

## MACROECONOMICS AT WORK EXERCISE

### FREE TRADE – THE PROS AND CONS OF A BILATERAL AGREEMENT

**REFERENCE:** Mark Davis, ‘What price free trade?’, *The Australian Financial Review*, 21 July 2003, p. 53.

**CHAPTERS RELEVANT TO THIS EXERCISE:** Chapters 20, 21.

### OVERVIEW

Free trade *as a general principle* is widely accepted by economists as delivering benefits – as suggested here, virtually an ‘article of faith’ with economists. The way the principle is put into *practice* is, however, the subject of a variety of views that are often diametrically opposing. Such is the case with the proposed free trade agreement (FTA) between Australia and the United States. The main points of contention arise from the fact that this is a *bilateral* agreement i.e. between (and only between) two countries. The contrast is with *multilateral* trade liberalisation (where a agreement to make trade free, or freer, is between a large number of countries; or even *unilateral* (where one country on its own agrees to freer trade with *any* other country).

### QUESTIONS

1. Summarise the argument for free trade.
2. If free trade is a ‘good thing’ why have some economists argued that *bilateral* free trade agreements are actually *against* a participating country’s interests?
3. Do bilateral FTAs hinder or promote the achievement of free trade on a ‘worldwide’ basis?
4. Why has Australia – in the face of arguments against bilateral agreements – recently sought and negotiated such agreements?
5. Explain the suggestion that political considerations have been an element in the opposition to the proposed Australia-US FTA.
6. Aside from issues relating to trade diversion and the effect on the achievement of trade liberalisation in the world generally what do you consider to be the most significant costs to Australia of an FTA with the US?