The Impact of NAFTA on Australia's Trade and the Implications of Preferential Trade

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This article will be exploring and evaluating trade relations between Australia and The United States of America, with a particular focus on the effects of NAFTA (North American Free Trade agreement) on the amount of trade between these two countries. I used trade data available over a narrow span of several decades in order to create several tables that document the change in volume of trade between Australia and The United States in an attempt to demonstrate that NAFTA and Preferential Trade Agreements in general run contrary to the principles of free trade that the World Trade organization espouses. By showing a strong relation between a downturn in the demand for Australian exports and the timing of the NAFTA's signing, I show that Preferential Trade Agreements such as NAFTA and more recently, the Trans-Pacific Partnership may be leading to protectionist regional blocs.

In the rapidly globalizing world we find ourselves living in, it is important to question and examine the usefulness, efficacy, and legitimacy of actors on the global stage. This includes entities and organizations that seem to be, or even are, acting in good faith. This includes the World Trade Organization (WTO) whose mission statement says, in part: "The WTO's founding and guiding principles remain the pursuit of open borders, the guarantee of most-favoured-nation principle and non-discriminatory treatment by and among members..."¹ Stating this more generally could be that the aims of the WTO include global trade liberalization and reciprocal trade agreements extended by members to other members. In this light, take note that the WTO does make exceptions for things such as Preferential Trade Agreements (PTAs). This article will attempt to ascertain and prove that these PTAs run contrary to the stated and principal aims of the WTO and are harmful to the trade of states that are not included in these agreements. I will analyze the trade between NAFTA, with a specific focus as The United States as the cardinal member, and Australia

¹ WTO overview page

while showing that exclusion from NAFTA had negatively impacted Australia's trade and conclude with the ideological problems associated therein.

Summary of NAFTA

In 1988, the Canada-US Free Trade Agreement was signed. It agreed to gradually reduce tariffs according to sector over a ten year span and put a complete freeze on increasing any tariffs between the two nations. It was after this accord was signed that Mexico entered negotiations, and the talks to create The North American Free Trade Agreement (NAFTA) began. NAFTA was eventually signed in 1994 by U.S. President George H. W. Bush, Canadian Prime Minister Brian Mulroney and Mexican President Carlos Salinas and marked a significant move towards regional cooperation and integration, with the final provisions of the agreement not reaching maturity until 2008. This agreement has had multitudinous effects on the member states. "Trade relations have broadened substantially, and U.S. manufacturers created supply chains across North America that have made companies more globally competitive. These factors may have stimulated economic growth..."² Furthermore, while it would be academically dishonest to claim that NAFTA has been the sole cause, intraregional trade between Canada, The United States, and Mexico has increased from "\$290 billion in 1993 to more than \$1.1 trillion in 2012."³ Seeing these figures as well as accounting for the cross border investments and increased travel/tourism in the region, it is a safe claim to make that NAFTA has had a large impact on the member states with obvious benefits to trade.

Why Australia?

Before exploring the various effects that NAFTA has had on Australia, I feel it is necessary to explain some of my research methodology. Specifically, why I chose Australia to compare to The United States. The United States was a simple choice due to its comparatively much larger economy and volume of trade compared to the lesser partners in NAFTA. However, Australia is less immediately obvious. I narrowed my search of countries by geographic proximity to The United States, and despite being separated by a large swathe of the Pacific Ocean, I determined that it was close enough to both be affected by NAFTA and could theoretically have been included in a PTA with The United States. This was determined by Australia's status as being a part of the Trans-Pacific Partnership that has recently completed negotiations. It could be hypothesized that the effects of NAFTA, that I will later explore, drove Australia to seek membership in the TPP. However, without access to data about the effects TPP will have, I will not make that claim other than speculate that it could be a motivating factor.

Australia's Historical Trade Data

² cfr.org

³ cfr.org

Before I start arriving at a conclusion about whether Australia was harmed by not being extended reciprocal trade terms that NAFTA members received, I will first give a very brief overview of some significant downturns in Australia's global exports. Table 1 shows the top and bottom five performing industries by percentage change per year from 1991-2014. There are several statistically notable upwards and downwards spikes, but for the scope of this analysis I will be focusing mostly on the downward spikes in reverse chronological order. The incredible drop between the years 2008-09 coincided with the global recession that occurred due to the crash in The United States housing market. The next most aggressive negative change in Australia's global exports was in 2001, which also coincided with a recession in The United States, Japan, and some other countries, which drove down the demand for Australian exports. Finally and most critically for the topic at hand, we have the downturn that occurred in 1998, which coincides with the gradual reduction of trade tariffs between member states of NAFTA between 1994 and 1997. Another significant point on the graph that is worth mentioning is in 2004, which is concurrent with the signing of AUSFTA, which I will go into further detail about later.

