



Features and Roles of Free Trade Agreements

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What we need to know

Here are all the topics this PowerPoint aims to cover from the BME Y12 Syllabus.

- features and role of free trade agreements (FTA), including:
 - ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA)
 - Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA)

What is a Free Trade Agreement (FTA)?

A Free Trade Agreement (FTA) is defined as a treaty **between two or more countries** that seeks to establish a framework to **reduce trade barriers for investment** and trade between countries. The intent of a Free Trade Agreement is to promote **economic integration**, enhance **international cooperation** and **protect intellectual property** by reducing or eliminating:

- **Tariffs** – taxes placed on imported goods and services from another country
- **Quotas** – limits on the number or monetary value of goods imported and exported
- **Trade Prohibitions** – a limitation where a country refrains from importing goods from another country unless certain standards or conditions are met
- **Specific export and import subsidies** – financial contributions to entities from a Government that provide a benefit to specific exports and import types

Features and the Roles of Free Trade Agreements

Features

- **Bilateral** free trade agreements are formed between **two** countries
- **Regional** free trade agreements are formed between two **or more** countries
- Typically **negotiated** over approximately **two years** and **implemented** approximately in **five years**

Roles

- Facilitate the **removal** of reduction of trade barriers
- **Increase** economic growth, dynamic business climate, foreign direct investment, and transfer of technology and expertise
- **Reduce** government spending by eliminating subsidies

ASEAN- Australia- New Zealand Free Trade Agreement (AANZFTA)

The AANZFTA is a sweeping free trade agreement that came into force on January 1, 2010, with Australia and eight other signatory countries. Laos, Cambodia, and Indonesia joining the agreement in 2011-2012. The agreement sought to cover goods, services, investments and intellectual property by **liberalising** (relaxing) and facilitating trade among the signatory countries.

This free trade agreement is significant for the Asia-Pacific region as it has a combined GDP of AUD\$6.1 trillion and covers over 600 million people.

Key Features of AANZFTA

Extensive elimination of tariffs, 96% of products traded between countries in this agreement had their tariffs eliminated

Creation of rules of origin, the agreement established rules defining the origin of goods to ensure only goods from signatory countries benefit from reduced tariffs and trade preferences

Promotes greater certainty for foreign investors and Australian suppliers by providing legal protection and provisions to resolve investment disputes

