



Australian Government

Productivity Commission

Rising protectionism

Challenges, threats and opportunities for
Australia

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Commissioner

ESA Conference, 19 July 2017

> What will we cover?



Around 20 minutes

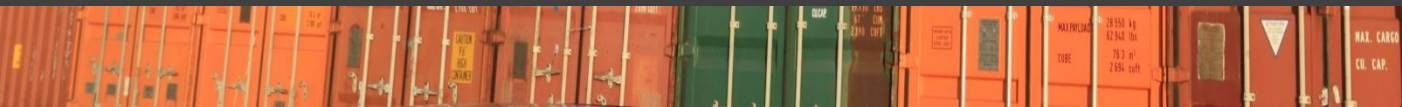


Motivation

➤ The US shift

“We must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs”

— Trump



Motivation

➤ Global trade developments

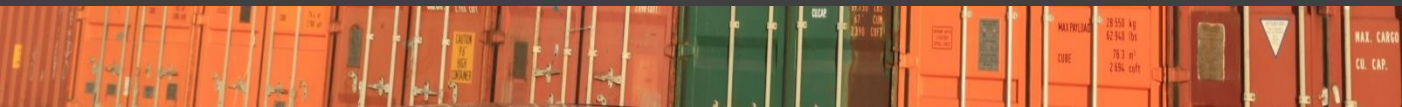
Proponents of protectionism have been empowered

—
Doha round at a standstill

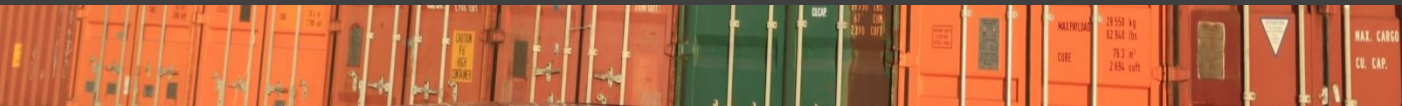
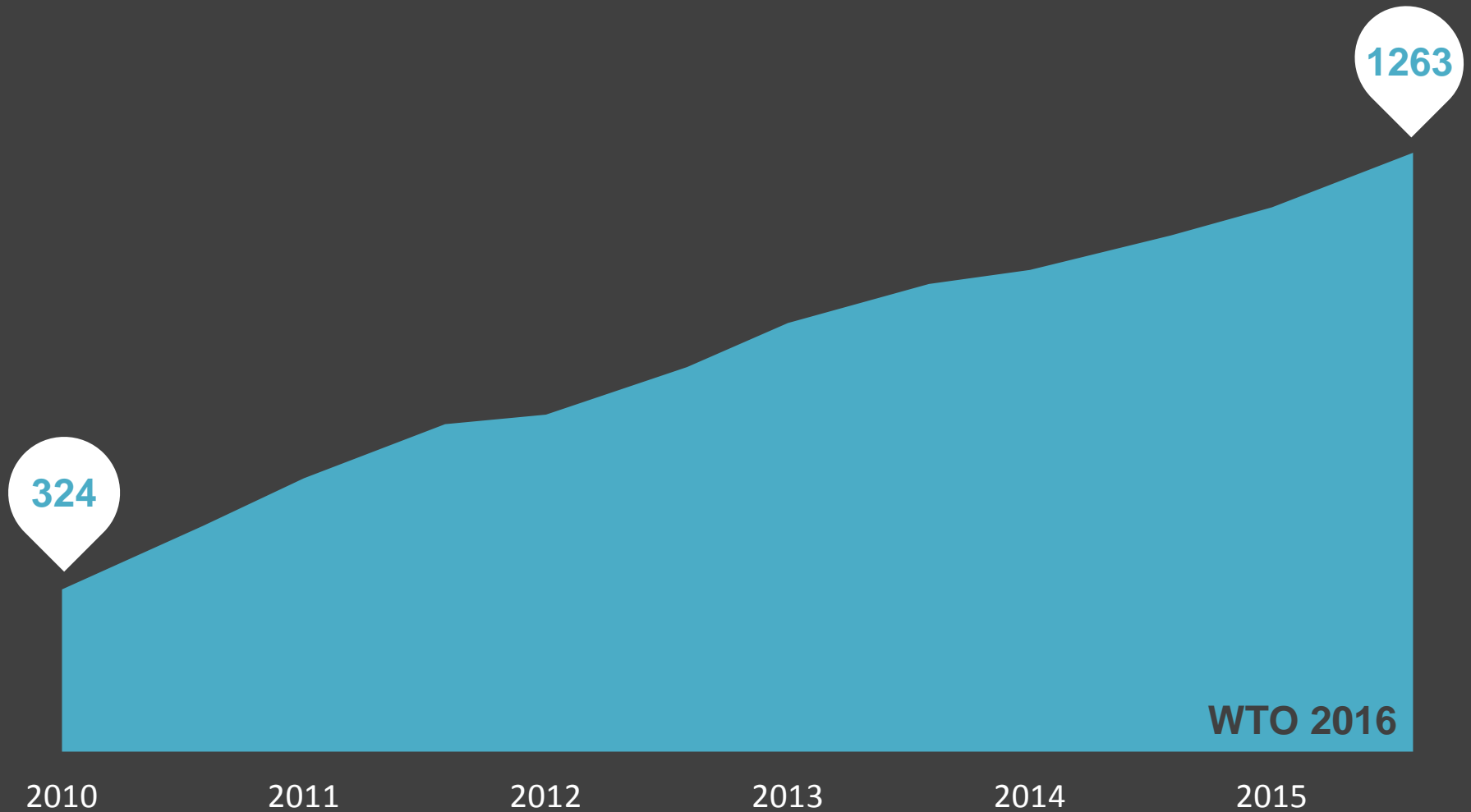
—
Global value chains increasingly important

—
“[Our leaders’] push for globalisation, economic rationalism, free trade and ethnic diversity has seen our country's decline”

