WTO General Council: Australia

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1 Introduction and Executive Summary

In March 2017, Australia recorded its 26th year of continuous economic growth, granting it the record for the longest run of uninterrupted GDP growth in the developed world. To keep up this steep performance, Australia will have to lay the foundations for future growth by ensuring the stability and sustainability of its trade associates.

Prime goals for Australian Delegates should be

- ensuring stability of global commodity prices,
- diversifying its list of trade partners by
- driving forth open FTA negotiations.

This brief dossier should provide an overview of the topic and is a good place to start with the research for the upcoming debates and negotiations in the WTO General Council.

2 Economic Structure [1]

The Australian economy is dominated by its service sector, comprising more than 60% of the GDP and employing almost 80% of the labour force in 2016. When it comes to foreign trade, however, it is Australia's natural resources, mining and agricultural products, that take the lead.

Australia has the eighth-highest total estimated value of natural resources, valued at $ 19.9 tln in 2016. At the height of the mining boom in 2009-10, the total value-added of the mining industry was 8.4% of GDP.

Australia's recent economic strength has relied heavily on the resources boom, which is now transitioning into its production phase. Increased production means that in 2016 the resources sector produced record commodity volumes. But the increase in commodity volumes and lower international demand have contributed to a reversing of the appreciation of the Australian dollar seen during the mining investment boom. From its peak of $ 1.08 USD in June 2011, the Australian dollar fell to $0.71 USD in October 2018.

As traders at the Australian stock market are a relatively small part of a large world market which sets prices, Australian traders have very little influence on the price, i.e. for most commodities, Australian traders are price takers. Although the relative importance of commodity exports to the Australian economy is declining, they still make up more than half of Australia s total export trade. The Reserve Bank of Australia (RBA) produces a number of commodity price indexes to provide an indicator of the prices received by Australia s commodity exporters. Comparing them to the terms of trade (i.e. the ratio of export pricec and import prices) shows a clear link between the two (see Figure 1). [2]

3 Trade Partners

East Asia is Australia's top export destination, accounting for about 64% of exports in 2016. China alone contributes to 33% of all exports.

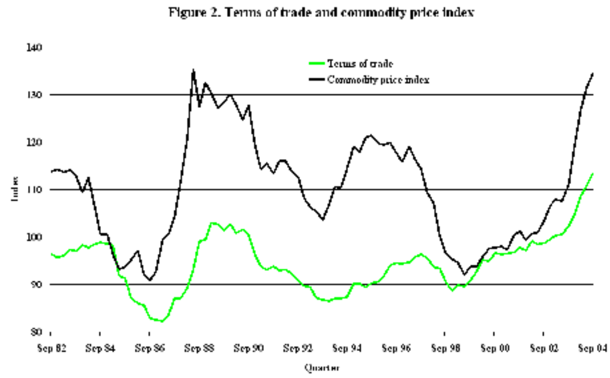

Fig. 1: Comparison of the RBA US dollar index of commodity prices and the Australian terms of trade since 1982. It suggests a close association between the terms of trade and the commodity price index. [2]

Australia is one of the signatories of the Trans Pacific Partnership (TPP) and still supports its further development, despite the United States' withdrawal in January 2017. Furthermore there are ten trade agreements in force, as well as XXX under negotiation. The most important in force FTA's are with China, Japan, South Korea, United States, Malaysia and the ASEANâĂŞAustraliaâĂŞNew Zealand Free Trade Area. Still under negotiation are FTA's with Indonesia and India. For a more comprehensive list, please refer to Reference [3].

4 Trade Balance

5 Trade Interests

As Section 2 points out, there is a significant connection between global commodity prices and Australia's trade performance. Ensuring stable commodity prices on a long-term basis for Australia's mining sector requires a creative solution.

With the raging US-China trade war, Australia cannot risk to be caught in the middle of its two trade allies. Instead Australia should consider diversifying its trade partners. There are several open trade deals with various important trade partners; finalising them would render Australia independent from the two economic major powers. [4]

6 Recent Developments

An analysis by auditing firm KPMG found that an all-out trade war - in which all countries hiked tariffs - would be "extremely serious", costing Australia A$ 500 bln over a decade as well as 60,000 jobs. But it found that even a limited trade war, restricted to currently announced tariffs, would cause Australia's gross domestic product

to decrease by 0.3 per cent after five years. Total losses over this period would be A$ 36 bln.
"Australia and other nations should resist pressure to impose or increase tariffs on goods imported from the US and China, since doing so would do much more harm than good to their own economies," the firm said in a report. [5]

7 References

1 Australian Government, Office of the Chief Economist: 'Australian Industry Report 2016', *https://publications.industry.gov.au/publications/australianindustryreport2016/assets/Australian-Industry-Report-2016.pdf*

2 Parliament of Australia: 'Terms of Trade', *https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/MSB/feature/termsofTrade*

3 Department of Agriculture and Water Resoures: 'Free trade agreements (FTAs)', *http://www.agriculture.gov.au/market-access-trade/fta*

4 ABC News: 'Australia should diversify its trade partners amid US-China trade war: Business Council' *http://www.abc.net.au/news/2018-09-19/australia-trade-war-trade-partners-us-china/10281180*

5 Straits Times: 'Australia fears fallout from US-China trade war', *https://www.straitstimes.com/asia/australianz/australia-fears-fallout-from-us-china-trade-war*