

THE AGE

Poorest members of Trans-Pacific Partnership to benefit most

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Why is Australia a party to the Trans-Pacific Partnership agreement? This regional free trade agreement between 12 Pacific Rim nations, including the United States, Canada, Japan, Vietnam, Malaysia, and Australia, has been almost universally panned, left, right and centre. Yet it is likely to be signed in New Zealand in February.

A report by the World Bank released last week claimed the benefit to Australia from signing the agreement would be a near imperceptible fraction of a per cent of growth a year – just an added 0.7 per cent of GDP by 2030. The government's own economic advisory agency, the Productivity Commission, says the Trans-Pacific Partnership will distort trade rather than free trade. And GetUp calls it the "dirtiest deal you've never heard of", driven by "big business, big pharmaceuticals and big tobacco".

They're all wrong. Yes, the Trans-Pacific Partnership is not perfect. It has bad parts. It might require the government to further crack down on copyright piracy, even as the piracy problem is ebbing away in our world of Netflix and Apple Music. The Investor-State Dispute Resolution mechanism – which allows firms to sue the Australian government in special tribunals – is, in the words of the American libertarian think tank the Cato Institute, "unnecessary, unreasonable, and unwise".

And the deal's importance for the global economy has been wildly overstated. The Abbott government tried to desperately pump up the significance of the free trade deals it was signing as it saw its other economic growth strategies slip away.

But trade deals are policy bundles. The question isn't whether the Trans-Pacific Partnership has bad parts. It's whether the good parts outweigh the bad parts. Nor is the question of whether Australia "wins" from the deal. It's whether it enhances global welfare.

The poorest signatories are likely to be the deal's biggest beneficiaries. The World Bank believes that the Vietnamese economy will be 10 per cent larger by 2030 thanks to the Trans-Pacific Partnership.

Malaysia will be 8 per cent richer. Brunei 5 per cent richer.

These figures represent real people in real countries getting better lives thanks to an agreement we will sign. The benefits dwarf the \$90 million a year Australia gives in overseas development assistance – foreign aid — to Vietnam.

Free trade deals exist to solve a political puzzle. The puzzle is this: countries that allow foreign imports are richer, all else being equal, than countries which discourage foreign imports. Protectionism is bad for consumers and bad for the economy. This is counter-intuitively true even if every other country in the world is protectionist. On the question of free trade the economics profession is almost unanimous. Yet in recent decades few countries have been happy to unilaterally reduce trade barriers.

This is where free trade agreements come in. They allow governments to sell domestic tariff reductions to their voters by pointing to the fact that other countries are reducing tariffs as well. A lot of people think that international trade has to be done on a "level playing field" to be good. This is bad economics.

But it is a political reality. Many voters will accept a reduction in protection only if they see other countries doing the same.

There's another reason why we might want to sign a trade deal: insurance. Trade deals reduce the likelihood of a future trade war – that is, the deals prevent countries raising their trade barriers in retaliation for perceived slights. Taking this insurance effect into account, the economists Richard Harris and Peter Robertson have found the economic benefits from the free trade deal the Howard government signed with the United States have been up to four times larger than previously believed.

This particularly important for Australia as we are highly trade exposed.

I'm not suggesting that the politicians who sign free trade agreements have these sorts of sophisticated reasons for doing so. Politicians pander to voters. They talk a lot of nonsense about exports and imports, about how they're forcing opening foreign markets to exporters, extracting concessions from other countries and so forth.

But by pursuing free trade deals they are building a more prosperous world. The Trans-Pacific Partnership tangles the economic interests of an entire region together. Call it mutually assured construction. Being part of this process isn't pointless or "dirty". If you think international development and international relationships are important, then trade deals are some of the best foreign policy we can do.