— Hanson

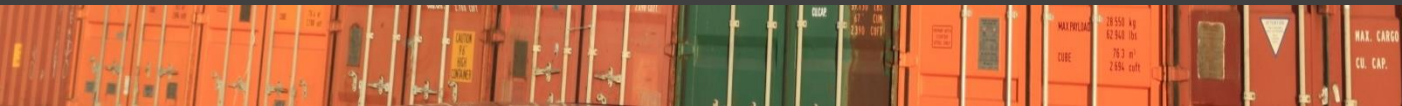
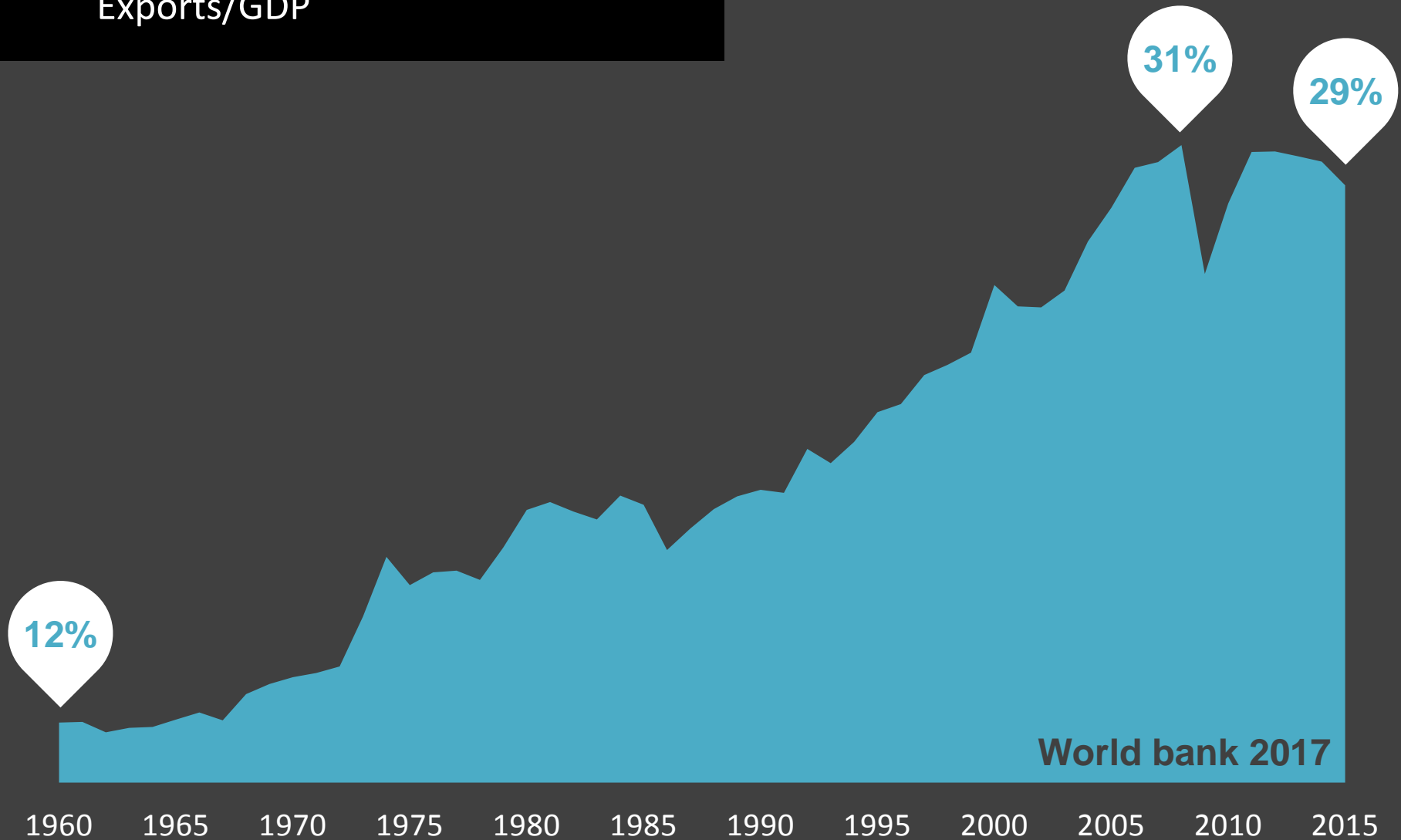


➤ New G20 trade restrictions have quadrupled



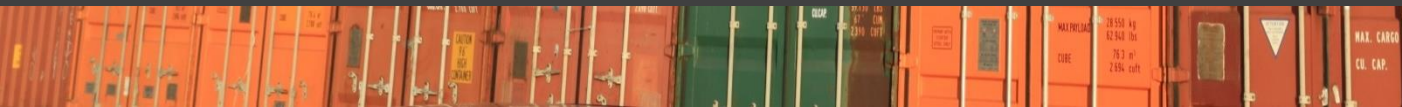
➤ Global trade is stagnant

Exports/GDP



➤ What we've done

- 1 Developed stylised scenarios
 - much higher US tariffs — China and Mexico
 - US border adjustments
 - global contagion
 - regional cooperation
- 2 Motivated, modelled and analysed the scenarios
- 3 Explored potential implications and policy responses for Australia



➤ Targeted US tariffs

“China ... greatest jobs theft in history ...
killing us ... they dump all their stuff ... cheated on
its currency, added another trillion dollars to our
trade deficits”

“When do we beat Mexico at the border?
They're laughing at us, at our stupidity
...They are not our friend, believe me”

