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THE AUSTRALIAN SUPERMODEL

LESSONS FOR THE UK

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SUMMARY

- Australia has achieved 26 consecutive years of economic growth. Its economy has successfully ridden the ups and downs of global economic fortune by relying on a diverse set of global trading relationships. Its living standards and overall wealth have never been higher.
- Australia's recent experience might offer a model for the opportunities that could exist for the UK as it embarks on Brexit.
- In association with wide-ranging economic reform, Australia unilaterally reduced tariff protection: it now has some of the lowest tariff protections anywhere in the world.
- Australia is not part of any customs union that seeks protection from those outside. It continues to use its freedom to negotiate its own FTAs to chase new opportunities.
- Exposure to global market forces has meant that Australia's businesses have become efficient and competitive. Their enhanced productivity means that they now sell to a global market and benefit further from the economies created by a larger customer base.
- Australian consumers have reaped the rewards of trade liberalisation. Reduced tariffs mean that everyday items cost less. This allows them to spend more money in the rest of the economy: a virtuous cycle of increasing demand and economic growth.
- Small and medium businesses' inputs also cost less, allowing them to be more competitive on a global scale. That success leads to more employment, again to the benefit of the broader economy.
- At a time when free trade is under threat, it is important that the EU and the UK show leadership, by agreeing to a comprehensive, trade liberalising agreement that does not introduce barriers to trade.
- The Australian Government has made clear it wants to pursue FTAs with both the UK and the EU. It will welcome the UK as both a champion and partner for free trade.



1. INTRODUCTION

The British people have elected to leave the European Union, and their Prime Minister has determined that the UK will thenceforth pursue an independent trade policy, outside the EEA single market and the European customs union.

But what sort of trade policy? The UK stands at a fork in the road – much as Australia did in the 1970s, after Britain joined the EU and ended the system of preferential market access for its Antipodean friends. So perhaps Australia's subsequent experience can offer some navigational assistance as the UK sets off on its Brexit journey.

Of course, the UK starts from an enviable position. It is the world's fifth-largest economy and a leader in financial services, education, high technology manufacturing and pharmaceuticals, among other exports. It has a significant investment relationship with most major economies and a history of extensive and global trading relationships – some of which date back to the Elizabethan era. Consumer confidence is high. The UK's GDP growth is among the highest in the developed world.

It is an ideal place from which to pursue the kind of open, liberal trade and investment policy that has served Australia well in recent decades. Of course, all nations are different – what follows is just a brief description of what has worked for us. As one of the UK's closest friends, we offer it as an example of the opportunities that might exist for a nation in the UK's position.

2. DECIDING ON A STRATEGY

In the early 1980s, Australia's economy was in recession. It had rigid labour and financial markets, high tariff walls, low productivity, low international competitiveness and high inflation.

Starting with the election of the Hawke Government in 1983, but carried through to the Howard Government which ended in 2007, Australia embarked on a comprehensive program of economic reform. It was a collective endeavour: those governments consulted intensively with state and regional governments, business and consumer groups, industries, academia, NGOs and individual businesses and citizens. This high degree of policy collaboration has been an important part of the success of our economic success story.

So what did we do? Reform was wide-ranging, with trade policy just part of a much bigger waterfront:

- We changed our labour market policy, moving away from a centralized, quasi-judicial wage fixing system to a more flexible and responsive wages policy.
- We liberalised financial markets by floating our currency and introducing productivity enhancing deregulation of our banking system.
- We reformed our tax code, introducing a broad-base 'goods and services tax' and moving away from unproductive wholesale taxes and other duties that distorted markets.
- In the agricultural sector, in addition to steep tariffs, we had a high degree of regulation within markets, including stabilization measures, financial support mechanisms, price controls and reserve pricing and other



support. Over time, we deregulated our agricultural markets, removed single desk marketing arrangements and reduced structural support. Australian agriculture is now the third least subsidized agricultural sector in the world.

- And, equally importantly, we unilaterally reduced tariff protection, exposing our country to international competition. Our trade policy aligned with the domestic reforms we instituted.

3. LIBERALISING TRADE

I am not aware of any country that has become rich by being protectionist, or by following an economic model based on import substitution. Hermit kingdoms are not happy, wealthy or successful. Protectionism hinders, rather than helps, an economy.