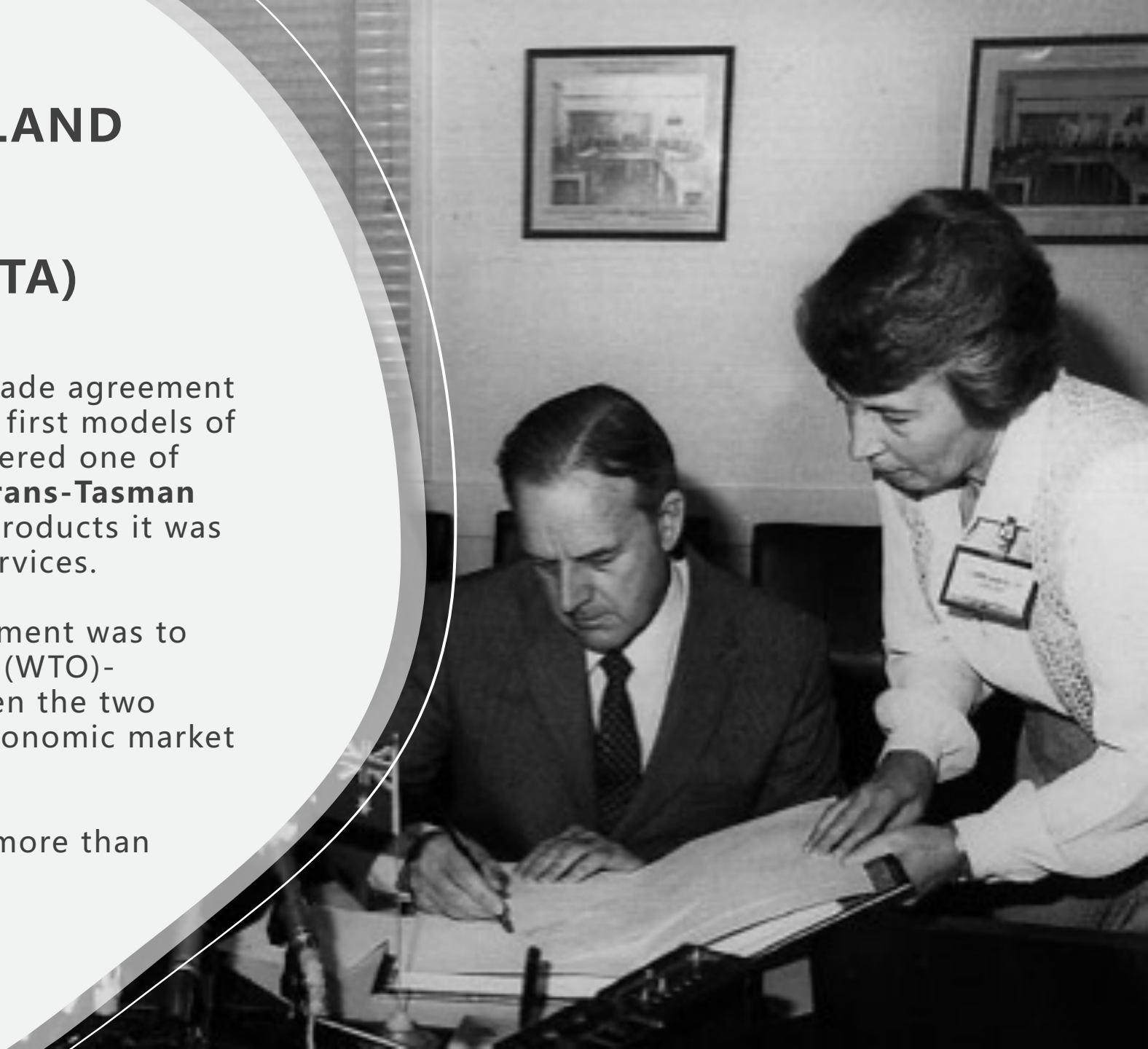
Establishes a platform for economic cooperation through inbuilt agendas, projects, business outreach programs and provisions to address issues on trade and investment issues such as intellectual property, labour standards and environment regulations

AUSTRALIA NEW ZEALAND CLOSER ECONOMIC RELATIONS TRADE AGREEMENT (ANZCERTA)