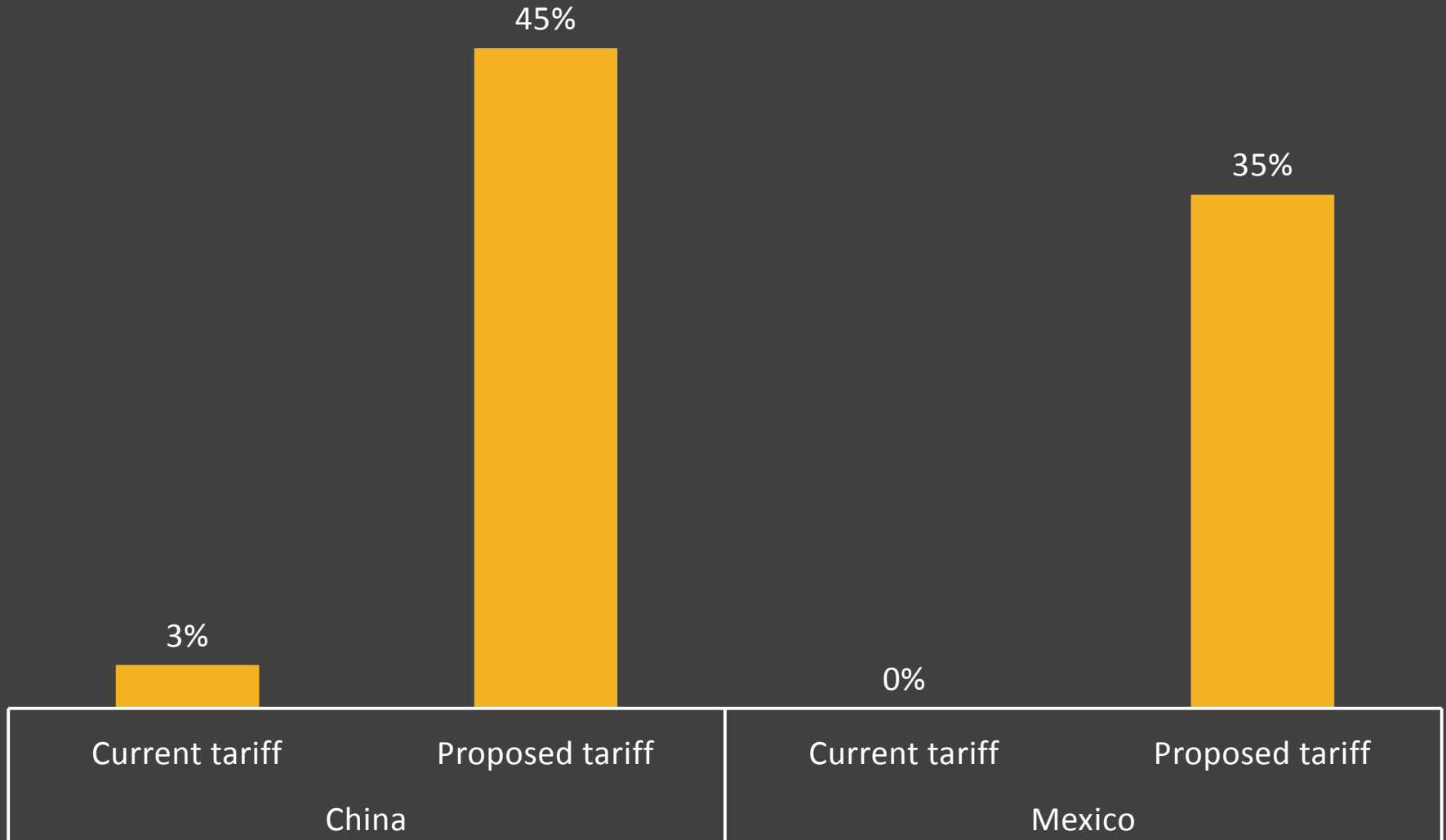
— Trump

➤ Targeted US tariffs



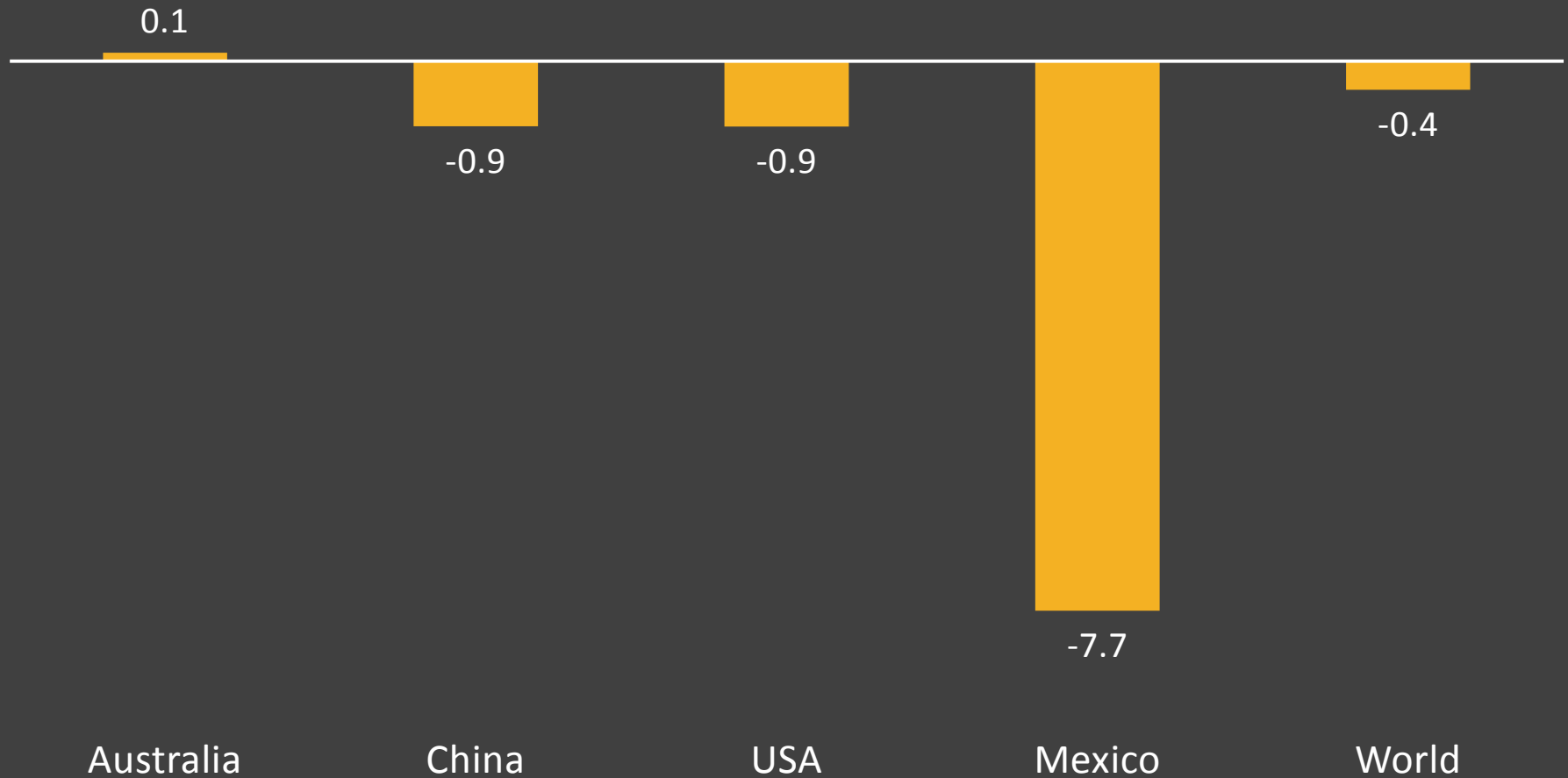
What happens if the US follows through with a 45% tariff on Chinese imports and 35% tariff on Mexican imports — and China and Mexico retaliate in-kind?

