTAs that have been signed, sealed and delivered will be affecting Australian business people and consumers in the immediate future.

The government argues the completed FTAs will help to increase Australia's productivity and contribute to higher economic growth. They will achieve this by allowing businesses access to cheaper inputs, introducing new technologies, and fostering competition and innovation.

For consumers, increased competition should translate into a wider range of products and services at cheaper prices.

FTAs encourage investment not only by eliminating tariffs but by also removing less visible 'behind-the-border' barriers. According to the Department of Foreign Affairs and Trade (DFAT), "FTAs can enhance the competitiveness of Australian exports in the partner market and add to the attractiveness of Australia as an investment destination."ⁱⁱⁱ

So what should I be investing in?

The new FTA with China will benefit Australian agribusiness, particularly dairy and meat producers. Australian service businesses, such as educational institutions, are also expected to do well out of increased access to Chinese markets.

Conversely, lower tariffs on Chinese imports – of which 94 per cent are manufactured goods – will benefit Australian consumers in the form of lower prices for products such as clothes, but they won't do our manufacturing sector any favours.

The FTA with Japan provides access to their markets for a range of Australian service suppliers, including financial, legal, education and telecommunications services. It also benefits consumers, with cheaper import prices on goods such as cars, white goods and electronics.

Australia's tighter embrace of the global economy will have winners and losers, with the biggest winners likely to be local businesses in a position to boost exports and crack new international markets.

If you would like to discuss how Australia's FTAs could impact on your investment portfolio, please give us a call.

i <http://www.macrobusiness.com.au/2015/06/productivity-commission-slams-tpp-trade-deal/>

ii <http://www.abc.net.au/news/2015-03-18/tpp-could-force-government-to-spend-millions-subsiding-medicines/6328132>

iii <http://dfat.gov.au/trade/agreements/Pages/benefits-of-ftas.aspx>

Australia's trade with the world

Total value of exports:
A\$318.5 billion

Top 5 export markets A\$M

China (101,590)
Japan (49,532)
Republic of Korea (21,274)
United States (15,533)
India (11,430)

Top 5 export A\$M

Iron ores (69,494)
Coal (39,805)
Education travel services (15,020)
Natural gas (14,602)
Gold (13,897)

Total value of imports:
A\$328.7 billion

Top 5 import markets A\$M

China (49,329)
United States (39,181)
Japan (21,221)
Singapore (17,878)
Thailand (13,832)

Top 5 Import A\$M

Personal travel (24,725)
Crude petroleum (20,226)
Motor vehicles (18,292)
Refined petroleum (18,230)
Freight transport (9,348)

Source: Dept. of Foreign Affairs and Trade

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