

Money Talks

The Australia-America Economic Relationship: Where From and Where To?

The Australia-America economic relationship is one of the world's most consequential relationships, worth over \$2 trillion, yet few understand its depth and scale. It often takes a backseat to the defence and security relationship, but is a cornerstone of the broader bilateral relationship. This study is the first to analyse the evolution of the Australia-America economic relationship, its significance, and concerns for the future.

Joey Herlihy

August 2023

ABOUT THE AUSTRALIA INSTITUTE

The Australia Institute is an independent public policy think tank based in Canberra. It is funded by donations from philanthropic trusts and individuals and commissioned research. We barrack for ideas, not political parties or candidates. Since its launch in 1994, the Institute has carried out highly influential research on a broad range of economic, social and environmental issues.

OUR PHILOSOPHY

As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption co-exist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.

The Australia Institute's directors, staff and supporters represent a broad range of views and priorities. What unites us is a belief that through a combination of research and creativity we can promote new solutions and ways of thinking.

OUR PURPOSE - 'RESEARCH THAT MATTERS'

The Institute publishes research that contributes to a more just, sustainable and peaceful society. Our goal is to gather, interpret and communicate evidence in order to both diagnose the problems we face and propose new solutions to tackle them.

The Institute is wholly independent and not affiliated with any other organisation. Donations to its Research Fund are tax deductible for the donor. Anyone wishing to donate can do so via the website at <https://www.australiainstitute.org.au> or by calling the Institute on 02 6130 0530. Our secure and user-friendly website allows donors to make either one-off or regular monthly donations and we encourage everyone who can to donate in this way as it assists our research in the most significant manner.

Level 1, Endeavour House, 1 Franklin St
Canberra, ACT 2601
Tel: (02) 61300530
Email: mail@australiainstitute.org.au
Website: www.australiainstitute.org.au
ISSN: 1836-9014

Summary

The economic relationship between Australia and the United States (US) is a cornerstone of the broader Australia-America relationship. With bilateral trade and investment valued at over \$2 trillion in 2022, the Australia-America economic relationship is one of the world's largest, but many people do not understand its scale nor significance since it receives much less attention than the security and defence relationship. This study analyses (with a focus on the Australian perspective) the bilateral Australia-America economic relationship, how it has evolved, its significance, and concerns for the future. It shows just how deep, complex, and foundational the relationship is.

The Australia-America economic connection began with the arrival of the First Fleet at Botany Bay in 1788, when two African-American slaves were transported from Britain as convicts and later became landowners. During the 19th century, the relationship grew through whaling and mining. American commercial whalers arrived on the Australian coasts, traded with colonists, and sent whale oil and goods back to the US. The mid-century gold rushes in California and Australia dramatically increased imports and drew nationals from both countries, including would-be US President Herbert Hoover as a partner at a Western Australia mining company.

The bilateral economic relationship greatly expanded in the 20th century, specifically after Australia's 1942 turn from Britain toward the US as a defence partner. Australia's economic profile expanded beyond immediate goods imports and agricultural exports to mineral and service exports and financial liberalisation, which transformed the economic (especially investment) relationship with the US. Australian exports to the US increased eight-fold between 1935 and 1945, while imports from the US more than doubled. Between 1949 and 1999, the share of US foreign investment in Australia more than doubled to a third of total foreign investment in Australia, and Australian investment in the US increased from 1 percent to 41 percent of total Australian foreign investment abroad.

In the 21st century, the economic relationship grew significantly, especially after the 2005 Australia-US Free Trade Agreement (AUSFTA). As of 2022, the bilateral trade relationship is valued at over \$76 billion (up from \$30 billion in 2005) and the investment relationship at over \$2.16 trillion (up from \$637 billion in 2005) – a combined value of over \$2.2 trillion. The US is the largest foreign investor in Australia and the top destination for Australian foreign investment abroad. Australian exports to the US and income from US investment in Australia accounted for 7% of Australian GDP in 2019, which financed the gap between savings and investment. Australian companies employ over 150,000 people in the US, and American companies employ over 320,000 people in Australia. The deep economic relationship is foundational in the wider Australia-America relationship.

Despite the close economic relationship, there are a few blips. The AUSFTA is argued to have departed from Australia's pursuit of multilateral trade liberalisation, enabled undue American corporate influence, facilitated a double-edged mining relationship, diverted and reduced trade, resulted in marginal gains, subordinated Australian legal frameworks to American ones, and harmed government regulation to protect consumers. Australia is also concerned for the future of the bilateral relationship. The US has withdrawn from multilateralism, exemplified after it left the Trans-Pacific Partnership (TPP) in 2017, in favour of protectionist economic policy to support domestic industry. US industrial policy in 2022 turned Australian concern that its economic interests – mainly, multilateralism and free trade – have diverged from American ones, into the fearful realisation. Not only is Australia worried that it must choose between the US and China for economic cooperation, or that the US no longer desires global leadership, but it fears that US protectionism could severely disrupt the economic relationship. Given that the relationship is so institutionalised, deep, and significant, severe disruption is unlikely, but the concerns loom larger than ever before.

Introduction

The economic relationship between Australia and the United States (US) is deep, complex, and significant, yet many people do not understand how foundational it is to the broader Australia-America relationship. Often overlooked in favour of the security and defence relationship, the economic relationship evolved from simple beginnings to a current value of over \$2 trillion.¹ The economic relationship encompasses much more than trade alone – it includes employment of each other’s citizens, preferential access to each other’s markets, and an institutionalised investment framework that facilitates bilateral investment. While the economic relationship delivers numerous benefits for both countries (especially Australia), Australia harbours concerns about the future of the relationship – particularly the US turn to protectionism. However, given the deep and significant economic linkages between the two countries, the bilateral economic relationship is likely to adjust to diverging policy settings and sustain threats of disruption.

This study analyses the evolution and significance of the Australia-America economic relationship, with a focus on the Australian perspective. It begins with the arrival of the First Fleet in 1788 and traces developments to the end of the 19th century. It then examines the evolution during the 20th century, especially after Australia’s turn toward the US from Britain in World War II and the ensuing benefits from US investment. Next, in two sections, the study analyses the 21st century relationship. It begins with a focus on the 2005 Australia-US Free Trade Agreement (AUSFTA) and later reviews Australian concerns for the relationship given the US tendency to protectionism after withdrawing from the Trans-Pacific Partnership (TPP) in 2017 and enacting domestically-focused industrial policy. Finally, the study revisits the evolution and significance of the bilateral economic relationship and offers a brief look at the future.

¹ All dollar amounts refer to Australian dollars (AUD), unless otherwise noted (such as US dollars (USD) or Pounds Sterling (GBP)). The \$2.2 trillion value is the combined value of the bilateral trade and investment relationships (see Australian Department of Foreign Affairs and Trade (DFAT) (2023) *Australia’s Trade in Goods and Services by Top 15 Partners*, <https://www.dfat.gov.au/sites/default/files/australias-goods-services-by-top-15-partners-2021-22.pdf>). Also see, Australian Bureau of Statistics (ABS) (2023) *International Investment Position, Australia: Supplementary Statistics (2022)*, Tables 2 and 5, <https://www.abs.gov.au/statistics/economy/international-trade/international-investment-position-australia-supplementary-statistics/2022>).

The Beginnings (1788-1900)

The Australia-America economic relationship dates to the arrival of the First Fleet at Botany Bay in 1788.² Two African American slaves, John Martin and John Randall, were amongst twelve convicts of African descent transported from Britain to Australia.³ Martin was a merchant seaman sentenced to transportation for theft in 1782.⁴ Randall fought for the British Army during the American Revolution and was also sentenced to transportation for theft in 1785.⁵ Another African American slave, William (“Billy”) Blue, who also fought for the British Army during the American Revolution, arrived in Sydney on the Third Fleet in 1801 after being transported – again for theft.⁶ Randall and Martin became landowners, and Blue became the first ferryman on Sydney Harbour.⁷ The Australia-America economic connection had begun.

The economic relationship commercialised, in the form of whaling, during the first half of the 1800s. American-born sailor Eber Bunker captained the *William and Ann*, which transported convicts on the Third Fleet, as one of eleven whaling vessels that first commercially hunted whales in Australian waters.⁸ American whalers joined their British counterparts off the coast of Western Australia sporadically throughout the late 1820s, but after 1837, when three American whaling vessels – the *Virginia*, *Statesman*, and *Samuel Wright* – arrived in Fremantle and King George Sound, the number of American vessels increased to around 100 by 1841.⁹ This initiated a profitable two-way economic link, where American vessels – “welcomed as the sole link with the outside world” – provided “both a significant export market [for Western Australian products] and an important source of manufactured items and otherwise unavailable consumer goods,” such as tinware and

² It is important to understand that, had the US not won independence, convicts might not have been sent to Australia. The British government had sent convicts across the Atlantic since 1611, but after the US revolted against the British (beginning in 1773 with the Boston Tea Party), the British government needed a place to send the increasing number of convicts, so Australia became the place (see, Hughes (2003) *The Fatal Shore*, Vintage Books, 40-42).

³ SBS News (2020) *Did you know there were 12 Africans on the First Fleet?*, <https://www.sbs.com.au/news/the-feed/article/did-you-know-there-were-12-africans-on-the-first-fleet/v01kw8xi8>.

⁴ Australian National University (ANU) *Martin, John (c. 1757-1837)*, <https://peopleaustralia.anu.edu.au/biography/martin-john-30316>.

⁵ Australian National University (ANU) *Randall, John (c. 1764-1822)*, <https://peopleaustralia.anu.edu.au/biography/randall-john-30314>.

⁶ SBS News (2020)

⁷ SBS News (2020). ANU *Martin, John (c. 1757-1837)*. ANU *Randall, John (c. 1764-1822)*.

⁸ Cumpston (1966) *Bunker, Eber (1751-1836)*, <https://adb.anu.edu.au/biography/bunker-eber-1849/text2143>.

⁹ National Museum of Australia (2022) *Start of whaling*, <https://www.nma.gov.au/defining-moments/resources/start-of-whaling>. Gibbs (2000) *Conflict and Commerce: American Whalers and the Western Australian Colonies 1962-1888*, Australian Association for Maritime History, 3-5, 20, <https://www.jstor.org/stable/41563543>.

tobacco.¹⁰ This trade relationship was so lucrative that many American whalers stocked their vessels according to the needs of Western Australian ports.¹¹ The explorer George Grey, later Governor of South Australia, New Zealand, and the Cape Colony, stated that the bartering between American vessels and Western Australian settlers was “so profitable to both parties that it would be impossible to prevent it.”¹²

The Gold Rushes, which began in 1848, overshadowed everything prior.¹³ Between 1848 and 1853, goods entering San Francisco increased from 50,000 tons to 550,000 tons, while California’s resident non-Indian-American population grew from 14,000 to over 200,000 – undoubtedly aided by thousands of Australians flocking in search of gold.¹⁴ In Australia, in 1851, imports were less than £3 million, but in 1853, £14.5 million of imports entered Victoria alone – and Victoria accounted for over a third of global gold production that decade.¹⁵ Australia’s Gold Rush helped facilitate its 20th century transition from a society dominated by landowners to one of wealth and freedom for wage and salary earners.¹⁶ A unique example of the Australia-America mining partnership was future US President Herbert Hoover’s partner role in Bewick Moreing & Co., a mining company that controlled nearly 37% of gold produced in Western Australia in 1904 and employed almost 20% of Western Australian miners.¹⁷ Hoover’s involvement in the Australian mining industry was emblematic of the century to come, as Australia transitioned from an agriculturally-oriented

¹⁰ Gill (1966) *Genesis of the Australian whaling industry: its development up to 1850*, Journal of the Royal Historical Society of Queensland, 131, 134, <https://espace.library.uq.edu.au/view/UQ:212779>. Gibbs (2000), *Conflict and Commerce: American Whalers and the Western Australian Colonies 1962-1888*, 10-13, 21. Paterson et al. (2019) *So ends this day: American whalers in Yaburara country, Dampier Archipelago*, 224, <https://www.cambridge.org/core/journals/antiquity/article/abs/so-ends-this-day-american-whalers-in-yaburara-country-dampier-archipelago/5B00B5A7523399671B2EA76C1681288C>. National Maritime Digital Library *American offshore whaling voyages – a digital database*, <https://nmdl.org/projects/aowv/aowv/>.

¹¹ Gibbs (2000), *Conflict and Commerce: American Whalers and the Western Australian Colonies 1962-1888*, 13, 22.

¹² Gibbs (2000), *Conflict and Commerce: American Whalers and the Western Australian Colonies 1962-1888*, 12, 21.

¹³ National Museum of Australia (2023) *Gold rushes*, <https://www.nma.gov.au/defining-moments/resources/gold-rushes>.

¹⁴ Steffen (1983) *The Mining Frontiers of California and Australia: A Study in Comparative Political Change and Continuity*, Pacific Historical Review, 429, <https://www.jstor.org/stable/3639075>. Britannica *Australian gold rushes*, <https://kids.britannica.com/students/article/Australian-gold-rushes/631682#>.