> Proposed US tariffs



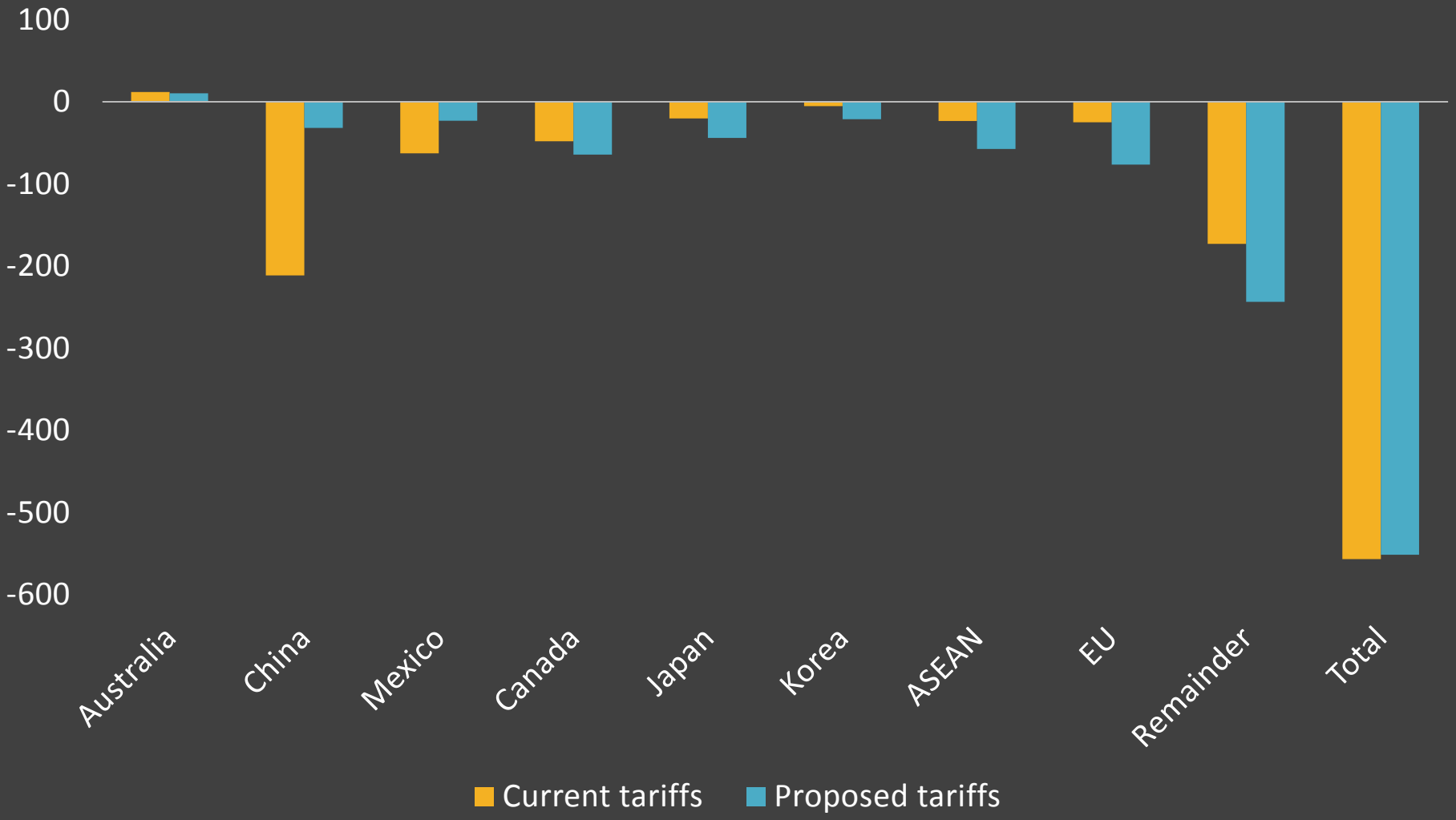
> Australia unaffected

Per cent change GDP



➤ Overall US trade deficit unaffected

US\$bn



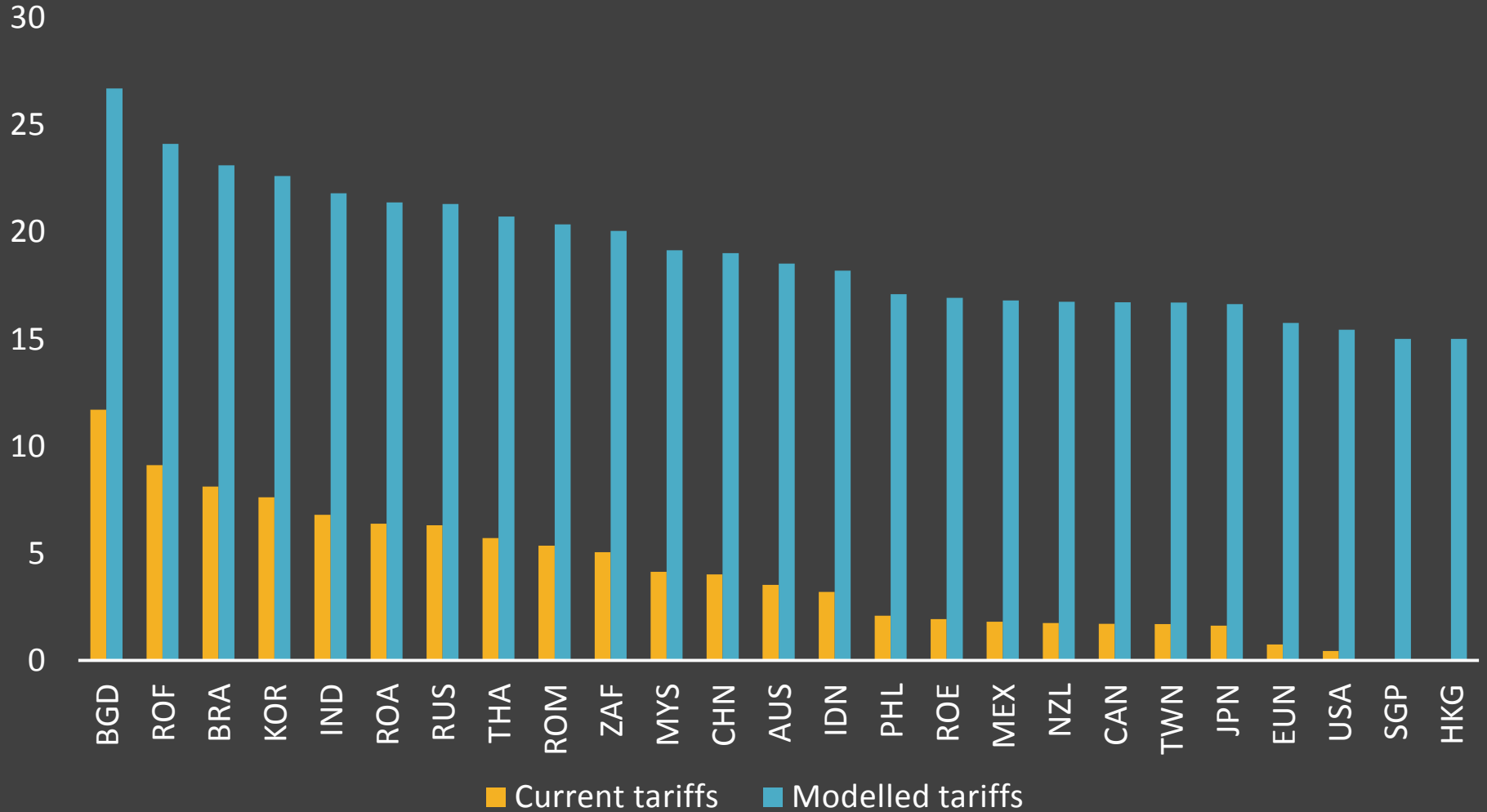
➤ Global contagion



Public distrust of international trade integration is growing. 'Global contagion' is an extreme scenario — countries increase tariffs by 15 percentage points.