Australia has taken a leading role in the World Trade Organisation and its predecessor, the GATT. Australia was the driving force behind the Cairns Group of agricultural producing nations, seeking to reduce global protectionism. We continue to proudly promote the benefits to all nations of trade liberalisation.

Since the end of the Uruguay Round, Australia has signed 11 free trade agreements: with the USA, China, Japan, Korea and many of the ASEAN nations, among others. We have signed nine free trade agreements in the past 12 years.

Australia now has some of the lowest tariff protections anywhere in the world. We are not part of a customs union that trades freely within a region but seeks protection from those outside. Instead, we have found strength *from* openness.

In turn, exposure to global market forces has meant that our key sectors – whether in services, resources or agriculture – have become efficient and competitive. Their productivity means that they now sell to a global market and benefit further from the economies created by that larger customer base. Although our production is too small, and our spread of markets is too thin, to ever flood another country's markets, we are still able to compete in a smaller scale with large services, resource and agricultural producers.

Australia has now achieved 26 consecutive years of economic growth, a period straddling both the Asian Financial Crisis and the Global Financial Crisis. Our economy has successfully ridden the ups and downs of global economic fortune by relying on a diverse set of global trading relationships. Our businesses have had the freedom to trade where the global demand has been highest, confident in the knowledge that we could compete in any overseas market.

The benefits of free trade are not simply economic. As Otto Mallery wrote, building on Frederic Bastiat:

"If soldiers are not to cross international boundaries, goods must do so. Unless the shackles can be dropped from trade, bombs will be dropped from the sky."

Trade improves the economic growth and development prospects of all nations, helping to foster regional integration and stability wherever it is pursued. This is part of the rationale for the PACER Plus agreement, recently signed with several Pacific Island countries and New Zealand.



As we have seen, the microeconomic and structural reform process Australia has undergone since the 1980s was linked with a dramatic reduction in tariffs and other domestic support, in addition to deregulation and liberalisation of markets. It has also been accompanied by social policy settings designed to ensure that those who were adversely affected by structural reform were given the support and tools to adapt to a new economic environment.

4. CONSUMER AND SMALL BUSINESS BENEFITS

Australian consumers have reaped the rewards of trade liberalisation. Reduced tariffs mean that everyday items, from food to electronics, cost less. This allows them to spend more money in the rest of the economy: a virtuous cycle of increasing demand and economic growth.

Small and medium businesses' inputs cost less, allowing them to be more competitive on a global scale. That success leads to more employment, again to the benefit of our broader economy. This applies to our agricultural sector as well – 99% of which are family-run farms. Reduced input prices mean lower production costs, leaving Australian agriculture globally competitive, without the need for high subsidies and price maintenance schemes. We can have free trade agreements with large agricultural exporting countries like the US, Korea, Japan and Thailand, confident in the knowledge that our innovation can compete with our competitors' subsidisation. The proof is in the pudding – we have among the most successful agricultural sectors in the world.

5. THE ROAD AHEAD

This coordinated and open-minded approach has meant that Australia has secured the benefits of global trade without suffering from much of the disruption that protectionist and anti-trade voices regard as the natural consequences of trade liberalisation. There has been no 'race to the bottom'. Our living standards and overall wealth have never been higher. Trade is an important reason why: through the 1970s, trade was less than 30% of Australia's GDP – through domestic reform and trade liberalisation, it comprised over 40% of our GDP by the year 2000 and onwards.

That agenda is not stopping. We are using the freedom to negotiate our own FTAs to chase new opportunities. We are hopeful that the Australia-Indonesia FTA will be concluded by the end of 2018 – a massive market of nearly 260 million people, with a rapidly growing middle class. The opportunities here are excellent: our entire agricultural production could be sent to Indonesia and we would only be able to feed Java.

We are also forging ahead with negotiations with Hong Kong, which already benefits from two-way trade in goods and services worth \$15.3 billion. We have launched the Australia-Peru FTA, looking to open up new markets on the South American continent.

We will continue to pursue the Trans-Pacific Partnership, between economies which represent nearly 40% of global GDP; we know other TPP countries are keen to secure the benefits of the TPP deal, even if it is not ratified in its current form. Who knows – perhaps the UK might consider joining at a later time? We are certainly excited by the possibilities of TPP,



even if they are somewhat reduced by the departure of the US.