¹⁵ Steffen (1983) *The Mining Frontiers of California and Australia: A Study in Comparative Political Change and Continuity*, 429.

¹⁶ National Museum of Australia (2023) *Gold rushes*. Britannica *Australian gold rushes*. Steffen (1983) *The Mining Frontiers of California and Australia: A Study in Comparative Political Change and Continuity*, 432.

¹⁷ Gwalia Ghost Town and Museum *Hoover takes the lead*, <https://www.gwalia.org.au/about/history-of-gwalia/herbert-hoover.aspx>.

export economy to a diversified and multi-faceted economy that emerged as the world's fourteenth-largest by 2000, overshadowed (if only slightly) by Russia.¹⁸

¹⁸ DFAT *Australia's Trade Through Time*, <https://www.dfat.gov.au/publications/minisite/tradethroughtimegovau/site/index.html>. DFAT (2016) *Australia's Trade Since Federation*, 4, <https://www.dfat.gov.au/sites/default/files/australias-trade-since-federation.pdf>. Embassy of Australia in the USA *Trade and Investment*, <https://usa.embassy.gov.au/trade-and-investment>. International Monetary Fund (IMF) *World Economic Outlook Database April 2000*, <https://www.imf.org/en/Publications/WEO/weo-database/2000/April>.

The Expansion (1900-2000)

Australia's economic transformation during the 20th century, in which the US played a critical role, was nothing short of remarkable. Although mining continued to grow in scale and importance, Australia remained an agriculture-based economy through the first half of the 20th century.¹⁹ Until the 1960s, a small range of major agricultural commodities (such as wool and wheat) exported to the United Kingdom (UK) dominated Australia's export trade.²⁰ However, the war effort, and 1940 US legislation facilitating the importation of Australian wool, strengthened the Australia-US economic relationship such that Australian exports to the US increased from just over 2 percent of total exports in 1935 to 18.5 percent by 1945 (including 35 percent in 1942).²¹ Moreover, during that same period, Australian imports from the US increased from just under 15 percent of total imports to nearly 39 percent (including over 48 percent in 1944).²² For Australia and the US, war changed everything.

World War II was the catalyst that reshaped Australia's trade profile during the second half of the century. Australia shifted from mainly immediate and capital goods imports (such as textiles and metal) from the UK to oil, motor vehicles, and telecommunications equipment imports from the US and Japan.²³ The most significant shift in the Australian economy, however, was toward a mineral- and service-oriented export economy supported by major foreign investment.²⁴ Whereas coal and iron ore were not among the top five Australian goods exports in 1945, they were the top two exports in 2005, respectively, and would flip rankings a decade later.²⁵ Moreover, in 1998, Australia exported over half a million kilograms of gold, which was "five times the amount of gold discovered during the peak of Victoria's gold rush in 1856."²⁶ Further, the service industries (such as health, finance, and

¹⁹ The transition from domination by a pastoral aristocracy to a wealthy society with freedom for lower classes took place throughout the 20th century. Thus, at the beginning of the century, Australia was still largely pastoral (see, Steffen (1983) *The Mining Frontiers of California and Australia: A Study in Comparative Political Change and Continuity*, Pacific Historical Review, 432). DFAT (2016) *Australia's Trade Since Federation*, 4-6.

²⁰ DFAT (2016) *Australia's Trade Since Federation*, 4-6. DFAT *Australia's Trade Through Time*.

²¹ DFAT *Australia's Trade Through Time*. DFAT (2016) *Australia's Trade Since Federation*, 7. DFAT (2018) *Australia's direction of merchandise trade (XLSX)* in *Trade time series data*, <https://www.dfat.gov.au/trade/trade-and-investment-data-information-and-publications/trade-statistics/trade-time-series-data>.

²² DFAT *Australia's Trade Through Time*. DFAT (2018) *Australia's direction of merchandise trade (XLSX)* in *Trade time series data*.

²³ DFAT (2016) *Australia's Trade Since Federation*, 9-11.

²⁴ Bureau of Infrastructure and Transport Research Economics (BITRE) (2014) *The evolution of Australian towns*, 136, https://www.bitre.gov.au/sites/default/files/report_136_CHAPTER_6_WEB_FA.pdf. DFAT (2016) *Australia's Trade Since Federation*, 4-6. DFAT *Australia's Trade Through Time*.

²⁵ DFAT *Australia's Trade Through Time*.

²⁶ DFAT *Australia's Trade Through Time*.

tourism) more than doubled as a share of GDP from around 22.5 percent in 1951 to just under 50 percent in 2001.²⁷ About two-thirds of Australia's services trade in 2000 was with the US.²⁸ In total, between 1945 and 2000, Australian exports of goods and services increased around 3.5 percent annually.²⁹

The increase in foreign (especially American) investment in Australia, facilitated by domestic economic liberalisation reforms of the Whitlam, Hawke and Keating governments that completely reoriented the economy after the 1970s, was a crucial part of the country's post-war economic shift.³⁰ Between 1949 and 1970, "the annual inflow of [net] foreign direct investment increased from \$100 million to \$900 million."³¹ The American share of foreign investment in Australia, at first fuelled by mineral exports, doubled from 16 percent of total foreign investment in Australia in 1949 to 32 percent in 1999.³² During that same period, Australian investment in the US increased from 1 percent to a whopping 41 percent of total Australian foreign investment abroad.³³ To increase economic growth, in 1992 Australia and the US agreed on a trade and investment framework that helped the US become Australia's fastest growing partner in both areas between 1995 and 2000 (including US foreign investment in Australia growing 25 percent annually during the period).³⁴ In the last decade of the 20th century alone, total foreign investment in Australia reached \$667 billion – nearly a third (\$215 billion) of which was from the US – which grew GDP by 4 percent annually.³⁵

²⁷ BITRE (2014) *The evolution of Australian towns*, 136.

²⁸ The Australian APEC Study Centre at Monash University (2001) *An Australia-USA Free Trade Agreement: Issues and Implications*, 10, https://www.dfat.gov.au/sites/default/files/aus_us_fta_mon.pdf.

²⁹ DFAT (2016) *Australia's Trade Since Federation*, 5. DFAT (2018) *Australia's trade and economic indicators (XLSX)* in *Trade time series data*, <https://www.dfat.gov.au/trade/trade-and-investment-data-information-and-publications/trade-statistics/trade-time-series-data>.

³⁰ Economic reforms included floating the Australian dollar, reducing tariffs, deregulating interest rates, reducing wage fixing, and decreasing barriers to entry for foreign banks. On top of increasing foreign investment, economic liberalisation increased trade from 25% of GDP in the 1970s to 45% in 2008 (see, Kirchner (2018) *An Open Door: How Globalised Are the Australian and US Economies*, 4-5, <https://www.ussc.edu.au/analysis/how-globalised-are-the-australian-and-us-economies>). BITRE (2014) *The evolution of Australian towns*, 133. Kelton (2012) *The Australia-United States Free Trade Agreement: An Australian Perspective*, 8, <https://united-states-studies-centre.s3.amazonaws.com/attache/54/49/99/f6/00/e8/30/a9/5b/54/9b/3f/c2/9e/f1/68/alliance-21-report-united-states-kelton.pdf>.

³¹ Pomfret (2014) *Reorientation of trade, investment and migration*, 405, in Ville and Withers (2014) *The Cambridge Economic History of Australia*, <https://www.cambridge.org/core/books/cambridge-economic-history-of-australia/cambridge-economic-history-of-australia/4F07992B3992D4C4F6BC22BA12A758C8>. DFAT (2018) *Australia's trade and economic indicators (XLSX)*.

³² DFAT *Australia's Trade Through Time*.

³³ DFAT *Australia's Trade Through Time*.

³⁴ DFAT *Australia's Trade Through Time*. The Australian APEC Study Centre at Monash University (2001) *An Australia-USA Free Trade Agreement: Issues and Implications*, 9, 13.

³⁵ DFAT *Australia's Trade Through Time*. The Australian APEC Study Centre at Monash University (2001) *An Australia-USA Free Trade Agreement: Issues and Implications*, 13.

An important part of the Australia-America economic relationship is that it fosters a “spillover of knowledge,” where human capital and innovations help both countries progress technologically and efficiently.³⁶ In Australia’s case, while resource abundance gave it a “head start” in the 19th century, the “spillover of knowledge” enabled it to build on American innovations, technology, and investment, which in turn propelled its economy to increase domestic productivity and technological innovation.³⁷ Thus, the relationship with the US was instrumental Australia’s economic transformation from agricultural exports to becoming the world’s fourteenth-largest economy in 2000 – and later thirteenth-largest in 2023.³⁸ All of this provided the foundation for a remarkable maturation in the bilateral economic relationship in the 21st century, to which we now turn.

³⁶ Madsen (2014) *Australian economic growth and its drivers since European settlement*, 49, in Ville and Withers (2014) *The Cambridge Economic History of Australia*, <https://www.cambridge.org/core/books/cambridge-economic-history-of-australia/cambridge-economic-history-of-australia/4F07992B3992D4C4F6BC22BA12A758C8>.

³⁷ Madsen (2014) *Australian economic growth and its drivers since European settlement*, 47-49, 51.

³⁸ IMF *World Economic Outlook Database April 2000*. IMF (2023) *World Economic Outlook Database*, <https://www.imf.org/en/Publications/WEO/weo-database/2023/April/>. Embassy of Australia in the USA *Trade and Investment*.

The Explosion (2000s)

The Australia-America economic relationship expanded significantly during the 21st century. It built on the post-World War II links to become a regionally and globally significant relationship. The next two sections examine the present economic relationship, its significance, and Australian concerns about the geo-economic direction of US economic policy. We begin with the 2005 bilateral trade agreement, which many consider to be the basis of the present economic relationship. That section looks at the results of the agreement, its value, its deficiencies, and, in doing so, examines the significance of the bilateral economic relationship (with special focus on the investment relationship). Finally, in the next section, we look at Australian concerns for the economic relationship, beginning with the US withdrawal from the TPP and later implementation of domestic industrial policy in response to the geo-strategic implications of China's ascendancy. We start in 2005.

THE AUSFTA

The Australia-US Free Trade Agreement (AUSFTA) was crucial in the growth of the bilateral economic, especially investment, relationship in the 21st century. Negotiated in 2003 and 2004, the AUSFTA came into force on 1 January 2005.³⁹ Although titled a free trade agreement (FTA), it is really a preferential trade agreement (PTA) in that it secures preferential access to each other's markets by ensuring free transfer of capital and profits, creating a most-favoured-nation (MFN) clause, removing performance requirements for investment approval, and increasing the Australian Foreign Investment Review Board's (FIRB) threshold for general US foreign direct investment (FDI) review from \$50 million to \$800 million (which is indexed for inflation and is now over \$1.2 billion).⁴⁰ The AUSFTA also

³⁹ Governments of Australia and the United States of America (2004) *The Australia-United States Free Trade Agreement (AUSFTA)*,

https://ustr.gov/sites/default/files/uploads/agreements/fta/australia/asset_upload_file148_5168.pdf.

⁴⁰ The FIRB's threshold for US FDI in sensitive sectors was raised from \$50 million to \$100 million (see, Kirchner (2012) *Foreign Direct Investment in Australia Following the Australia-US Free Trade Agreement*, *The Australian Economic Review*, 410-412, <https://doi.org/10.1111/j.1467-8462.2012.00686.x>). Uren (2020) *Enduring Partners: The US-Australia Investment Relationship*, 13,

<https://www.ussc.edu.au/analysis/enduring-partners-the-us-australia-investment-relationship>. Foreign Investment Review Board (FIRB) (2004) *Foreign Investment Review Board Annual Report 2003-04*, 35,

https://firb.gov.au/sites/firb.gov.au/files/2016/01/FIRB-Annual-Report-2003-04_Chapter_3.pdf. United States Trade Representative (USTR) (2022) *2022 National Trade Estimate Report on Foreign Trade Barriers*, 35-38,

<https://ustr.gov/sites/default/files/2022%20National%20Trade%20Estimate%20Report%20on%20Foreign%20Trade%20Barriers.pdf>. Commonwealth of Australia (2021) *Innovation, Jobs, Prosperity – Australia-United States Free Trade Agreement: 15 Years and Beyond*, 7,

https://www.austrade.gov.au/ArticleDocuments/5081/USFTA_innovation_jobs_prosperity.PDF.aspx.

gives companies access to government and state procurement markets in both countries, such as Australian companies' competitive "access to the federal government procurement market in the United States (valued at US\$637 billion), and the government procurement markets of 31 states."⁴¹ Moreover, the AUSFTA removed 97 percent of tariffs on Australian non-agricultural exports (excluding textiles and clothing) and three-quarters on agricultural exports; but, 100 percent of US exports enter Australia tariff-free and quota-free, compared to only 96 percent of Australian exports.⁴² Thus, the agreement has more generous terms for the US, something that irks Australian primary producers.