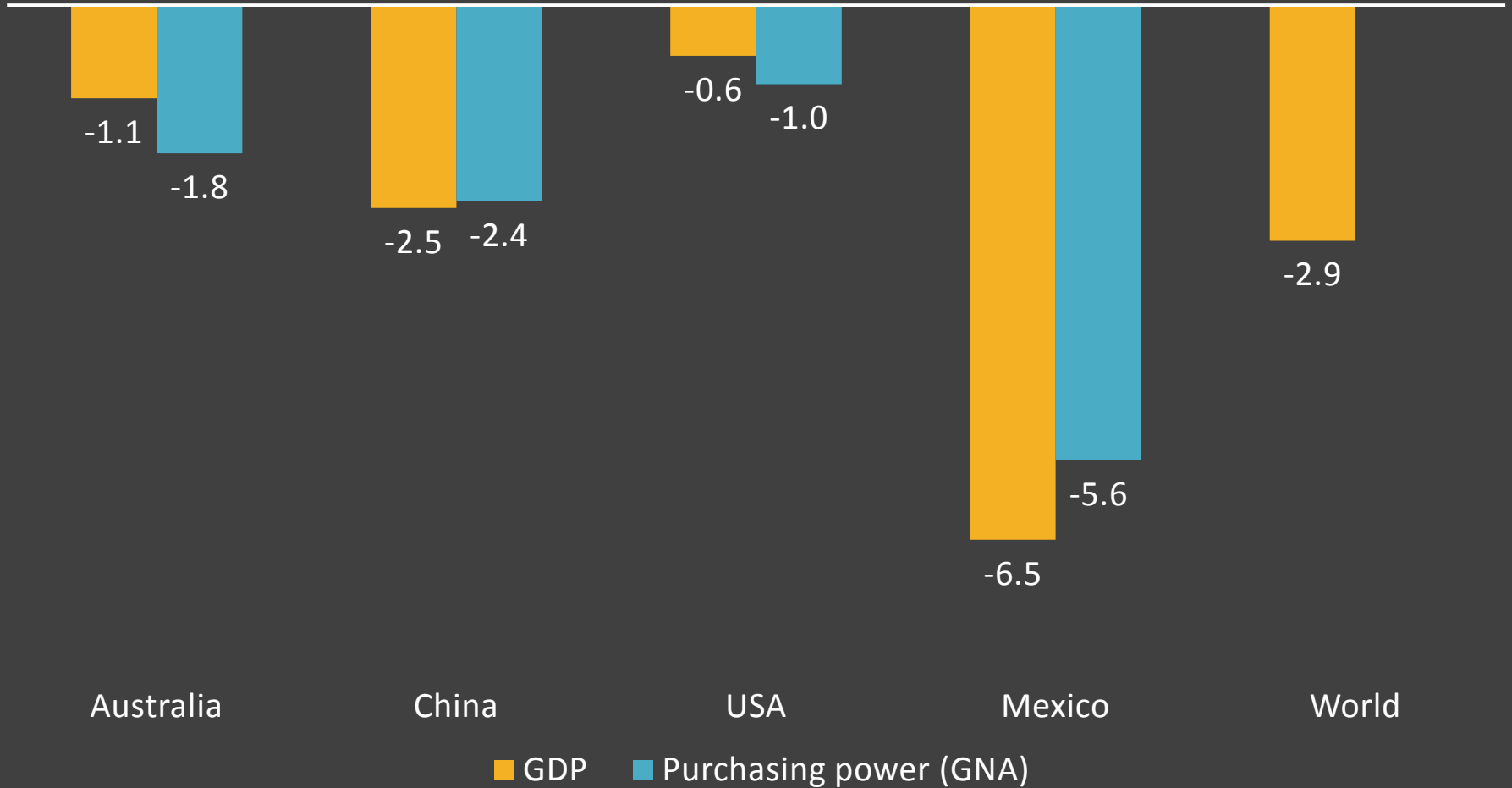
Modelled tariffs

Percent tariff



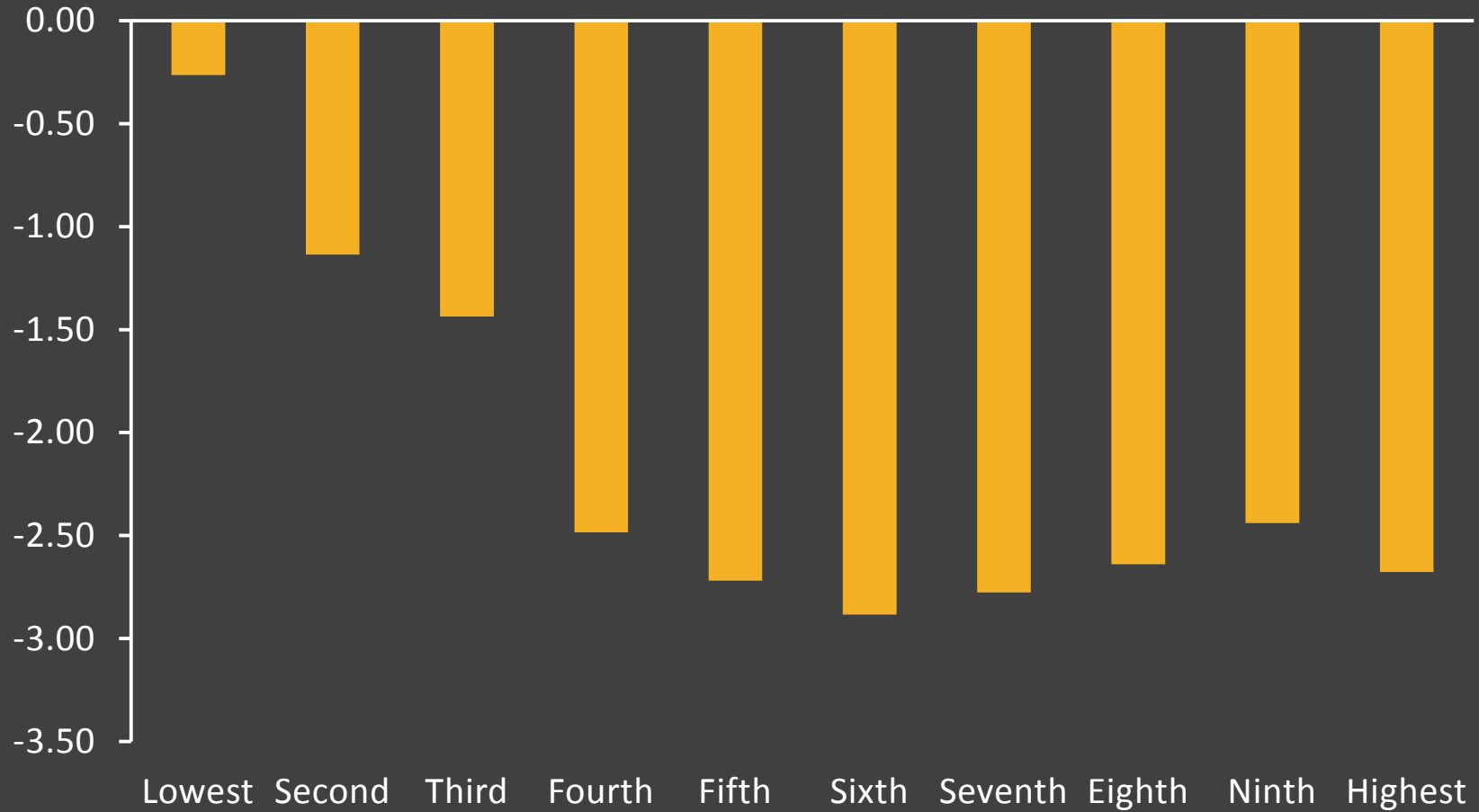
➤ Global recession

Percent change



➤ Average living standards would fall in all deciles

Per cent change real income



> Who loses?

