

An analysis of the negotiation process of the United States and Australia Free Trade Agreement and estimation of its economic impact : focusing on agricultural issue

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Summary

This paper aims to analyze the negotiation of the United States and Australia Free Trade Agreement (UAFTA) and its potential impact on the economy estimated by GTAP (Global Trade Analysis Project) with focusing on the agricultural issues that made the negotiation more difficult. The main results of the analysis are as follows. First, it is illustrated that the theoretical conditions of concluding negotiation for reducing tariffs between two countries. Though free trade is always satisfied with the Pareto optimum conditions, it is not necessary the theoretical result of the tariff negotiation. Second, keeping track of the negotiation process, we find that the agreement was accomplished by Australia's admitting some exceptions that include maintaining US sugar and dairy Tariff Rate Quota (TRQ). Third, we estimate impact of the UAFTA on the world economy and agricultural production and trade. We compare it with another estimation of impact caused by eliminating all tariffs between the US and Australia. The result shows that Australia's compromise certainly aggravates its welfare compared to the case of free trade. The bargaining theory suggests that Australia should draw more concession from the US. Australian sugar producer loses much potential benefit by maintaining US sugar TRQ.