Trade Relationship

Since the AUSFTA came into effect in 2005, bilateral trade more than doubled. Between 2021 and 2022, Australia exported \$26.9 billion in goods and services to the US (Australia's fifth-largest export destination) and imported \$49.6 billion in goods and services from the US (Australia's second-largest import destination) – a two-way trade relationship of over \$76.5 billion.⁴³ In 2019-2020, before the Coronavirus pandemic, this relationship was nearly \$81 billion.⁴⁴ Compare this to 2004-2005, when Australia exported \$9.5 billion in goods and services to the US (then Australia's fourth-largest export destination) and imported \$21.3 billion in goods and services from the US (then Australia's largest import destination) – a two-way trade relationship of \$30.8 billion.⁴⁵ As exemplified by the US' near \$23 billion

⁴¹ Australia's inclusion, through the AUSFTA, in the US Trade Agreements Act enables Australian companies to operate directly with the US by "avoiding a 6 percent penalty on foreign goods and competing on equal terms with suppliers from over 60 other designated countries" (see, Farrell (2012) *Australia-United States trade, investment, and AUSFTA*, US Studies Centre, 8-9, <https://www.yumpu.com/en/document/read/36272519/australia-united-states-trade-investment-and-ausfta-alliance-21>). Embassy of Australia in the USA *Trade and Investment*. DFAT *United States of America country brief*, <https://www.dfat.gov.au/geo/united-states-of-america/united-states-of-america-country-brief>. DFAT (2021) *Australia-United States FTA*, <https://www.dfat.gov.au/trade/agreements/in-force/ausfta/australia-united-states-fta>.

⁴² Reduced tariffs and restrictions have helped US firms and manufactured goods become more competitive in domestic and overseas markets, sometimes outcompeting Australian firms and goods (see, United States International Trade Administration (US ITA) *U.S.-Australia Free Trade Agreement*, <https://www.trade.gov/us-australia-free-trade-agreement>. Also see, Commonwealth of Australia (2021) *Innovation, Jobs, Prosperity*, 7-8). DFAT (2021) *Australia-United States FTA*. Embassy of Australia in the USA *Trade and Investment*. USTR (2023) *2023 National Trade Estimate Report on Foreign Trade Barriers*, 25-28, <https://ustr.gov/sites/default/files/2023-03/2023%20NTE%20Report.pdf>.

⁴³ DFAT (2023) *United States Country Economic and Trade Data*, <https://www.dfat.gov.au/sites/default/files/usa-cef.pdf>. DFAT (2023) *Australia's Trade in Goods and Services by Top 15 Partners*.

⁴⁴ DFAT (2023) *Australia's Trade in Goods and Services by Top 15 Partners*. Deloitte and American Chamber of Commerce in Australia (AmCham) (2020) *Building Prosperity: The importance of the United States to the Australian Economy*, 1-3, https://www.amcham.com.au/Web/Publications/Building_Prosperty_-_The_importance_of_the_United_States_to_the_Australian_economy.aspx.

⁴⁵ DFAT *Australia's Trade Through Time*.

trade surplus in 2021-2022, the trade relationship is uneven.⁴⁶ While the US is Australia's third-largest trading partner, Australia is the US' twenty-second-largest trading partner (its 16th-largest export and 34th-largest import destination).⁴⁷ This is not surprising, given Australia's reliance on the US for advanced manufactures – such as aircraft and pharmaceuticals.⁴⁸

The AUSFTA had particular impact on the services sector, which is crucial given that around 90 percent of employed Australians work in services industries.⁴⁹ Today, the US is Australia's largest services export destination, as well as the largest supplier of services to Australia.⁵⁰ Top Australian services exports to the US are business and professional services, technology and information services (including intellectual property), and financial services, which are also top services imports from the US (with the inclusion of travel services).⁵¹ Australian services sales to US consumers have increased over 120 percent since 2005, and the majority of Australian investment projects in the US are in the services sector.⁵² This is not to say, however, that goods trade is unimportant; the opposite is true. Top Australian goods exports to the US are minerals, meat, and pharmaceutical and manufactured products, while top imports are machinery, vehicles and parts, medical instruments, and (also) pharmaceutical products.⁵³ Since 2005, Australian exports of manufactured goods to the US have increased over 90 percent.⁵⁴

⁴⁶ DFAT (2023) *United States Country Economic and Trade Data*.

⁴⁷ US ITA (2023) *U.S. Goods Trade with Global Partners*, <https://www.trade.gov/data-visualization/us-goods-trade-global-partners>. DFAT (2023) *United States Country Economic and Trade Data*. Uren (2020) *Enduring Partners*, 4-5.

⁴⁸ DFAT (2023) *United States Country Economic and Trade Data*. Embassy of Australia in the USA *Trade and Investment*.

⁴⁹ BITRE (2014) *The evolution of Australian towns*, 137. US ITA *U.S.-Australia Free Trade Agreement*.

⁵⁰ ABS (2023) *International Trade: Supplementary Information, Calendar Year (2022)*, Tables 5 and 6, <https://www.abs.gov.au/statistics/economy/international-trade/international-trade-supplementary-information-calendar-year/2022>. Uren (2020) *The weight of the US-Australia economic relationship*, <https://www.aspistrategist.org.au/the-weight-of-the-us-australia-economic-relationship/>.

⁵¹ In 2019 alone, 1.3 million Australians (over 5% of the population) visited the US and spent around US\$7.5 billion (see, Commonwealth of Australia (2021) *Innovation, Jobs, Prosperity*, 6. Also see, Deloitte and AmCham (2020) *Building Prosperity*, 36). At any given time in 2017, there were around 240,000 Australians in the US (see, Deloitte and AmCham (2020) *Building Prosperity*, 29). DFAT (2023) *United States Country Economic and Trade Data*. Embassy of Australia in the USA *Trade and Investment*. Uren (2020) *Enduring Partners*, 25. U.S. Department of State (2022) *U.S. Relations with Australia*, <https://www.state.gov/u-s-relations-with-australia/>.

⁵² Uren (2020) *Enduring Partners*, 25. Commonwealth of Australia (2017) *Australia's Investment Footprint in the US: Mapping Australia's Foreign Direct Investment in the US*, 8, <https://www.austrade.gov.au/ArticleDocuments/1358/Australias-Investment-Footprint-in-the-US.PDF.aspx>.

⁵³ DFAT (2023) *United States Country Economic and Trade Data*. U.S. Department of State (2022) *U.S. Relations with Australia*. Uren (2020) *Enduring Partners*, 30.

⁵⁴ Uren (2020) *Enduring Partners*, 25.

Investment Relationship

The AUSFTA helped to more than triple the value of the bilateral investment relationship – its most significant impact. In 2022, US investment in Australia reached over \$1.092 trillion (\$184 billion of which was FDI) and Australian investment in the US reached over \$1.073 trillion (\$193 billion of which was FDI) – a two-way investment relationship of over \$2.165 trillion.⁵⁵ Compare this to 2005, when US investment in Australia was \$334 billion (\$75 billion of which was FDI) and Australian investment in the US was \$303 billion (\$114 billion of which was FDI) – a the two-way investment relationship of \$637 billion.⁵⁶ Further, between 2015 and 2020, US investment in Australia grew by 25%, while Australian investment in the US grew by 27%.⁵⁷ Moreover, as of 2020, “Australia captures 18% of US investment in the Asia-Pacific region, although it represents only 5% of regional GDP.”⁵⁸

A few data points demonstrate the depth and scale of the bilateral investment relationship. First, the US is the largest foreign investor in Australia, accounting for about a quarter of all foreign investment in Australia; it is also Australia’s top destination for foreign investment, accounting for about 30% of Australian foreign investment abroad.⁵⁹ Second, the value of this investment relationship is almost thirteen times greater than that of Australia and China – Australia’s largest trading partner.⁶⁰ Third, in 2019, Australia had the world’s fourth-largest pool of pension (superannuation) funds, valued at around \$2.7 trillion; about \$550 billion of that pool was invested in the US (the top destination for Australian international portfolio investment) – more than five times the pre-AUSFTA amount of \$105 billion in 2004.⁶¹ Australian superannuation funds provide major capital for investment in US industry and infrastructure (such as airports, ports, pipelines, and roads).⁶² Also in 2019, US portfolio investment in Australia totalled over \$626 billion, or about “one-third of total foreign

⁵⁵ ABS (2023) *International Investment Position, Australia: Supplementary Statistics (2022)*, Tables 2 and 5.

⁵⁶ ABS (2023) *International Investment Position*, Tables 2 and 5.

⁵⁷ Uren (2020) *Enduring Partners*, 4-5, 13-14.

⁵⁸ Uren (2020) *The weight of the US-Australia economic relationship*. Uren (2020) *Enduring Partners*, 9.

⁵⁹ ABS (2023) *International Investment Position*, “Level of investment.” U.S. Department of State (2022) *The United States and Australia: A Vital Partnership for the Indo-Pacific Region and the World*, <https://www.state.gov/the-united-states-and-australia-a-vital-partnership-for-the-indo-pacific-region-and-the-world/>.

⁶⁰ ABS (2023) *International Investment Position*, Table 2. DFAT (2023) *United States Country Economic and Trade Data*. DFAT (2023) *Australia’s Trade in Goods and Services by Top 15 Partners*. Uren (2020) *Enduring Partners*, 4-5. Uren (2020) *The weight of the US-Australia economic relationship*.

⁶¹ This increase in portfolio investment is also part of a trend where “foreign investment in Australia and Australian foreign investment abroad is increasingly dominated by portfolio flows at the expense of direct investment” (see, Kirchner (2018) *An Open Door: How Globalised Are the Australian and US Economies*, 2). For example, in 2019, around 37% (or \$161 billion) of Australia’s Future Fund, its sovereign wealth fund, was invested in the US (see, Commonwealth of Australia (2021) *Innovation, Jobs, Prosperity*, 15). In 2020, the pool of US dollar bonds issued in Australia was around \$510 billion (see, Uren (2020) *Enduring Partners*, 19). Commonwealth of Australia (2021) *Innovation, Jobs, Prosperity*, 14.

⁶² Commonwealth of Australia (2021) *Innovation, Jobs, Prosperity*, 15.

portfolio investment in Australia” – more than four times the amount in 2004 (\$150 billion).⁶³ American holdings of Australian securities are almost double the amount of the second-largest holder (the UK).⁶⁴ This shared access to capital markets, facilitated by the AUSFTA and backed by strong legal and financial institutions, makes raising funds, repaying debt, and financing companies easier, cheaper, and less risky.⁶⁵ That the bilateral investment relationship is ‘significant’ is an understatement.

US investment in Australia is also significant in terms of GDP. In 2019, Australian exports to the US and income from US investment in Australia generated \$131 billion, equivalent to 7% of Australian GDP.⁶⁶ However, less than 20% of the \$131 billion, or around \$25 billion, came from exports to the US; so, Australia generated around \$106 billion of income from US investment, equivalent to about 5.2% of GDP.⁶⁷ Australia’s gap between savings and investment is about 5% of GDP, so income from US investment financed the gap between what Australia saved and invested in 2019.⁶⁸ Not many top tier economies say that their foreign investment finances the gap between savings and investment of another top tier economy. “The importance of the US as the single largest source of foreign capital for Australia” cannot be underestimated.⁶⁹

A fundamental aspect of the bilateral investment relationship, on top of the AUSFTA’s facilitation of investment, is the strength of the economic institutions and investment structures in both countries.⁷⁰ Australia’s AAA credit rating, business certainty, skilled workforce, low entry barriers, and harmonised legal, corporate, and regulatory frameworks make it an attractive investment destination for US companies.⁷¹ The US, as the world’s largest and most competitive economy – which emphasises productivity and efficiency – and with similar democratic institutions to Australia’s, is doubtless a safe investment location for Australian companies.⁷² Both countries are two of the most innovative economies in the world – Australia is the top economy for technological readiness and financial freedom, while the US is the top for start-up capital – and have a close research

⁶³ ABS (2023) *International Investment Position*, Table 2. Uren (2020) *Enduring Partners*, 17-19.

⁶⁴ Uren (2020) *Enduring Partners*, 4-5.

⁶⁵ Deloitte and AmCham (2020) *Building Prosperity*, 22. Uren (2020) *Enduring Partners*, 16-21.

⁶⁶ Between 2009 and 2019, between 6% and 8.5% of Australian GDP came from exports to the US and income from US investment in Australia (see, Deloitte and AmCham (2020) *Building Prosperity*, 26-27).

⁶⁷ Deloitte and AmCham (2020) *Building Prosperity*, 26.

⁶⁸ Deloitte and AmCham (2020) *Building Prosperity*, 17. DFAT *The benefits of foreign investment*, <https://www.dfat.gov.au/trade/investment/the-benefits-of-foreign-investment>.

⁶⁹ Deloitte and AmCham (2020) *Building Prosperity*, 26.

⁷⁰ Uren (2020) *Enduring Partners*, 12-13.

⁷¹ Uren (2020) *Enduring Partners*, 20-21. Commonwealth of Australia (2021) *Innovation, Jobs, Prosperity*, 16. U.S. Department of State (2022) *U.S. Relations with Australia*. Farrell (2012) *Australia-United States trade, investment, and AUSFTA*, US Studies Centre, 14-15. DFAT *The benefits of foreign investment*.