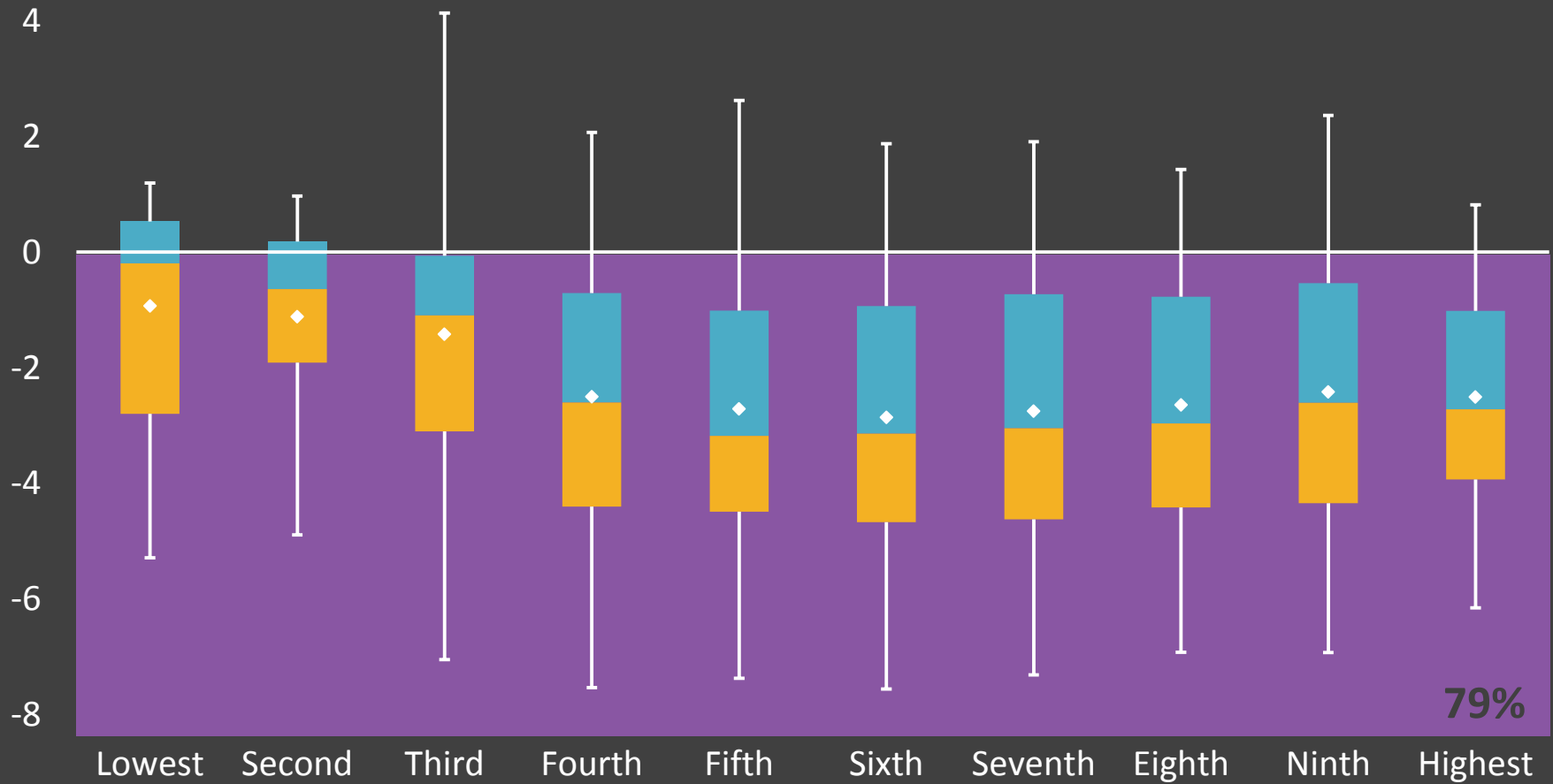
79%

Australian households



➤ Many households would be much worse off

Percent change real income

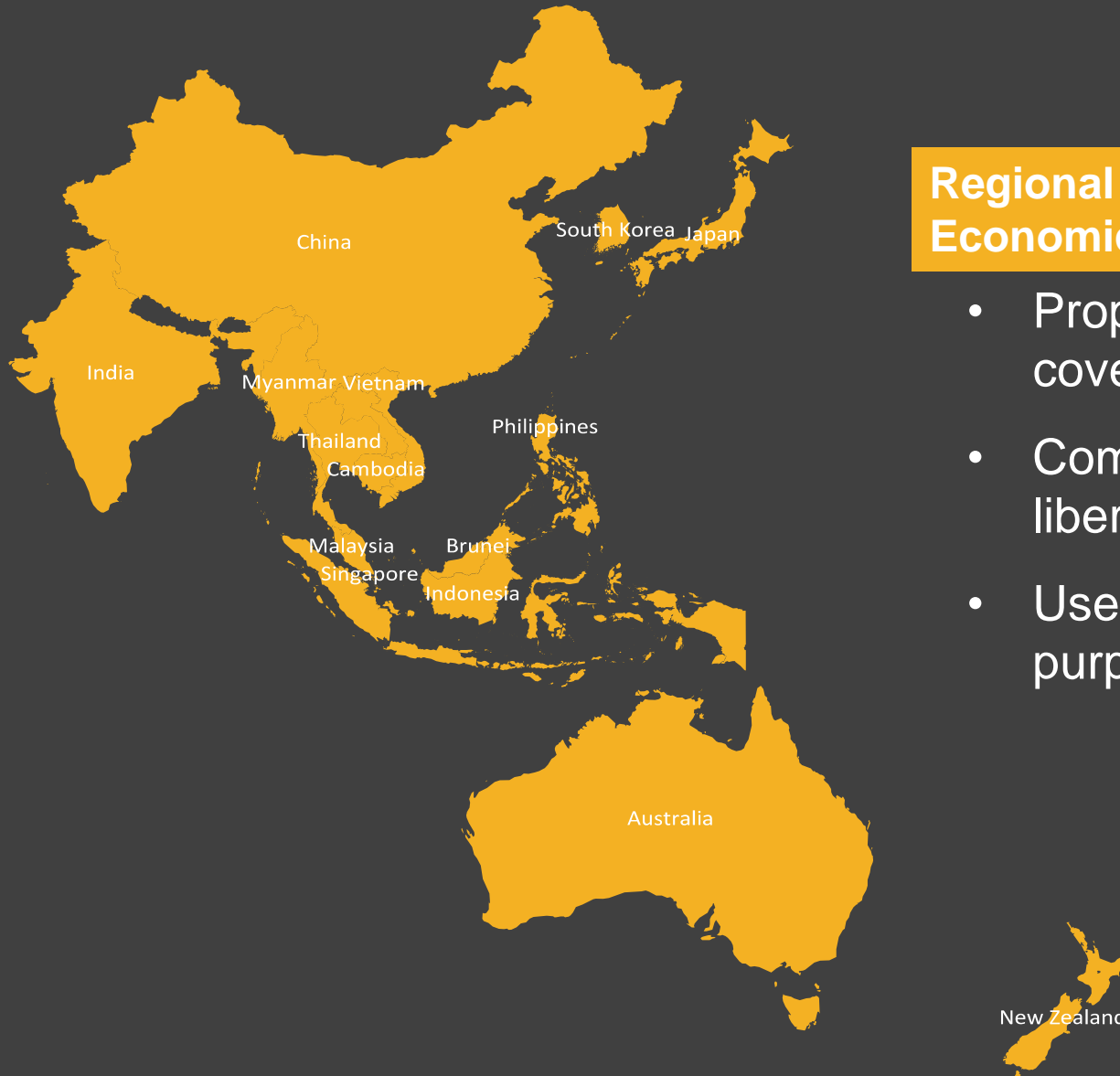


➤ Coordinated resistance



What happens if Australia holds the line against global contagion? What happens if we instead liberalise with a regional coalition?

