

## **ECONOMICS AT WORK EXERCISE**

### **FREEING UP INTERNATIONAL TRADE**

**REFERENCE:** ‘US opens door to trade reform’ (Editorial), *Australian Financial Review*, 31 July 2002, p. 70.

**CHAPTERS RELEVANT TO THIS EXERCISE:** Chapters 17, 18 (*Microeconomics*); Chapters 20, 21 (*Macroeconomics*).

### **OVERVIEW**

The way in which international trade can benefit individual countries is clearly demonstrated by economic theory. However, international trade can be distorted and in some cases totally prevented by the trade barriers some countries erect in order to ‘protect’ their own industries. It is thus of concern to a country (e.g. Australia) if *another* country which is a potential export market (e.g. the US) pursues policies that limit trade. Such has been the case, particularly with respect to agricultural commodities, of which Australia is a large producer.

Recently, two developments in the US have given an indication that aspects of world trade policy, particularly as it affects agriculture, may change in a way that is likely to result in benefits to Australian producers.

One development relates specifically to Australia–US trade. This has to be understood in terms of domestic US politics, where the US Administration has transferred authority to negotiate on trade matters to the President. The prospect of a free trade agreement being reached between the two countries has been strengthened by this development.

The second event is of more general significance to world trade: it is the adoption by the US of a global proposal which addresses the high level of subsidies that both the US and other major countries (notably the European Union (EU) and Japan) confer upon their domestic agricultural industries, thus distorting trade at the expense of agricultural exporting countries such as Australia. Included in this plan is the proposal that both tariffs and ‘bad’ subsidies – those that are linked to production targets and thus encourage over-production – should be significantly reduced.

### **QUESTIONS**

1. What are the central issues in ‘agricultural trade reform’?
2. Explain the distinction made between ‘bad’ and ‘good’ subsidies. How does the US proposal about global agricultural reform, which is based on this distinction, have a better chance of succeeding than previous reform attempts?

3. What is meant by a 'bilateral free-trade deal' between Australia and the US?  
How does the decision in the US to give the President negotiating powers regarding trade enhance the prospect of such a deal?
4. Why would Australian agricultural producers 'warmly embrace' such a deal?  
What might be its larger significance?