⁷² Uren (2020) *Enduring Partners*, 14, 17, 19.

and development (R&D) partnership.⁷³ In 2017, US companies spent \$1.2 billion on R&D in Australia and, in 2019, collaborated on 1,625 Australian Research Council (ARC) projects (which is 230% more collaboration than Chinese companies with the ARC).⁷⁴ This was aided by the 12,000 Americans and 5,000 Australians who studied in their counterpart's country in 2019.⁷⁵ The bilateral investment relationship is supported by deep institutional ties, innovation, and collaboration.

Taking advantage of the AUSFTA's facilitation of investment and the strong institutions and opportunities in both countries, Australian and American companies contribute to both economies in unique ways. As of 2021, there are over 420 Australian parent companies with over 1,500 entities in the US, which directly employ over 150,000 people in the country at an average annual salary above \$130,000.⁷⁶ An example is the Australian defence company Birdon Group, which delivers its over \$850 million in US defence contracts from its production facility in Denver, Colorado.⁷⁷ Further, US trade with Australia supports around 300,000 jobs in the US, and over 12,000 Australian companies export to the US.⁷⁸ On the flip side, there are around 1,100 US majority-owned companies that "employ around 323,000 people in Australia, with an average salary above \$100,000."⁷⁹ An example is the US company Albemarle and its over \$2 billion investment in a lithium production plant in Western Australia – estimated to create over \$650 million in royalties in the next 20 years.⁸⁰ Moreover, in 2017-2018, 11 of the top 100 corporate taxpayers in Australia were US-owned and paid nearly \$2 billion in tax to the Australian government, which contributed to the fact that, today, US firms are "the largest taxpayers, wage payers, and contributor[s] to GDP of

⁷³ A little-known fact is that WiFi and the black box flight recorder were Australian innovations (see, Deloitte and AmCham (2020) *Building Prosperity*, 29). Commonwealth of Australia (2021) *Innovation, Jobs, Prosperity*, 5. DFAT (2022) *Australia is a Top 20 Country in International Trade and Investment*, <https://www.dfat.gov.au/sites/default/files/australia-is-a-top-20-country-international-trade-investment.pdf>. Australian Trade and Investment Commission (Austrade) *Export markets – United States of America* (2017 video), <https://www.austrade.gov.au/australian/export/export-markets/countries-and-economies/united-states-of-america/market-profile/market-profile>. DFAT *The benefits of foreign investment*

⁷⁴ Deloitte and AmCham (2020) *Building Prosperity*, 29, 46 (footnote 20).

⁷⁵ Deloitte and AmCham (2020) *Building Prosperity*, 35.

⁷⁶ Commonwealth of Australia (2021) *Innovation, Jobs, Prosperity*, 6, 10. Embassy of Australia in the USA *Trade and Investment*.

⁷⁷ Commonwealth of Australia (2021) *Innovation, Jobs, Prosperity*, 23.

⁷⁸ Commonwealth of Australia (2021) *Innovation, Jobs, Prosperity*, 6. Embassy of Australia in the USA *Trade and Investment*.

⁷⁹ Deloitte and AmCham (2020) *Building Prosperity*, 3, 5. Uren (2020) *Enduring Partners*, 4-5.

⁸⁰ Commonwealth of Australia (2021) *Innovation, Jobs, Prosperity*, 19. Thompson (2023) *Albemarle's downstream lithium spend in WA to hit \$4b*, <https://www.afr.com/companies/mining/albemarle-s-downstream-lithium-spend-in-wa-to-hit-4b-20230503-p5d564>.

any foreign country companies operating in Australia.”⁸¹ The Australia-America investment relationship is as broad as it is deep.

The bilateral investment relationship has grown significantly in the mining sector, especially with iron ore and gas, given its size and value in Australia. Both countries capitalised on Australia’s resources boom in the early 2000s, which appreciated the Australian dollar and dramatically increased capital stock.⁸² Between 2005 and 2020, Australian global exports of iron ore increased fourfold to 800 million tonnes, and liquified natural gas (LNG) exports increased from 3 million to 75 million tonnes.⁸³ Today, Australia is the world’s largest producer of iron ore and lithium, the largest exporter of LNG, the second-largest exporter of coal, the fourth-largest producer of rare earths, and a top five producer of gold, uranium, and zinc.⁸⁴ These investments have contributed to the country becoming the world’s third largest exporter of fossil fuels and climate pollution.⁸⁵

Despite pollution concerns, the bilateral investment relationship will likely only grow in the mining sector, especially since both the Australian and American governments have stated their desire to secure critical minerals.⁸⁶ In 2021 alone, iron ore accounted for nearly 30% of Australian exports, coal accounted for 12%, natural gas nearly 10%, and other minerals and rare earths just over 10%.⁸⁷ The five-year trend growth (2016-2021) in iron ore and LNG exports was 24.1% and 19.6%, reaching over \$154 billion and nearly \$50 billion,

⁸¹ Deloitte and AmCham (2020) *Building Prosperity*, 3. U.S. Department of State (2022) *U.S. Relations with Australia*. U.S. Embassy & Consulates in Australia *U.S.-Australia Relations*, <https://au.usembassy.gov/u-s-australia-relations/>.

⁸² Uren (2020) *Enduring Partners*, 25. Farrell (2012) *Australia-United States trade, investment, and AUSFTA*, US Studies Centre, 1.

⁸³ Uren (2020) *Enduring Partners*, 25.

⁸⁴ Australia is also the top producer of zircon, titanium mineral sands, bauxite, and rutile, as well as the second-largest producer of cobalt (see, DFAT (2022) *Australia is a Top 20 Country in International Trade and Investment*). U.S. Energy Information Administration (2022) *International Coal and Coke Data*, <https://www.eia.gov/international/data/world/coal-and-coke/coal-and-coke-exports>.

⁸⁵ Swann (2019) *High Carbon from a Land Down Under: Quantifying CO2 from Australia’s fossil fuel mining and exports*, <https://australiainstitute.org.au/report/high-carbon-from-a-land-down-under-quantifying-co2-from-australias-fossil-fuel-mining-and-exports/>

⁸⁶ The creation of the joint Critical Minerals Working Group in 2019 is an attempt by the US and Australia to secure supply chains of critical minerals (such as rare earths, lithium, and cobalt) to help deliver them “directly into processing or manufacturing endpoints in the United States” (see, Deloitte and AmCham (2020) *Building Prosperity*, 19). DFAT *Indo-Pacific Economic Framework*, <https://www.dfat.gov.au/trade/organisations/wto-g20-oecd-apec/indo-pacific-economic-framework>. The White House (2022) *Fact Sheet: In Asia, President Biden and a Dozen Indo-Pacific Partners Launch the Indo-Pacific Economic Framework for Prosperity*, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/fact-sheet-in-asia-president-biden-and-a-dozen-indo-pacific-partners-launch-the-indo-pacific-economic-framework-for-prosperity/>.

⁸⁷ DFAT (2022) *Australia’s Top 25 Exports, Goods & Services*, <https://www.dfat.gov.au/sites/default/files/australias-goods-and-services-by-top-25-exports-2021.pdf>.

respectively.⁸⁸ These are major increases from the early AUSFTA export values of \$8.1 billion of iron ore and \$4 billion of LNG in 2005.⁸⁹ Moreover, in 2019, 22% of US FDI in Australia was in the mining sector – and this does not include investment from private companies, such as the US company Chevron’s combined \$80 billion investment in LNG projects in Western Australia.⁹⁰ Not all investment in natural resources is one-way, however. The Australian multinational mining company BHP was “the largest foreign investor in the US’ surging shale oil and gas industry” in 2015.⁹¹ Australian multinational companies, including Rio Tinto, Luzenac Group, and WorleyParsons, employ over 20,000 people in the US.⁹² The rapidly growing natural resources sector has already experienced significant bilateral investment since the AUSFTA, and this will likely expand.

Insurance Value

An often overlooked benefit of the AUSFTA is its insurance value against the harms of protectionist trade measures.⁹³ The AUSFTA represents a commitment by both countries “to refrain from imposing [trade] barriers in the future” against each other, including in the event of a general trade war.⁹⁴ By guaranteeing Australia preferential access to the US market, the AUSFTA limits Australia’s harm from US protectionist measures.⁹⁵ Based on economic modelling by Richard Harris and Peter Robertson, if the US were to impose protectionist barriers against Australia, the AUSFTA ensures that Australian real GDP per capita rises by 0.5% compared to without the agreement.⁹⁶ In the event of a permanent global trade war, the AUSFTA helps ensure that Australia’s real GDP per capita increases by 1%, or 0.5% in the case of a 5-year global trade war, because Australia remains in the US

⁸⁸ DFAT (2022) *Australia’s Top 25 Exports, Goods & Services*.

⁸⁹ DFAT *Australia’s Trade Through Time*. Spedding (2015) *Australia’s Liquefied Natural Gas (LNG) exports, 2003-04 to 2013-14 and beyond*, 1-2, 6, <https://www.dfat.gov.au/sites/default/files/australias-ling-exports-2003-04-to-2013-14.pdf>.

⁹⁰ Chevron’s investment is the largest US physical investment in Australia and, between 2009 and 2016, generated \$5 billion in tax for the Australian government (see, Deloitte and AmCham (2020) *Building Prosperity*, 19-20. Also see, Farrell (2012) *Australia-United States trade, investment, and AUSFTA*, US Studies Centre, 3-4, 9). The investment is expected to, annually, employ around 1,600 people and generate about \$15 billion in exports (see, Deloitte and AmCham (2020) *Building Prosperity*, 20). Deloitte and AmCham (2020) *Building Prosperity*, 20.

⁹¹ Commonwealth of Australia (2017) *Australia’s Investment Footprint in the US*, 7.

⁹² Commonwealth of Australia (2017) *Australia’s Investment Footprint in the US*, 4, 5, 10. Kelton (2012) *The Australia-United States Free Trade Agreement: An Australian Perspective*, 8-9.

⁹³ This is important given the US tendency to protectionism discussed in the next section.

⁹⁴ Harris and Robertson (2009) *Dynamic Gains and Market Access Insurance: Another Look at the Australia-US Free Trade Agreement*, *The Australian Economic Review*, 435-437, 443, <https://doi.org/10.1111/j.1467-8462.2009.00557.x>.

⁹⁵ Harris and Robertson (2009) *Dynamic Gains and Market Access Insurance*, 435-437.

⁹⁶ Harris and Robertson (2009) *Dynamic Gains and Market Access Insurance*, 447, 449.

trading bloc.⁹⁷ Thus, the role of the AUSFTA as an insurance against the harms of protectionism is significant, which is crucial given concerns raised in the next section.⁹⁸

Results and Value

The AUSFTA anchors Australia's most important and robust economic relationship. The AUSFTA facilitates investment, ensures preferential market access, enables companies to compete in government procurement markets on a non-discriminatory basis, underpins the services sector, and opens Australia's FDI review regime, among other benefits.⁹⁹ The agreement linked the world's largest and thirteenth-largest economies to expand even more.¹⁰⁰ The benefits of the AUSFTA, especially for Australia, extend beyond the fact that the bilateral relationship is worth over \$2 trillion, that the US is Australia's top foreign investor, destination for foreign investment, and services trade partner, that the US is Australia's most important, stable, and predictable market, and that companies from both countries employ hundreds of thousands of each other's residents.¹⁰¹ The AUSFTA drew both countries closer together economically, but also politically and symbolically. Australia avoided aluminium and steel tariffs under the Trump administration, and "is one of a small number of countries whose investors can qualify for exemptions from mandatory notification requirements under US national security laws and regulations."¹⁰² Neither of these happen without the AUSFTA and its drawing Australia closer to the US.

⁹⁷ Harris and Robertson (2009) *Dynamic Gains and Market Access Insurance*, 445-446, 449.

⁹⁸ Harris and Robertson (2009) *Dynamic Gains and Market Access Insurance*, 435-437, 443. Kirchner (2012) *Foreign Direct Investment in Australia Following the Australia-US Free Trade Agreement*, 411.

⁹⁹ The AUSFTA resulted in the FIRB raising its FDI screening thresholds for the US, as the US claimed that the FIRB was a vehicle for protectionism. The FIRB FDI screening threshold for general investments was raised from \$50 million to \$100 million in 2006, and later to \$219 million in 2019 (and indexed for inflation), for all other countries who have FTAs with Australia (see, Kirchner (2012) *Foreign Direct Investment in Australia Following the Australia-US Free Trade Agreement*, 411. Also see, Kirchner and Mondschein (2018) *Deal-Breakers?: Regulating Foreign Direct Investment for National Security in Australia and the United States*, 22, <https://www.usc.edu.au/analysis/regulating-foreign-direct-investment-for-national-security-in-australia-and-the-united-states>). The US has, thus, "been a force for liberalisation in Australia's foreign investment regulatory framework" because the AUSFTA "set a benchmark for liberalisation of Australia's screening thresholds that has since been adopted in Australia's FTAs with other countries" (see, Kirchner and Mondschein (2018) *Deal-Breakers?*, 22. Also see, Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 12, <https://crawford.anu.edu.au/pdf/ajrc/wpapers/2015/201501.pdf>). US ITA U.S.-Australia Free Trade Agreement.