We hope soon to conclude the Regional Comprehensive Economic Partnership, a sixteen-nation FTA involving all ASEAN nations, Japan, the Republic of Korea, Australia, New Zealand, China and India.

6. BREXIT AND THE UK

Of course, we have a strong interest in the outcome of the UK's negotiations to exit the EU. We have ties of blood, history and culture. We share legal systems and philosophies - whether respect for democracy, the rule of law, liberal freedom and the opportunity for the individual to pursue his or her prosperity, free from undue interference from others. As the Australian Prime Minister, Malcolm Turnbull, said in his visit to UK Prime Minister, Theresa May,

"There are no two nations in the world that trust each other more than the United Kingdom and Australia."

As a country with much at stake in an open global trading system, Australia looks to the EU and UK to establish a new relationship that underpins growth and supports trade and investment. In doing so, we also trust that both the UK and the EU take into account the interests of their neighbours and their trading partners, including Australia.

We encourage the EU and UK to find the most trade-liberal solution possible to the challenges posed by Brexit. At a time when free trade is under threat, it is important that the EU and the UK show leadership, by agreeing to a comprehensive, trade liberalising agreement that does not introduce barriers to trade. This

will keep trade flows open and demonstrate resistance against the anti-trade rhetoric that leads to an economic dead-end. No one will thank the UK or the EU for submitting to the rising tide of protectionism, or by erecting barriers to trade that harm the global economy, costing jobs and hurting growth.

7. AUSTRALIAN FTAS WITH THE EU AND UK

The Australian Government has made clear it wants to pursue FTAs with both the UK and the EU. We have concluded scoping discussions with the European Union on a possible FTA. We are hoping to commence negotiations later in 2017. European Commission President Juncker and EU Council President Tusk agreed with Prime Minister Turnbull to the realistic but ambitious objective of finalising an Australia-EU FTA by 2019.

Australia was the first country to offer to sign a FTA with the UK following the Brexit referendum, and we have followed rhetoric with substance. We have established a trade working group to scope out the parameters of a future ambitious and comprehensive FTA with the UK. And although we will not be able to formally commence negotiations until after the UK leaves the European Union, there are opportunities to pursue improved trade in advance of that in areas that do not fall within EU competence. In addition, we can continue the process of building links between our trade officials - so that trade negotiations, when they do commence, can be concluded quickly. We certainly look forward to commencing formal negotiations when the time is right to do so.



8. THE GLOBAL TRADING SYSTEM

The UK and US were the principal architects of the global trading system following World War II. Before joining the EU, the UK was a key voice for trade liberalisation within the global trading system.

The promotion of open and liberal trade with the rest of the world has been a philosophical and economic bulwark for the UK for much of its modern history. Lowering tariffs and freeing up trade would open up opportunities for Britain's prosperity that have been obscured for decades.

We look forward to the UK acting as a strong voice for free trade and global trading system in the days and years ahead. We will be a ready partner with the UK in support of global trade liberalisation and reform, a vision I know is shared by the British Prime Minister, as well as the Secretary of State for International Trade, Dr Liam Fox.

We share the UK's vision for free trade and welcome the British Prime Minister's call for the UK to resume its place as a great global trading nation, consistent with its place in the world and its history as a mercantile leader and the birthplace of the industrial revolution. As the world's fifth largest economy, it would immediately carry an individual weight it has not always demonstrated in recent times.

We welcome the UK as both a champion and partner for free trade.

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THE AUTHOR

The Hon Alexander Downer AC was appointed Australian High Commissioner to the United Kingdom in March 2014.

Mr Downer joined the Department of Foreign Affairs in 1976 and served at the Australian Embassy in Belgium before moving into politics. Elected to the Federal Parliament in 1984, he held this seat until his retirement from Parliament in July 2008. He served as Australia's Minister for Foreign Affairs, from 1996 to 2007, making him Australia's longest-serving Foreign Minister.

Mr Downer was a visiting professor, School of History/Politics, University of Adelaide; held a professorship at Carnegie Mellon University and sits on a number of boards.

He was appointed a Companion of the Order of Australia in 2013 and was awarded the Centenary Medal in 2001.

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