Comparison between Agriculture Exports in NAFTA and Australia

I will take a focused look at the agricultural exports of Australia for this case study. Once again referring to Table 1, we see a much sharper change relative to most other industries in the same time frame by an approximate 20% shrinkage in Australian global agriculture exports. It stands to reason that this market share has to be ceded elsewhere. It is indeed impossible to say with any certainty that all of this demand directly shifts to being satisfied by intraregional trade among NAFTA member states. However, according to the Agriculture and Agri-Food section of The Government of Canada website: "NAFTA has created a continental marketplace of over 420 million consumers for North American farm and food products. As provided for in the FTA and the NAFTA, virtually all tariffs have been eliminated on Canadian agricultural exports to the U.S. (January 1, 1998) and Mexico (January 1, 2003). The only exceptions to this general tariff elimination are chicken, turkey and egg products, as well as refined sugar. As a result of the NAFTA, agricultural three-way trade in agricultural products between the three NAFTA partners exploded after 1993, almost doubling between 1993 and 2003. Canadian agri-food exports to the U.S. have more than doubled (+110%) during this period, while those to Mexico have more than tripled (+210%). This dramatic growth, which has been far more rapid than the growth in agricultural exports to countries outside North America, has led to changes in the trading patterns between the partners, and has resulted in a more integrated, North American marketplace."⁴ This rapid expansion of trade between these states would have had a direct impact on the amount of agricultural imports they would need from outside of North America, since they were bound to give preferential trade to these neighbours as well as benefiting from reduced costs of transporting these goods due to the proximity of these states.

⁴ <http://www.agr.gc.ca/>

AUSFTA and U.S-AUS Trade

I mentioned earlier that since The United States is the pillar of NAFTA that I will use them as a case study to examine trade relations with Australia. I briefly touched upon AUSFTA⁵ as having coincided with an increase in global exports in 2004 across most sectors, as seen in Table 1. By 2002, many provisions of NAFTA had started to come into effect and would have had a significant impact on the source from where The United States imported their goods from, which had a negative impact on Australia's exports. After some deliberations and negotiations, AUSFTA was signed by Australian Trade Minister Mark Vaile and U.S. Trade Representative Robert Zoellick in 2004. This marked a gradual erosion of trade barriers and tariffs between the two nations.

There were some objections at the time to this deal. Shiro Armstrong, from the Australian National University said, "AUSFTA resulted in a fall in Australian and US trade with the rest of the world — that the agreement led to trade diversion."⁶ Table 2 shows the distribution of percentage of growth by quarter in trade imports to The United States from Australia by three time bins: Time before NAFTA going back to 1985, Pre-AUST⁷, namely the period between the signing of NAFTA and the signing of AUSFTA, and post-AUST which is the time between the signing of AUSTFA and 2015. As is shown, the distribution of values for growth before NAFTA had the widest spread and encompassed both the largest losses and largest gains. This is likely due to the fact that before NAFTA was signed, the exports sent from Australia to North America were less static and more prone to the whims of the market. Next, in the central bin of Table 2 we see that the distribution of quarterly change is much smaller and the median is nearly exactly in the middle of the box plot, meaning that there are many less instances of large growth, but also less instances of sharp decline in American demand for Australian goods in this time bin. Thus, we can surmise that NAFTA had a net effect of creating a stable, if smaller demand for Australian goods in American markets, likely due to their higher costs caused by still-present tariffs. In the third bin (farthest left) which corresponds with the signing of AUSFTA we see that while there is a greater frequency of negative change in American imports than previously, the largest two quartiles of this plot show positive growth. This means that after AUSFTA was signed, there were more data points showing positive quarterly change in American demand for Australian imports and thus ameliorated some of the negative effects NAFTA had on Australian exports to The United States.

Looking Forward

The data collected here has indeed concluded that The United States signing NAFTA with Mexico and Canada has had a negative impact on at least one of its trade partners, which in this case was Australia. While I am merely speculating, it is certainly possible that

⁵ Australia-United States Free Trade Agreement

⁶ Armstrong 1

⁷ AUST-Abbreviation used in Table 2 for Australia-United States Free Trade Agreement

similar conclusions could be drawn about other trade partners of The United States. Seeing the benefits that Canada and Mexico reaped from a preferential trade agreement with The United States may have been the catalyst for Australia to sign its own trade deal and not lose out on as much of the market share for their exports as they had been. This is clearly catering to a mercantilist notion of gaining as much benefit for the member states. I will, perhaps boldly, assert that these PTAs are nothing more than regional protectionism at play and in fact run contrary to the tenants of global trade liberalization and reciprocity that the WTO is expected to uphold and propagate. The Trans-Pacific Partnership, in my mind, is merely the natural extension of NAFTA and the ideological failings that are systemic to it. While it takes measures to move towards global trade liberalization by including many more countries, such as: The United States, Japan, Malaysia, Vietnam, Singapore, Brunei, Australia, New Zealand, Canada, Mexico, Chile and Peru, it still violates the principle of universal reciprocity and the fact that the World Trade Organization does not contest these PTAs only undermines its legitimacy as a proponent of economic liberalism. The establishment of these regional blocs as signified by NAFTA or the TPP could be interpreted as one of two emerging possibilities: A harbinger of gradual lessening of global tariffs and trade barriers that leads to a global free market, or an increasing trend of regional protectionism and establishment of trade barriers between these regional blocs.

Table 1

Table 2

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