¹⁰⁰ IMF (2023) *World Economic Outlook Database*. IMF *World Economic Outlook Database April 2000*.

¹⁰¹ Even small things, such as Australians deriving \$3.5 billion in value from Google Search in 2018, are facilitated through the strong bilateral economic relationship (see, Deloitte and AmCham (2020) *Building Prosperity*, 38). US ITA U.S.-Australia Free Trade Agreement.

¹⁰² DFAT *United States of America country brief*. Uren (2020) *Enduring Partners*, 28-29.

DEFICIENCIES OF THE AUSFTA

Although the AUSFTA resulted in numerous economic gains for Australia, it does have a few deficiencies. Some commentators question whether the agreement (and the uneven economic relationship with the US) benefits more than harms Australia. The most significant criticism is that the AUSFTA departed from Australia's prioritisation of multilateral trade agreements. Further, although the AUSFTA facilitated bilateral cooperation, the influence American companies have in Australia, as well as the negative consequences of the mining relationship, cannot be overlooked. Other major criticisms are that the AUSFTA has diverted and reduced trade, resulted in marginal gains for Australia, harmed the Pharmaceutical Benefits System (PBS), and subordinated Australian legal frameworks to American ones.

The Turn from Multilateralism

Australia's economic policy has long been the pursuit of multilateral negotiations to seek productive gains and trade liberalisation.¹⁰³ An example is the creation of the Asia-Pacific Economic Cooperation (APEC) by Prime Minister Bob Hawke in 1989 to increase economic cooperation in the Pacific among the 12 member nations (today, it has 21 members).¹⁰⁴ However, as the nature of Asian economies became more inward-looking in the 1990s, and Prime Minister John Howard looked to institutionalise the bilateral Australia-US relationship, Australian trade policy shifted away from prioritising multilateralism.¹⁰⁵ Hence, the Howard Government's wish to seek a bilateral Australia-US trade agreement.

In simple terms, the AUSFTA departed from Australia's policy of multilateral trade liberalisation that "contributed positively to the multilateral trading system by liberalising trade in a non-discriminatory manner."¹⁰⁶ For many critics of the AUSFTA, the shift from multilateralism to preferential liberalisation was unintelligent at best and destructive at worst. For starters, as a medium-sized economy, Australia's economic success comes from multilateral frameworks and engagement with the global economy.¹⁰⁷ Unprecedented economic growth in the 20th century supports such a statement. Multilateralism provides Australia a forum (such as the WTO) to negotiate freely with other states, as well as facilitates resilience in the face of shocks, leverage through equality principles, and protection under legal, trade, and investment regulations that are stronger than those in the

¹⁰³ Kelton (2012) *The Australia-United States Free Trade Agreement: An Australian Perspective*, 3.

¹⁰⁴ Asia-Pacific Economic Cooperation (APEC) (2022) *History*, <https://www.apec.org/About-Us/About-APEC/History>. Kelton (2012) *The Australia-United States Free Trade Agreement: An Australian Perspective*, 3.

¹⁰⁵ Kelton (2012) *The Australia-United States Free Trade Agreement: An Australian Perspective*, 3. Ranald (2018) *The Real Costs of 'Free' Trade Agreements and the Need for Alternative Trade Policies*, 311-312, in Cahill and Toner (2018) *Wrong Way: How Privatisation and Economic Reform Backfired*, La Trobe University Press and Black Inc Books.

¹⁰⁶ Such a policy included unilateral liberalisation bound through multilateral negotiations (see, Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 3).

¹⁰⁷ Uren (2020) *Enduring Partners*, 38.

AUSFTA.¹⁰⁸ Moreover, multilateral agreements “deliver much more significant results than bilateral or regional agreements and avoid the potential negative effects that preferential agreements might cause through trade or investment diversion.”¹⁰⁹ A 2005 study modelled that Australia’s welfare would increase by US\$30 billion with multilateral liberalisation, compared to US\$5.4 billion with the AUSFTA; US welfare would increase by US\$543 billion with multilateral liberalisation, compared to US\$19.4 billion with the AUSFTA.¹¹⁰ Thus, it is clear that multilateralism better serves Australia than preferential agreements.¹¹¹

While bilateral agreements can stimulate multilateral liberalisation, this was not the case with the AUSFTA. Attempting to foster multilateralism through bilateral PTAs only works “if governments strive for trade liberalisation on a multilateral level as well as through PTAs.”¹¹² While the Howard Government said it would use the AUSFTA and other bilateral agreements as benchmarks for multilateral liberalisation, which was also echoed by former US Trade Representative Robert Zoellick in his comments that the AUSFTA could expand to the TPP, Australia did not strive toward multilateralism.¹¹³ Instead, Australia signed 11 bilateral agreements between 2000 and 2022 (not including the AUSFTA).¹¹⁴ Further, between 2000 and 2020, there were 220 PTAs registered with the WTO globally.¹¹⁵ Thus, PTAs have not been used as benchmarks, standards, or models for multilateral liberalisation.

While Australia sought to (and did) negotiate multilateral liberalisation to maximise its gains from trade, the AUSFTA turned Australia away from that pursuit. Many critics of the AUSFTA argue that the turn from multilateralism was too high a price to pay to institutionalise the economic relationship with the US, especially given that domestic interests remain the primary concern for the US.¹¹⁶ Given the overwhelming benefits of multilateralism to

¹⁰⁸ Brown, Kiyota, and Stern (2005) *Computational Analysis of the US FTAs with Central America, Australia and Morocco*, 1487. Armstrong (2023) *International rules and strategic policy space*, 42-49, in Armstrong, Westland, and Triggs (2023) *Navigating Prosperity and Security in East Asia*, <https://press.anu.edu.au/publications/navigating-prosperity-security-east-asia>.

¹⁰⁹ Stoler (2003) *Australia-USA Free Trade: Competitive Liberalisation at Work in 2003*, *Agenda: A Journal of Policy Analysis and Reform*, 304-305, <https://www.jstor.org/stable/43199253>.

¹¹⁰ Brown, Kiyota, and Stern (2005) *Computational Analysis of the US FTAs with Central America, Australia and Morocco*, *World Economy*, 1469, 1485, <https://doi.org/10.1111/j.1467-9701.2005.00743.x>.

¹¹¹ Brown, Kiyota, and Stern (2005) *Computational Analysis of the US FTAs with Central America, Australia and Morocco*, 1487.

¹¹² Stoler (2003) *Australia-USA Free Trade: Competitive Liberalisation at Work in 2003*, 305.

¹¹³ The TPP, its downfall, and its impact on the Australia-America economic relationship are explained in the next section of this paper. US support of the TPP centered around its ability to increase American leverage over China (especially in state-owned enterprises) more so than America’s desire to draw closer to Australia (see, Uren (2020) *The weight of the US-Australia economic relationship*). Uren (2020) *The weight of the US-Australia economic relationship*. Uren (2020) *Enduring Partners*, 28.

¹¹⁴ DFAT *Free trade agreements in force*, <https://www.dfat.gov.au/trade/agreements/in-force>.

¹¹⁵ Uren (2020) *Enduring Partners*, 28.

¹¹⁶ Kelton (2012) *The Australia-United States Free Trade Agreement: An Australian Perspective*, 10.

increase welfare for all, it makes sense that the strongest criticism of the AUSFTA is its departure from Australia's multilateral pursuit.¹¹⁷

American Corporate Influence and a Double-Edged Mining Relationship

Although American foreign investment in Australia is enormously significant in dollar value, as well as in employment, innovation, and drawing both countries closer together, some argue that it has given American corporations undue influence in Australia. The clearest example of inappropriate American corporate influence today is PricewaterhouseCoopers' (PwC) report prepared for the Australian government's Robodebt Scheme, which unfairly collected debts from Australian residents between 2016 and 2019.¹¹⁸ Calls for PwC to be banned from Australian are loud, and the company announced that it will no longer contribute to political parties.¹¹⁹ Further, research by David Richardson of the Australia Institute shows that American interests own the majority of Australia's major companies, as the share of American ownership of the top 20 companies listed on the Australian stock exchange was 56% in 2022.¹²⁰ Over 82% of BHP and 54% of the Commonwealth Bank of Australia are owned by American interests, and only 4.3% of equity in the Australian LNG industry is owned by Australian interests.¹²¹ American ownership of Australian companies gives American companies major influence over policy in Australia since profits flow

¹¹⁷ Uren (2020) *Enduring Partners*, 28-29. Kirchner (2018) *An Open Door: How Globalised Are the Australian and US Economies*, 26-27. Kelton (2012) *The Australia-United States Free Trade Agreement: An Australian Perspective*, 2, 9. Brown, Kiyota, and Stern (2005) *Computational Analysis of the US FTAs with Central America, Australia and Morocco*, 1485.

¹¹⁸ Commonwealth of Australia (2023) *Report: Royal Commission into the Robodebt Scheme*, v, <https://robodebt.royalcommission.gov.au/system/files/2023-07/robodebt-royal-commission-full-report.pdf>. Karp and Henriques-Gomes (2023) *What is robodebt? Six things to watch for in the royal commission's final report today*, <https://www.theguardian.com/australia-news/2023/jul/07/six-things-to-watch-for-in-the-robodebt-royal-commission-report>. Clun (2023) *PwC repaying almost \$1 million in robo-debt consulting fees*, <https://www.smh.com.au/politics/federal/pwc-repaying-almost-1-million-in-robo-debt-consulting-fees-20230707-p5dmkr.html>.

¹¹⁹ The Australia Institute (2023) *Four-in-five want PwC banned from new government contracts*, <https://australiainstitute.org.au/post/four-in-five-want-pwc-banned-from-new-government-contracts/>. Tan (2023) *'Morally bankrupt': Australia urged to cut ties with Big Four firms amid PwC scandal*, <https://www.scmp.com/week-asia/politics/article/3226819/morally-bankrupt-australia-urged-cut-ties-big-four-firms-amid-pwc-scandal>. Butler and Belot (2023) *PwC announces it will cease donations to political parties as part of attempt to rebuild reputation*, <https://www.theguardian.com/australia-news/2023/jul/10/pwc-announces-it-will-cease-donations-to-political-parties-as-part-of-attempt-to-rebuild-reputation>.

¹²⁰ Richardson (2022) *Foreign investment in Australia: Australian big business is not Australian at all*, 1-2, 6-9, <https://australiainstitute.org.au/wp-content/uploads/2022/06/LNG-Foreign-investment-in-Australia.pdf>. Although the database used in Richardson's research, Bloomberg Professional Terminal, is not fully complete, it is the best available (see, Richardson (2022) *Foreign investment in Australia: Australian big business is not Australian at all*, 4-5).

¹²¹ Richardson (2022) *Foreign investment in Australia: Australian big business is not Australian at all*, 6, 34.

offshore to the US and are not “available for Australian decision-makers to manage.”¹²² The fact that billions of dollars, which could be handled by the Australian government, are handled by American companies, is harmful to Australia’s national interest of sovereignty.¹²³ While the AUSFTA drew Australian and American companies closer together, it also enabled American companies to increase their influence in Australia, which some argue is unwarranted and hinders Australian sovereignty.

On top of undue American corporate influence, there are more than a few negative consequences surrounding the Australia-America mining relationship. First, obviously, mining is harmful for the environment in many ways – it is an intensive emitter of carbon dioxide (CO₂) and methane, and it has a major impact on landscapes and local populations.¹²⁴ For example, Chevron’s carbon capture and storage initiative in its Gorgon LNG project, part of the company’s \$80 billion investment in LNG projects in Western Australia, while intended to decrease emissions, was responsible for 4 megatonnes of CO₂ emissions in 2018 – over half of the increase in Australian total emissions that year.¹²⁵ Second, mining has increased the Australian exchange rate, which makes “it more difficult for Australian exporters to compete in some world markets,” and has also raised the price of raw materials (such as concrete) used in mining.¹²⁶ Third, since around 90% of Australian mining activity is controlled by foreign companies, mining profits flow away from Australia, such as 83% of profits (or \$42 billion) in 2009-10 accrued to foreign investors.¹²⁷ This impedes the Australian government’s ability to raise tax revenue from mining profits. Fourth, employment in the mining industry is often overstated. In 2022, the coal, oil, and gas extraction industries employed only 0.5% of people employed in Australia.¹²⁸ Thus, although the AUSFTA facilitated an Australia-America mining relationship that contributed to American investment in Australia and Australian exports abroad, mining has negative consequences on the environment and Australian competitiveness and profit capture.

¹²² Richardson (2022) *Foreign investment in Australia: Australian big business is not Australian at all*, 33.

¹²³ Richardson (2022) *Foreign investment in Australia: Australian big business is not Australian at all*, 27-33.

¹²⁴ Swann (2018) *Gorgon-tuan Problem*, 1-3 <https://australiainstitute.org.au/wp-content/uploads/2020/12/P635-Gorgon-tuan-Problem-Web.pdf>. Barrett (2023) *Adani’s Queensland coalmine cited in US investor’s claims of ‘biggest con in corporate history’*, <https://www.theguardian.com/australia-news/2023/jan/26/adanis-queensland-coalmine-cited-in-us-investors-claims-of-biggest-con-in-corporate-history>. Ogge (2021) *Why the Scarborough LNG development cannot proceed*, 1, 10-11, <https://australiainstitute.org.au/wp-content/uploads/2021/07/Why-the-Scarborough-LNG-development-cannot-proceed-WEB.pdf>.