➤ Regional coalition

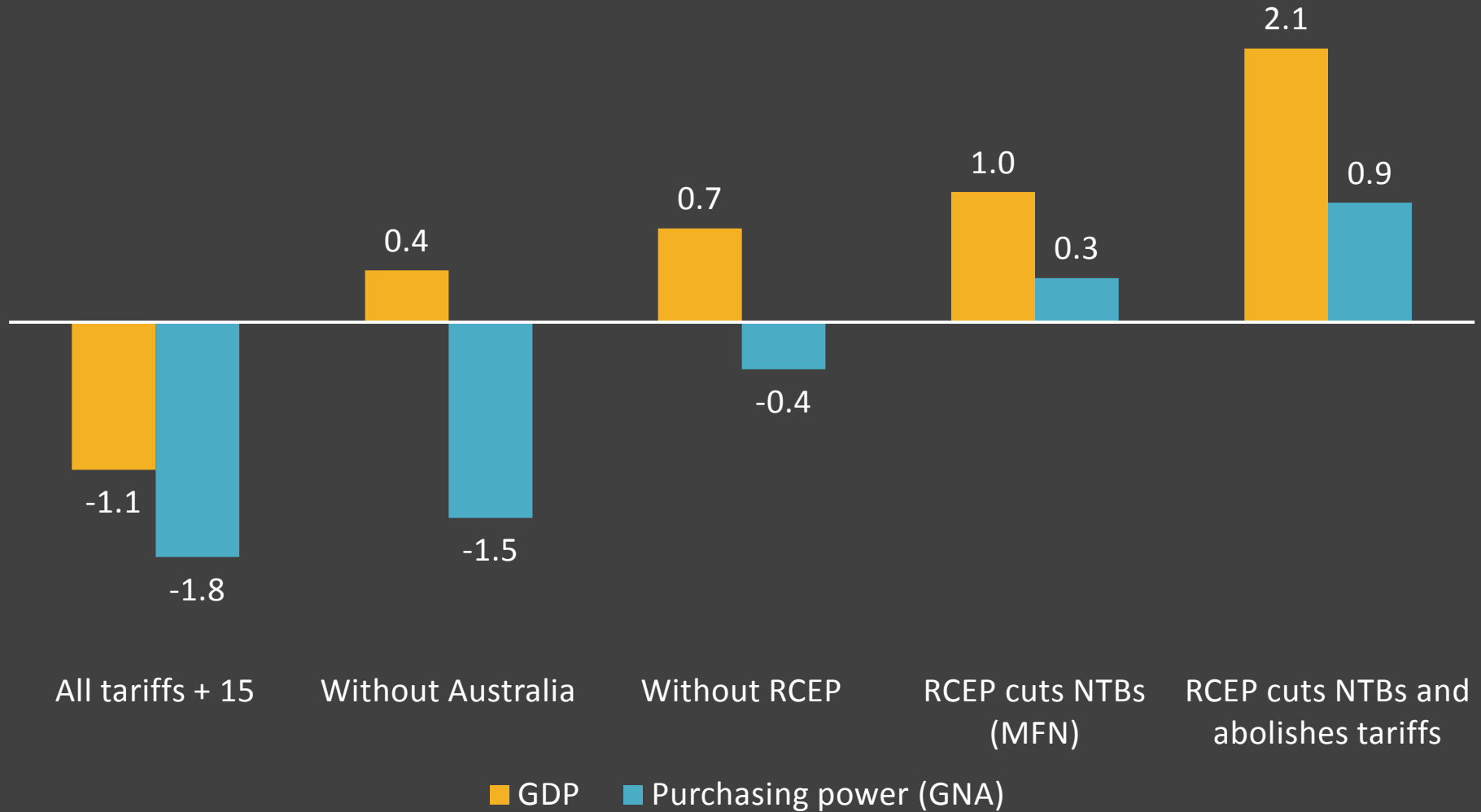


Regional Comprehensive Economic Partnership

- Proposed free trade area covering ASEAN + 6
- Common goal of trade liberalisation and integration
- Used for illustrative purposes only

> Australian outcomes

Percent change





Policy

> Bottom line?



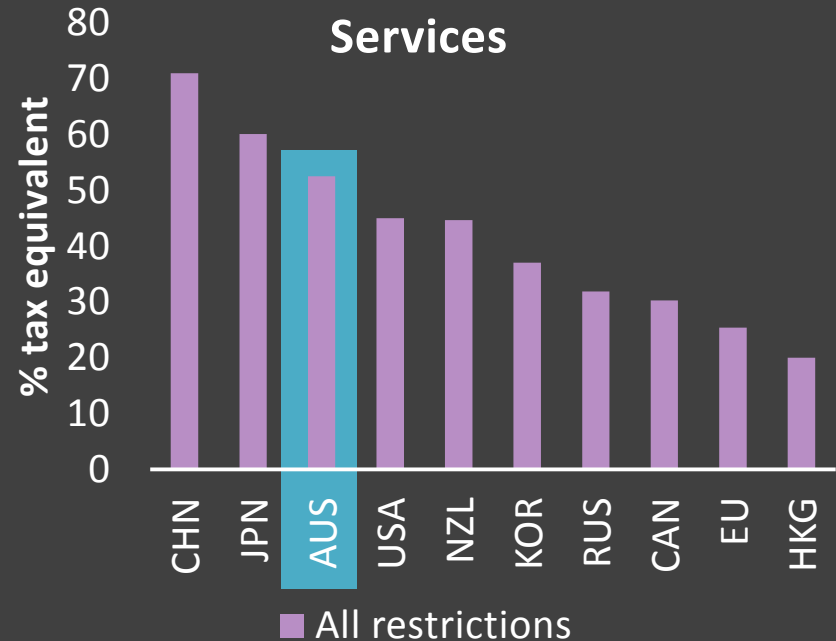
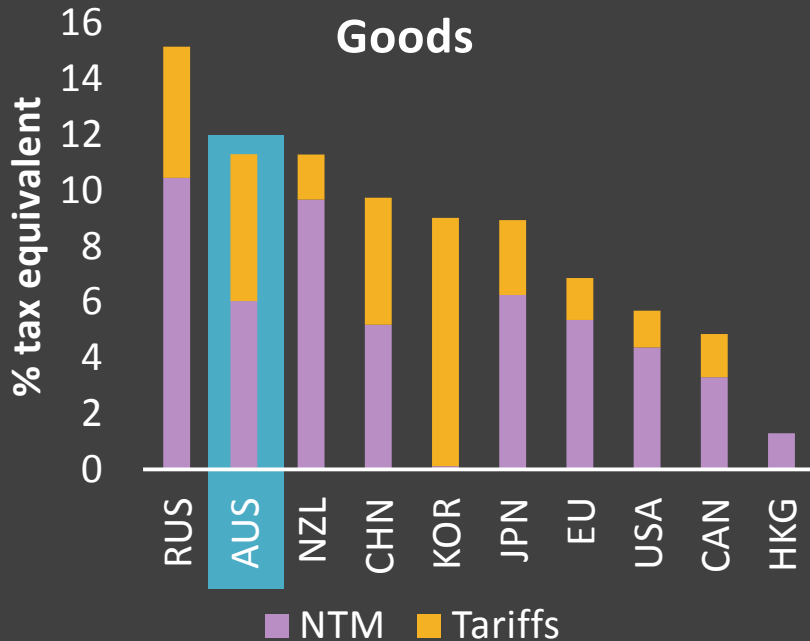
Best response?
Further liberalisation



While recognising
community discontent

➤ Three pronged strategy to reduce protectionist pressures

1. Trade and investment policy



Unilateral action

Make concessions MFN, address non-tariff measures, improve FDI approval processes

➤ Three pronged strategy to reduce protectionist pressures

1. Trade and investment policy

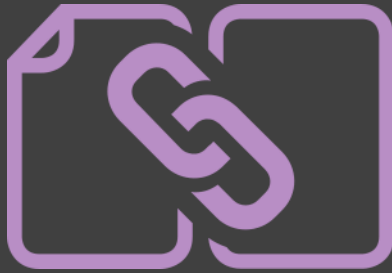


Pursue rules based and well designed agreements

- Prioritise regional and plurilateral agreements
- Pursue only agreements with likely net benefit
- Improve agreement consultation processes

➤ Three pronged strategy to reduce protectionist pressures

2. Companion policies



Reducing disruptive impact of reform

- Investigate more effective policies
- Evaluate existing policies

➤ Three pronged strategy to reduce protectionist pressures

3. Better communication



Build community acceptance of open markets

- Develop evidence base for open markets
- Acknowledge losers
- Illustrate what's at stake from higher protection



Australian Government

Productivity Commission

Questions?

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Sydney, 19 July 2017