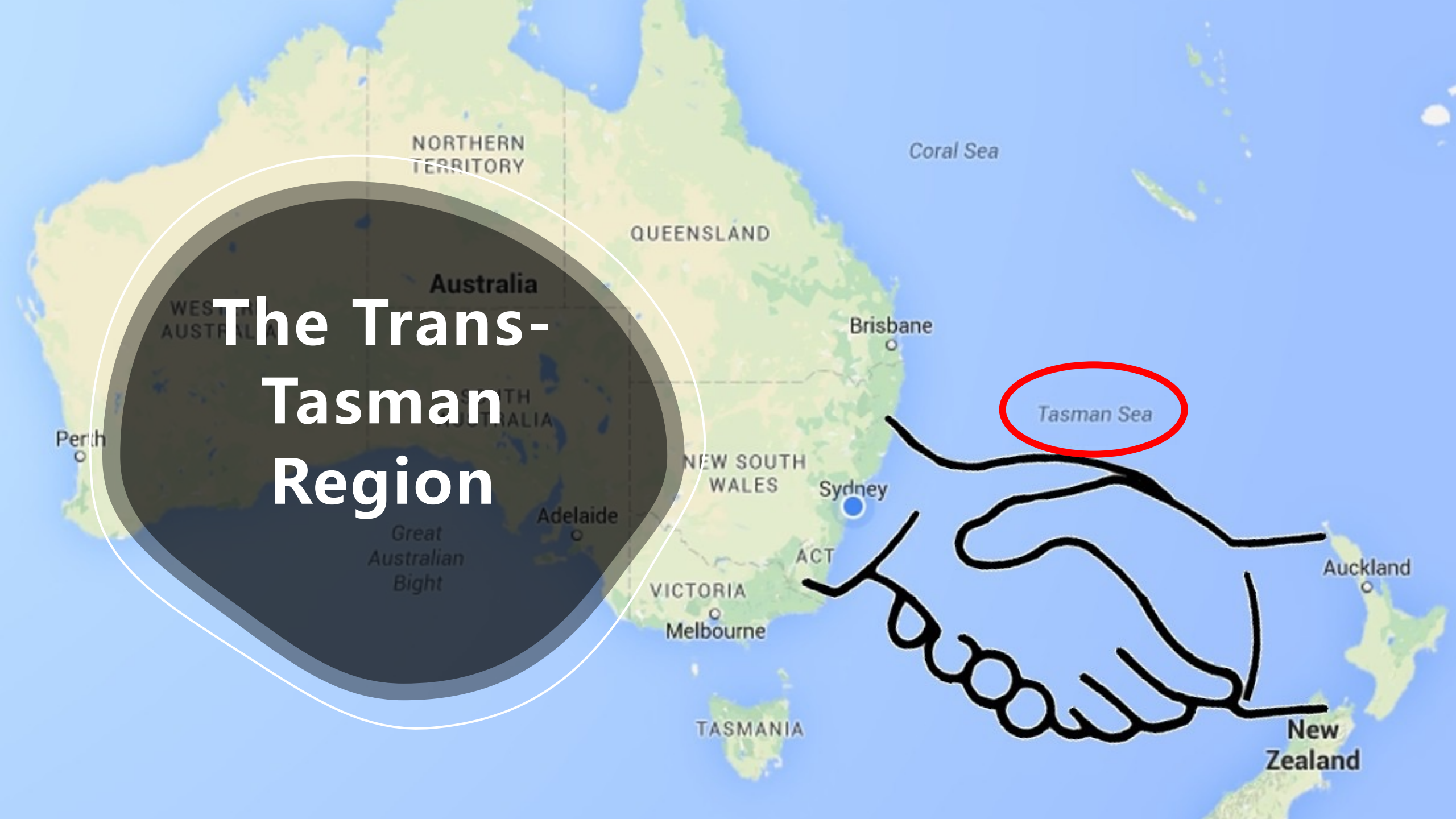
The ANZCERTA is a bilateral free trade agreement signed in 1983 and was one of the first models of an FTA for the world that is considered one of the most expansive. Covering all **trans-Tasman** trade goods, such as agricultural products it was the first to include free trade in services.

The central provision of this agreement was to create a World Trade Organisation (WTO)-consistent **Free Trade Area** between the two countries to create a free single economic market with reduced trade barriers.

This two way investment is worth more than **\$130 billion** as of 2014.



The Trans-Tasman Region





Key Features of ANZCERTA

- **All tariffs and import/export restrictions are prohibited** for goods originating from the Free Trade Area
- **Measures to reduce prices being determined by anything but supply and demand** (also known as market distortion), which includes reducing domestic industry assistance and export subsidies
- **Introduction of Australian New Zealand Food Authority Agreement** (1995) which standardises trans-Tasman food standards which reduces compliance costs for industry and promotes consumer choice
- **Mutual recognition of goods and occupation** which remove trade barriers that limit movement of skilled labour **without** standardised qualifications or standards



Allows countries to specialise in producing goods and services in which are most efficient for them to produce. This results in better allocation of resources and increases in production both between countries and globally.

A greater tendency for specialisation which leads to economics of scale, which reduces the average costs of production and increases productivity and efficiency.

Encourages innovation, spread of technology and production processes globally

Higher standards of living as a result of lower prices as well as increased consumer choice as countries are able to access goods, that a lack of natural resources would otherwise prevent

Benefits to Australian-owned Businesses as a result of FTAs

Challenges to Australian-owned businesses as a result of FTAs

Increases in short term unemployment as some domestic businesses struggle to compete with imports. Over time this short-term rise should correct itself in the long term as the domestic economy redirects resources to areas of production that have greater advantages

Greater difficulties may be experienced in establishing new businesses if they are not protected from large multinational firms

Production surpluses from countries can be dumped by selling at unrealistically low prices in Australian markets which can hurt efficient Australian industries