¹²⁵ Swann (2018) *Gorgon-tuan Problem*, 3.

¹²⁶ Richardson and Denniss (2011) *Mining the truth: The rhetoric and reality of the commodities boom*, 7, https://australiainstitute.org.au/wp-content/uploads/2020/12/Mining-the-truth-IP7_4.pdf.

¹²⁷ Richardson (2022) *Foreign investment in Australia: Australian big business is not Australian at all*, 14.

Richardson and Denniss (2011) *Mining the truth: The rhetoric and reality of the commodities boom*, 2, 8-9.

¹²⁸ Quicke and Venketasubramanian (2022) *Climate of the Nation 2022: Tracking Australia’s attitudes towards climate change and energy*, 44-45, <https://australiainstitute.org.au/wp-content/uploads/2022/11/Climate-of-the-Nation-2022.pdf>.

Diverted Trade, Marginal Gains, Harmed PBS, and Subordinated Frameworks

The argument that the AUSFTA has diverted and reduced trade is a major criticism that benefits from analysis of trade flows in the years after the agreement. Trade diversion is when trade is diverted away from a more efficient, lower-cost supplier to a less efficient, higher-cost supplier who has an artificial advantage, such as inclusion in a discriminatory PTA.¹²⁹ Without the artificial advantage, due to basic cost-benefit analysis, the trade goes to the more-efficient, lower-cost supplier.¹³⁰ Shiro Armstrong argues that PTAs divert trade and investment away from non-members of the PTA in favour of members who are higher-cost and less efficient, because “the rationale for competitive liberalisation through PTAs is premised on there being trade or investment diversion away from non-members.”¹³¹ Armstrong created a counterfactual model, published in 2015, that estimated Australian and American post-2005 trade without the AUSFTA to see whether trade was diverted away from non-members.¹³² Armstrong’s model shows that the AUSFTA is estimated to have diverted US\$53.12 billion (\$78 billion) in trade between 2005 and 2012.¹³³ Further, Armstrong’s model shows that, in the same time frame, the “AUSFTA is associated with a reduction in trade between Australia and the United States,” although bilateral trade would likely have fallen even more without the AUSFTA – which demonstrates that the agreement interrupted market forces from dictating trade.¹³⁴ The counterintuitive idea that a bilateral trade agreement can actually reduce trade between the two parties is supported by Armstrong’s evidence that 28 of the 29 PTAs in his study were “associated with reduced trade between members,” whereas non-preferential agreements (such as APEC) did not divert trade, on average.¹³⁵ Armstrong concludes that the AUSFTA adds to the body of evidence that PTAs do not increase, and can actually reduce, trade.¹³⁶

There are a few arguments that the AUSFTA has resulted in marginal gains for Australia. For example, Australian agricultural exports, including for crucial products such as beef and dairy, were only partially liberalised, and sugar was not liberalised at all.¹³⁷ The US achieved “market access for other industries while leaving agricultural subsidies undisturbed,” as those subsidies are paid at the national level and cannot be reduced through PTAs – which

¹²⁹ Stoler (2003) *Australia-USA Free Trade: Competitive Liberalisation at Work in 2003*, 301. Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 7.

¹³⁰ Stoler (2003) *Australia-USA Free Trade: Competitive Liberalisation at Work in 2003*, 301. Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 7.

¹³¹ Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 7.

¹³² Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 7-8.

¹³³ Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 11-12. Ranald (2018) *The Real Costs of ‘Free’ Trade Agreements and the Need for Alternative Trade Policies*, 315.

¹³⁴ Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 1, 10.

¹³⁵ Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 10-11.

¹³⁶ Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 14.

¹³⁷ Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 4.

keeps prices low and gives US agricultural producers an advantage.¹³⁸ Patricia Ranald argues that Australia's (largely unsuccessful) desire "to obtain increased market access for agricultural and service exports" reduced government support for the merchandise and manufacturing industries.¹³⁹ Moreover, given that "most MFN tariffs were less than five percent [before the AUSFTA]...the possibilities for tariff reduction were limited."¹⁴⁰ Plus, between 2005 and 2022, Australia's trade deficit with the US increased from about \$12 billion to about \$23 billion.¹⁴¹ These arguments demonstrate that the AUSFTA has resulted in marginal gains for Australia in many areas, from agriculture to tariff reduction to the trade balance.

It is also suggested that the AUSFTA has resulted in limited gains for Australia in terms of US FDI in the country. Given that "the focus of the PTA was on intellectual property rights issues and investment provisions," one can assume that FDI would increase – as the prior section showed.¹⁴² However, Armstrong's study shows that, although US FDI in Australia increased in absolute terms between 2005 and 2012, its share of total FDI in Australia decreased from 26% in 2005 to 24% in 2012.¹⁴³ Present data from 2022 shows that US FDI accounts for 16.5% of total FDI in Australia – or about \$184.3 billion of the total \$1.12 trillion of FDI.¹⁴⁴ Armstrong argues that the "preferential liberalisation towards US investment...increased the relative barriers for all other potential investors."¹⁴⁵ When viewed in terms of the percentage of total FDI in Australia, the AUSFTA is associated with a decrease in the importance of US FDI, as well as of US trade (which accounted for just over 11% of Australia's total trade in 2005, but today accounts for just over 7%).¹⁴⁶ Of course, this data does not tell the full story, such as the significant increase in Chinese FDI and trade or the increase in US total investment, but it raises the question of how beneficial the AUSFTA was for US FDI in Australia.¹⁴⁷

¹³⁸ Ranald (2018) *The Real Costs of 'Free' Trade Agreements and the Need for Alternative Trade Policies*, 311.

¹³⁹ Ranald (2018) *The Real Costs of 'Free' Trade Agreements and the Need for Alternative Trade Policies*, 312-314.

¹⁴⁰ Kelton (2012) *The Australia-United States Free Trade Agreement: An Australian Perspective*, 3.

¹⁴¹ DFAT *Australia's Trade Through Time*. DFAT (2023) *United States Country Economic and Trade Data*. DFAT (2023) *Australia's Trade in Goods and Services by Top 15 Partners*.

¹⁴² Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 6.

¹⁴³ Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 13.

¹⁴⁴ DFAT (2023) *Australian industries and foreign direct investment*, <https://www.dfat.gov.au/trade/trade-and-investment-data-information-and-publications/foreign-investment-statistics/australian-industries-and-foreign-investment>. ABS (2023) *International Investment Position*, Table 2.

¹⁴⁵ Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 4, 14.

¹⁴⁶ DFAT *Australia's Trade Through Time*. DFAT (2023) *Australia's Trade in Goods and Services by Top 15 Partners*.

¹⁴⁷ Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 13.

Two earlier studies in 2012, however, maintain that the AUSFTA has not diverted trade and that US FDI was higher than it would have been without the agreement.¹⁴⁸ Roger Farrell believes that the argument for trade diversion is weak given that Australian trade with China and Japan grew, and that the share of Australian trade with the US has remained relatively flat, since the AUSFTA.¹⁴⁹ Farrell concludes that “there is no evidence that policy-induced trade diversion...was significant – especially compared to the much larger impact of exchange rates” that “boosted outward FDI and the establishment of [Australian] affiliates in the US market.”¹⁵⁰ Stephen Kirchner’s modelling shows that the stock of inward FDI in Australia (not just from the US) was \$77.81 billion higher in 2010 than it would have been without the AUSFTA.¹⁵¹ Similar modelling from Kirchner shows that, in 2020, inward FDI in Australia was \$92.3 billion higher than predicted without the AUSFTA.¹⁵² He attributes the outperformance of FDI to the AUSFTA’s “liberalisation of foreign investment screening rules” (such as the extension of national treatment to US FDI), and “rule[s] out the possibility of US FDI having completely displaced FDI from other sources (the trade diversion argument against bilateral and regional FTAs).”¹⁵³ Such an argument is understandable given that Chinese FDI increased from \$550 million in 2006 to \$44.77 billion in 2022.¹⁵⁴

Two other major, and connected, criticisms of the AUSFTA are that it harmed the Pharmaceutical Benefits Scheme (PBS), an Australian government service that controls the prices of medicines, and subordinated Australian legal frameworks to American ones.¹⁵⁵ Patricia Ranald argues that US governments use trade agreements to “support US-style legal frameworks that increase the legal rights of corporations and reduce the rights of governments to regulate corporate activity.”¹⁵⁶ The AUSFTA subordinated Australian legal

¹⁴⁸ Armstrong likewise points out that without the preferential treatment toward US FDI screening in the AUSFTA, “the US share of total Australian FDI stock may have fallen instead of remained steady at around a quarter [of total FDI in Australia]” (see, Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 14).

¹⁴⁹ Farrell (2012) *Australia-United States trade, investment, and AUSFTA*, US Studies Centre, 6-7, 13-14.

¹⁵⁰ Farrell (2012) *Australia-United States trade, investment, and AUSFTA*, US Studies Centre, 14-15.

¹⁵¹ Kirchner (2012) *Foreign Direct Investment in Australia Following the Australia-US Free Trade Agreement*, 417-418.

¹⁵² Uren (2020) *Enduring Partners*, 22-23.

¹⁵³ Armstrong questions the credibility of the model, claiming that it “fails to make the case for why liberalisation in screening rules towards the United States increased total FDI inflows” (see, Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 14). Kirchner also says that FDI was “found to be a substitute rather than a complement to trade openness” (see, Kirchner (2012) *Foreign Direct Investment in Australia Following the Australia-US Free Trade Agreement*, 418). Kirchner (2012) *Foreign Direct Investment in Australia Following the Australia-US Free Trade Agreement*, 410-411, 419.

¹⁵⁴ ABS (2023) *International Investment Position*, Table 2.

¹⁵⁵ Ranald (2009) *The Political Impact of the AUSFTA: Perceptions of the agreement in Australia*, 2009 Fulbright Symposium, 2,5,
<https://aftinet.org.au/cms/sites/default/files/AUSFTA%20Perceptions%20of%20the%20Agreement%20in%20Australia.pdf>.

¹⁵⁶ Ranald (2009) *The Political Impact of the AUSFTA*, 2.

frameworks to American ones through deregulation of US firms and investment, and stricter IP rights protections.¹⁵⁷ Throughout negotiations, US negotiators and pharmaceutical lobbies saw the PBS, and the FIRB, as a barrier to trade, so they pushed for the creation of the joint Medicines Working Group to study the value of IP protections.¹⁵⁸ This group concluded that the value of pharmaceutical innovation is the priority, especially through IP protections, such as 20-year-long pharmaceutical patents, which encourage innovation and investment through protection from copy.¹⁵⁹ Ranald and Kelton argue, however, that stricter IP protections have reduced “the importance of the Australian public health goal of affordable access to medicines for all,” ensured “that the US government can continue to influence future policy...decisions on trade grounds,” and eroded the evidence-based nature and regulation of the PBS.¹⁶⁰ Further, changes to the PBS in 2004, when the Howard Government introduced the Special Patient Contribution as a charge “paid by patients to make up the difference between the government’s preferred price and what the [US pharmaceutical] companies were willing to pay,” and in 2007, when categorisations of newly-patented medicines were updated, resulted in higher wholesale prices for some medicines.¹⁶¹ Moreover, the AUSFTA procurement chapter requires both US and Australian procuring entities to give their international counterparts the same favours accorded to domestic suppliers, which keeps the Australian government from prioritising local suppliers.¹⁶² The AUSFTA’s subordination of Australian legal frameworks to US ones harmed the PBS and hindered the Australian government’s prioritisation of local suppliers.

In conclusion, there are strong arguments that the AUSFTA has shifted Australia away from multilateralism, given American companies undue influence in Australia, facilitated a double-edged mining relationship, diverted and reduced trade, harmed the PBS, subordinated Australian legal frameworks to American ones, and resulted in limited gains for some crucial Australian industries – including zero gains in sugar. A 2010 Australian government Productivity Commission concluded that the AUSFTA imposed “net costs” on consumers and the Australian economy through longer medicine monopolies and higher

¹⁵⁷ Ranald (2009) *The Political Impact of the AUSFTA*, 2, 5.

¹⁵⁸ The US considered government intervention to control medicines prices and foreign investment as barriers to trade. Ranald (2009) *The Political Impact of the AUSFTA*, 5.

¹⁵⁹ Commonwealth of Australia (2021) *Innovation, Jobs, Prosperity*, 5. Farrell (2012) *Australia-United States trade, investment, and AUSFTA*, US Studies Centre, 10. Ranald (2009) *The Political Impact of the AUSFTA*, 5. Hickey, Shen, and Ward (2019) *Drug Pricing and Intellectual Property Law: A Legal Overview for the 116th Congress*, US Congressional Research Service, <https://sgp.fas.org/crs/misc/R45666.pdf>.

¹⁶⁰ Ranald (2009) *The Political Impact of the AUSFTA*, 5. Kelton (2012) *The Australia-United States Free Trade Agreement: An Australian Perspective*, 6, 9.

¹⁶¹ The 2007 categorisation update was the categorisation of newly-patented medicines into F1 (where higher prices are charged) and F2 (where lower prices are charged) (see, Ranald (2009) *The Political Impact of the AUSFTA*, 7-8). Ranald (2009) *The Political Impact of the AUSFTA*, 6-8.

¹⁶² Ranald (2009) *The Political Impact of the AUSFTA*, 11.

payments to copyright holders.¹⁶³ The Commission found that there was “little evidence to indicate that preferential agreements have provided significant commercial benefits,” but rather the “modest” benefits have been overstated.¹⁶⁴ Moreover, the Commission wrote that PTAs are often more political than economic in nature, as the subsequent part of this section addresses.¹⁶⁵

POLITICS AND SYMBOLISM

The AUSFTA is as much, if not more, a political and symbolic agreement as an economic one. Howard saw the AUSFTA as a way to support Australia’s interest of “maintaining US strategic presence in the region,” “strengthening the security alliance between the two nations,” and providing “an anchorage for Australia in a difficult trading environment.”¹⁶⁶ The symbolic aspect of the AUSFTA is undenied by negotiators (including then-US President George W. Bush), with Zoellick stating that trade agreements with the US were privileges earned through “cooperation – or better – on foreign policy and security issues.¹⁶⁷ In this way, the AUSFTA symbolises the close defence cooperation and furthers Australia’s political goal of consistent US engagement in the region. It is “part of a broader strategic and military alliance.”¹⁶⁸

Moreover, the forces that influenced the AUSFTA negotiations were inherently political. In a 2015 event, Howard and Zoellick reflected on the fact that US domestic politics had an enormous impact on the negotiations, especially related to the lack of liberalisation surrounding US subsidies and protections for domestic sugar.¹⁶⁹ In reference to the fact that restrictions on Australian sugar exports to the US remained in the AUSFTA, Zoellick said “this is where the politics comes in. To be honest, we wanted to get the deal done, and through,

¹⁶³ Productivity Commission (2010) *Bilateral and Regional Trade Agreements*, 259-264, <https://www.pc.gov.au/inquiries/completed/trade-agreements/report/trade-agreements-report.pdf>. Ranald (2018) *The Real Costs of ‘Free’ Trade Agreements and the Need for Alternative Trade Policies*, 314.

¹⁶⁴ Productivity Commission (2010) *Bilateral and Regional Trade Agreements*, XXV, XXXV-XXXVI. Ranald (2018) *The Real Costs of ‘Free’ Trade Agreements and the Need for Alternative Trade Policies*, 314. Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*, 5.

¹⁶⁵ Armstrong (2015) *The economic impact of the Australia-United States free trade agreement*.

¹⁶⁶ Kelton (2012) *The Australia-United States Free Trade Agreement: An Australian Perspective*, 3. Uren (2020) *The weight of the US-Australia economic relationship*.

¹⁶⁷ Stoler (2003) *Australia-USA Free Trade: Competitive Liberalisation at Work in 2003*, 291. Uren (2020) *The weight of the US-Australia economic relationship*. Capling and Ravenhill (2012) *The Trans-Pacific Partnership: An Australian Perspective*, 8, <https://united-states-studies-centre.s3.amazonaws.com/attache/e1/26/43/86/c5/69/2a/b0/4f/42/2a/22/51/98/57/bd/alliance-21-report-united-states-capling-and-ravenhill.pdf>.

¹⁶⁸ Ranald (2018) *The Real Costs of ‘Free’ Trade Agreements and the Need for Alternative Trade Policies*, 311.

¹⁶⁹ Vidot (2015) *‘Real satisfaction’: Former PM Howard reflects on 10 years since Australia-USA free trade agreement*, <https://www.abc.net.au/news/rural/2015-07-02/howard-reflects-on-usa-free-trade-agreement-anniversary/6590712?pfmredir=sm>.

in 2004, an election year,” when “56 senators who were lobbied to oppose anything with sugar” held immense power in influencing the trade negotiations.¹⁷⁰ Howard said that he “never really thought we’d get very far on sugar,” but that it was “a classic case of balancing politics and economics.”¹⁷¹ The political forces behind the AUSFTA are obvious. Thus, the AUSFTA is as much a political and symbolic agreement as an economic one, for negotiations were driven by political, defence, and symbolic motives.

CONCLUSION

The present-day Australia-America economic relationship is of enormous significance, with geo-economic consequences that substantiate the geo-strategic position of both Australia and the US in the Asia-Pacific region. The AUSFTA facilitated major gains for both countries – not the least is an over \$2 trillion economic relationship – and especially for Australia. However, there are strong arguments that question whether it did more good than harm for Australia, such as its turn from multilateralism, facilitation of major American influence, diverted and reduced trade, and harm to domestic institutions. Further, the political and symbolic value of the AUSFTA were as important, if not more important, to negotiators than the economic value – and they still are. Thus, although there were major bilateral economic benefits from the AUSFTA, its impact on Australia is not universally regarded as beneficial.

¹⁷⁰ Vidot (2015) ‘Real satisfaction’: Former PM Howard reflects on 10 years since Australia-USA free trade agreement.

¹⁷¹ Vidot (2015) ‘Real satisfaction’: Former PM Howard reflects on 10 years since Australia-USA free trade agreement.

The Concern (US Industrial Policy)

There is no doubt that the present Australia-America economic relationship is incredibly deep, robust, and resilient. There are, however, a few storm clouds on an otherwise serene horizon. While the AUSFTA is largely appreciated, although not uncritically, for having grown the bilateral economic relationship, the Trans-Pacific Partnership (TPP) was intended to catalyse a multilateral Asia-Pacific economic relationship. However, US security interests, protectionism, and quite evident withdrawal from multilateralism when it left the TPP in 2017, have brought into question America's long-term support for free global trade and investment. Such US policy has set in Australian concern for the bilateral economic relationship more so than ever before, especially given Australia's renewed emphasis on multilateralism.¹⁷² Further, when the US passed the CHIPS and Science Act (CHIPS Act) and the Inflation Reduction Act (IRA) in 2022, Australian concern turned to fearful reality that its economic interests have sharply diverged from those of the US, risking disruption of the bilateral relationship.

CONCERN (THE TPP)

The TPP was a multilateral PTA among 12 Pacific countries designed to streamline trade and investment, open markets to all partners, integrate economies, and address new challenges (such as eCommerce) as a unified bloc.¹⁷³ The TPP was a monumental agreement given that, after it was completed in 2015, the partners comprised nearly 40% of the global economy, about 40% of American trade, a third of Australian trade, 42% of foreign investment in Australia, and 44% of Australian foreign investment abroad.¹⁷⁴

In terms of the direct Australia-America economic relationship, the TPP seemed to be in the interest of both countries – especially Australia given its need for multilateralism.¹⁷⁵ The TPP was estimated to grow global GDP by US\$492 billion (\$725 billion) by 2030, US GDP by

¹⁷² US reluctance to support WTO disputes resolution mechanisms, for instance, is a case in point (see, Armstrong (2023) *International rules and strategic policy space*, 42-49, in Armstrong, Westland, and Triggs (2023) *Navigating Prosperity and Security in East Asia*).

¹⁷³ DFAT *Background papers: TPP myths vs realities*, <https://www.dfat.gov.au/trade/agreements/not-yet-in-force/tpp/Pages/background-papers-tpp-myths-vs-realities>.

¹⁷⁴ DFAT *Australia's trade and investment relations with Trans-Pacific Partnership (TPP) countries in 2015*, https://www.dfat.gov.au/sites/default/files/tpp-map-infographic_1fa878f0-cf37-3218-8601-9b1c54b15f49.JPG. Chatzky, McBride, and Siripurapu (2021) *What's Next for the Trans-Pacific Partnership (TPP)?*, <https://www.cfr.org/backgrounder/what-trans-pacific-partnership-tpp>.

¹⁷⁵ Although the TPP was a PTA, the fact that it was multilateral would have benefitted Australia much more so than any bilateral PTA – for the reasons discussed in the AUSFTA section and these introductory TPP paragraphs here.

US\$131 billion (\$193 billion), and total exports among partners by US\$1.025 trillion (\$1.51 trillion).¹⁷⁶ The agreement would have eliminated 98% of tariffs between partners.¹⁷⁷ For Australia specifically, the TPP would have eliminated the US price-based safeguard on Australian meat exports under the AUSFTA, as well as WTO in-quota dairy tariffs on Australian exports.¹⁷⁸ The US would have provided “Australia with the largest access granted to a sugar exporting country in over 20 years, with an additional 65,000 tonnes of access” and “23 percent of future additional quota allocations,” which could have raised Australian sugar exports to the US to 400,000 tonnes by 2019.¹⁷⁹ Further, the TPP would have eliminated “all remaining tariffs on Australian exports of non-agricultural products to TPP countries,” as well as raised the FIRB’s review threshold for partner countries from \$252 million to \$1.094 billion in non-sensitive sectors.¹⁸⁰ The TPP would not have changed the PBS, unlike the AUSFTA, despite US demands for stricter IP protections.¹⁸¹

On the US side specifically, the TPP would have strengthened it against China – but this is where Australian concern for the bilateral economic relationship comes in. The US used the TPP to gain a leading role over China in shaping the rules governing Asia-Pacific trade and investment, such as prohibiting non-commercial assistance to state-owned enterprises (SOEs) – which China sees as its economic lifeline – easing the US ability to sanction Chinese subsidies to SOEs, and forbidding forced technology transfer.¹⁸² Further, the US utilised the TPP to strengthen its Asia-Pacific military alliances and project power against China.¹⁸³ However, the US’ use of the TPP as security policy to weaken China worried Australia because Australia did not want to jeopardise its trade relationship with China (worth nearly

¹⁷⁶ Chow, McGuire, and Sheldon (2018) *How the United States Withdrawal from the Trans-Pacific Partnership Benefits China*, University of Pennsylvania Journal of Law & Public Affairs, 64-65, https://aede.osu.edu/sites/aede/files/publication_files/How%20the%20United%20States%20Withdrawal%20from%20the%20Trans-Pacific%20Partnersh.pdf. Chatzky, McBride, and Siripurapu (2021) *What’s Next for the Trans-Pacific Partnership (TPP)?*.

¹⁷⁷ DFAT *TPP outcomes: goods market access*, <https://www.dfat.gov.au/trade/agreements/not-yet-in-force/tpp/Pages/outcomes-goods-market-access>.

¹⁷⁸ DFAT *TPP outcomes: goods market access*.

¹⁷⁹ DFAT *TPP outcomes: goods market access*.

¹⁸⁰ DFAT *TPP outcomes: goods market access*. DFAT *TPP outcomes: investment*, <https://www.dfat.gov.au/trade/agreements/not-yet-in-force/tpp/Pages/outcomes-investment>.

¹⁸¹ DFAT *Background papers: TPP myths vs realities*. Capling and Ravenhill (2012) *The Trans-Pacific Partnership: An Australian Perspective*, 6-7.

¹⁸² Chow, McGuire, and Sheldon (2018) *How the United States Withdrawal from the Trans-Pacific Partnership Benefits China*, 60-63. Grabow (2022) *5 Years Later the United States Is Still Paying for Its TPP Blunder*, <https://www.cato.org/blog/5-years-later-united-states-still-paying-tpp-blunder>.

¹⁸³ Heath (2017) *Strategic Consequences of U.S. Withdrawal from TPP*, <https://www.rand.org/blog/2017/03/strategic-consequences-of-us-withdrawal-from-tpp.html>. Capling and Ravenhill (2012) *The Trans-Pacific Partnership: An Australian Perspective*, 7.

four times more than that with the US).¹⁸⁴ Moreover, Australia worried that its economic relationship with the US was driven more by the National Security Council than by genuine economic interests, especially given the “recent trend in US trade policy to use PTAs to reinforce strategic relationships” post-September 11, 2001.¹⁸⁵ Arguably, the TPP forced upon Australia the very choice it wanted to avoid – whether to choose the US or China in two alternative conceptions of economic cooperation.¹⁸⁶

US protectionism during TPP negotiations also ignited a major Australian concern for its bilateral economic relationship today. Australia wanted the TPP to replace the 113 PTAs among the partners in 2012 with a single agreement with clear regulations, easier market access, and uniform tariff schedules.¹⁸⁷ While this would have increased US access to many Asia-Pacific markets, the US fought hard to ensure that its existing PTAs remained intact, as they contained protectionist measures (such as snap-back provisions) that supported US interests.¹⁸⁸ US protectionism undercut Australia’s desire for a genuinely multilateral agreement, which worried Australia that US policy was not driven by free trade and, therefore, had diverged from Australian interests.¹⁸⁹

US withdrawal from the TPP more fully demonstrates Australia’s largest concern for its bilateral economic relationship – that interests have diverged given the US withdrawal from multilateralism and free trade. Australia sought the TPP to not only expand multilateralism, but also increase access to the US market that was untouched by the AUSFTA – especially historically large access to the sugar market.¹⁹⁰ When the US formally withdrew from the TPP in 2017 under President Donald Trump, Australia was denied market access for sugar.¹⁹¹ However, the US still pushed for its offensive interests (such as IP protections) with Australia and later negotiated a trilateral PTA with market access for Mexico and Canada.¹⁹² While

¹⁸⁴ Between 2021 and 2022, Australia’s two-way trade relationship with China was valued at \$283.5 billion, compared to \$76.5 billion with the US (see, DFAT (2023) *Australia’s Trade in Goods and Services by Top 15 Partners*). Capling and Ravenhill (2012) *The Trans-Pacific Partnership: An Australian Perspective*, 8, 10.

¹⁸⁵ Capling and Ravenhill (2012) *The Trans-Pacific Partnership: An Australian Perspective*, 7.

¹⁸⁶ Capling and Ravenhill (2012) *The Trans-Pacific Partnership: An Australian Perspective*, 10.

¹⁸⁷ Capling and Ravenhill (2012) *The Trans-Pacific Partnership: An Australian Perspective*, 3-5.

¹⁸⁸ Capling and Ravenhill (2012) *The Trans-Pacific Partnership: An Australian Perspective*, 5.

¹⁸⁹ Capling and Ravenhill (2012) *The Trans-Pacific Partnership: An Australian Perspective*, 5.

¹⁹⁰ Although this paragraph will focus on sugar, the TPP would have also expanded access to the dairy, textiles, and clothing markets in the US – to name a few (see, Capling and Ravenhill (2012) *The Trans-Pacific Partnership: An Australian Perspective*, 6-7). DFAT *TPP outcomes: goods market access*. Vidot (2015) ‘Real satisfaction’: Former PM Howard reflects on 10 years since Australia-USA free trade agreement. Uren (2020) *The weight of the US-Australia economic relationship*. Capling and Ravenhill (2012) *The Trans-Pacific Partnership: An Australian Perspective*, 5-7.

¹⁹¹ Solís (2017) *Trump withdrawing from the Trans-Pacific Partnership*, <https://www.brookings.edu/articles/trump-withdrawing-from-the-trans-pacific-partnership/>.

¹⁹² USTR *United States-Mexico-Canada Agreement (USMCA)*, <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement>. Capling and Ravenhill (2012) *The Trans-Pacific Partnership: An Australian Perspective*, 5, 7, 9.

this was inconsistent, it was not a surprise given President Trump’s declaration that he would withdraw from the TPP in favour of bilateral agreements.¹⁹³ Australia values (and needs) multilateralism, but the US values bilateral PTAs to expand its own market access and prioritise domestic protectionism.¹⁹⁴ Thus, in 2017, Australia viscerally experienced its largest economic concern with the US – that their interests have diverged. This concern turned to the fearful reality in 2022.

FEARFUL REALITY

US Global Leadership

Before looking at the reality of today’s Australia-America economic relationship, there is another concern that plagues Australia. Timothy Heath puts it simply: “withdrawal from the TPP has exacerbated regional doubt about US international leadership and of its role in Asia.”¹⁹⁵ US allies are more uncertain than ever about “the reliability of the US across a range of foreign and economic matters,” as the US claims it is global leader but has abandoned its “rebalance” to Asia, stepped back from multilateralism, and opened the door to Chinese leadership.¹⁹⁶ Australia turned to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP) – neither of which includes the US – after the US withdrew from the TPP. Not only does the RCEP give China, as the chief signatory, the ability to write the rules in the Asia-Pacific (which include favourable terms for SOEs, technology transfer, and IP protections), but it is estimated that US exports will shrink by more than US\$5 billion (\$7 billion) due to trade diversion toward members with lower tariffs and harmonised regulations.¹⁹⁷ And while Australia has chosen the US as a security partner, through AUKUS

¹⁹³ Blackwill and Rappleye (2017) *Trump’s Five Mistaken Reasons for Withdrawing from the Trans-Pacific Partnership*, <https://foreignpolicy.com/2017/06/22/trumps-five-mistaken-reasons-for-withdrawing-from-the-trans-pacific-partnership-china-trade-economics/>. Solís (2017) *Trump withdrawing from the Trans-Pacific Partnership*. Heath (2017) *Strategic Consequences of U.S. Withdrawal from TPP*. Capling and Ravenhill (2012) *The Trans-Pacific Partnership: An Australian Perspective*, 9.

¹⁹⁴ Capling and Ravenhill (2012) *The Trans-Pacific Partnership: An Australian Perspective*, 5-6, 9.

¹⁹⁵ Heath (2017) *Strategic Consequences of U.S. Withdrawal from TPP*.

¹⁹⁶ Solís (2017) *Trump withdrawing from the Trans-Pacific Partnership*. Heath (2017) *Strategic Consequences of U.S. Withdrawal from TPP*. Chow, McGuire, and Sheldon (2018) *How the United States Withdrawal from the Trans-Pacific Partnership Benefits China*, 76, 80. Grabow (2022) *5 Years Later the United States Is Still Paying for Its TPP Blunder*.

¹⁹⁷ The CPTPP is likewise harmful to US trade because it includes preferential market access for all members, which enhances Asia-Pacific economic integration, and lacks the stricter IP protections that the US sought in the TPP (see, Grabow (2022) *5 Years Later the United States Is Still Paying for Its TPP Blunder*. Also see, Chatzky, McBride, and Siripurapu (2021) *What’s Next for the Trans-Pacific Partnership (TPP)?*). United Nations Conference on Trade and Development (2021) *A New Centre of Gravity: The Regional Comprehensive Economic Partnership and its trade effects*, 14, <https://unctad.org/system/files/official->

commitments and the exclusion of the Chinese company Huawei from domestic 5G networks, the question is whether nuclear-propelled submarines matter more for US global leadership than China leading the RCEP, possibly joining the CPTPP, and drawing some of the world's largest and most dynamic economies closer to its own.¹⁹⁸ Chinese economic dominance bodes poorly for US global leadership, and Asia-Pacific states realise this.

US Industrial Policy

In August of 2022, the US Congress passed the Chips and Science Act (CHIPS Act) and the Inflation Reduction Act (IRA). These two Acts represent modern US industrial policy – government intervention to protect and grow domestic industrial capabilities – or in other words, protectionism. Australian concern that its economic interests have diverged from American ones thus became the fearful reality in August of 2022 – made obvious by the Biden administration's trade and “foreign policy for the middle class,” based on the claim that free trade has not benefitted all Americans.¹⁹⁹ The possibility that US protectionism could disrupt the fruitfulness of the bilateral economic relationship is more real than ever, even with optimistic modelling by Harris and Robertson mentioned in the AUSFTA section.

The CHIPS Act

The CHIPS Act confirmed to Australia that the US has undergone a “significant departure from free trade towards industrial policy with protectionist elements that favour US security interests.”²⁰⁰ The CHIPS Act contains US\$280 billion (\$412 billion) in government funding to drive innovation and production of semiconductors, chips, and frontier technology, including the largest ever US government investment in public R&D, and ensure the US maintains “its position as the most innovative and productive nation on Earth.”²⁰¹ While it is

document/ditcinf2021d5_en_0.pdf. Chow, McGuire, and Sheldon (2018) *How the United States Withdrawal from the Trans-Pacific Partnership Benefits China*, 76.

¹⁹⁸ Should China join the CPTPP, it would be harder for the US to join in the future because membership requires unanimous approval (see, Chow, McGuire, and Sheldon (2018) *How the United States Withdrawal from the Trans-Pacific Partnership Benefits China*, 37). Johnson (2021) *Trade Versus Subs: The Risky U.S. Tradeoff in the Asia-Pacific*, <https://www.cfr.org/blog/trade-versus-subs-risky-us-tradeoff-asia-pacific>. Uren (2020) *Enduring Partners*, 35.

¹⁹⁹ The White House (2021) *Remarks by President Biden on America's Place in the World*, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/02/04/remarks-by-president-biden-on-americas-place-in-the-world/>. Channer and Edmonstone (2023) *US Industrial Policy Explained and What It Means for American Allies and Partners*. Kalinauskas (2023) *Finishing the Job: The Future of US Trade Engagement in the Indo-Pacific*, <https://www.usssc.edu.au/analysis/finishing-the-job-the-future-of-us-trade-engagement-in-the-indo-pacific>.

²⁰⁰ Channer and Edmonstone (2023) *US Industrial Policy Explained and What It Means for American Allies and Partners*, <https://www.usssc.edu.au/analysis/us-industrial-policy-explained-and-what-it-means-for-american-allies-and-partners>.

²⁰¹ 117th U.S. Congress (2022) *H.R.4346 – CHIPS and Science Act*, <https://www.congress.gov/bill/117th-congress/house-bill/4346>. Cooper (2022) *Explainer: The CHIPS and Science Act 2022*, <https://www.usssc.edu.au/analysis/explainer-the-chips-and-science-act-2022>.

important that the US innovate chips, given that it produced only 12% of global manufacturing chips in 2020 and imported 90% of chips used in the military and private sector, this again is national security – “de-risking from China” – driving economic policy.²⁰² As such, the CHIPS Act is “a decisive departure from the market-led economic thinking that dominated US policymaking since the 1980s, and a clear embrace of...government-led economic intervention.”²⁰³ Not only does this demonstrate that Australian and American economic interests have sharply diverged, but it threatens to disrupt the bilateral economic relationship by diverting resources away from Australia and toward the US, which would increase competition rather than cooperation.²⁰⁴ Justifiably, Australia is deeply concerned of the US turn to protectionism.

The IRA

The possible disruption to the bilateral economic relationship is compounded by the IRA’s specific provisions regarding critical minerals. The IRA stipulates that, to receive a US\$3,750 (\$5,500) credit, a battery in a clean energy vehicle must contain “a threshold percentage of critical minerals extracted or processed in the United States or in a country with which the United States has a free trade agreement...”²⁰⁵ That threshold today is 40% of the critical minerals (such as lithium) contained in the battery, but will rise by 10% each January until reaching 80% in January of 2027.²⁰⁶ Although Australia is the world’s largest producer of lithium, the majority of its critical minerals are processed in China, which makes many Australian companies ineligible for US credits.²⁰⁷ Moreover, “starting in 2025, qualifying vehicles’ batteries cannot contain critical minerals extracted, processed, or recycled by a

²⁰² US President Joe Biden said that the US is “in a competition to win the 21st century,” which is similar to Chinese President Xi Jinping’s comment that “*whoever holds the key to science and technology innovation makes an offensive move in the chess game and will be able to pre-empt the rivals and win the advantages.*” Clearly, national security to “win the 21st century” drives US economic policy (see Cooper (2022) *Explainer: The CHIPS and Science Act 2022*). Cooper (2022) *Explainer: The CHIPS and Science Act 2022*. Channer and Edmonstone (2023) *US Industrial Policy Explained and What It Means for American Allies and Partners*.

²⁰³ Cooper (2022) *Explainer: The CHIPS and Science Act 2022*.

²⁰⁴ Cooper (2022) *Explainer: The CHIPS and Science Act 2022*. Channer and Edmonstone (2023) *US Industrial Policy Explained and What It Means for American Allies and Partners*. Kunkel (2023) *America’s Industrial Policy Comeback Requires Australia to Rationally Push Back*, <https://www.uscc.edu.au/analysis/americas-industrial-policy-comeback-requires-australia-to-rationally-push-back>.

²⁰⁵ The White House (2023) *Building a Clean Energy Economy: A Guidebook to the Inflation Reduction Act’s Investments in Clean Energy and Climate Action*, 49, <https://www.whitehouse.gov/wp-content/uploads/2022/12/Inflation-Reduction-Act-Guidebook.pdf>. U.S. Department of the Treasury (2023) *Treasury Releases Proposed Guidance on New Clean Vehicle Credit to Lower Costs for Consumers, Build U.S. Industrial Base, Strengthen Supply Chains*, <https://home.treasury.gov/news/press-releases/jy1379>.

²⁰⁶ U.S. Department of the Treasury (2023) *Treasury Releases Proposed Guidance on New Clean Vehicle Credit to Lower Costs for Consumers, Build U.S. Industrial Base, Strengthen Supply Chains*. Channer and Edmonstone (2023) *US Industrial Policy Explained and What It Means for American Allies and Partners*.

²⁰⁷ Channer and Edmonstone (2023) *US Industrial Policy Explained and What It Means for American Allies and Partners*. DFAT (2022) *Australia is a Top 20 Country in International Trade and Investment*.

foreign entity of concern” – which could rule out nearly all Australian companies’ eligibility for credits.²⁰⁸ These provisions are similar to those in the CHIPS Act that make receiving US government subsidies contingent on businesses restricting “their chipmaking activity and business investments in China and other countries of concern.”²⁰⁹ These protectionist provisions force Australian businesses to choose between the US and China, rather than pursue R&D where profits are highest as a free-market, multilateral economic model contends.²¹⁰ The US claims to support a rules-based order and criticises China for industrial subsidies, but enacts its own protectionism and turns away from free trade.²¹¹ The significant Australia-America investment link in the minerals sector, and the wider bilateral economic relationship, risks serious disruption due to US industrial policy, which fails to recognise that US advantages “not only come from its ability to self-produce critical goods like semiconductors, but more importantly from its network of allies.”²¹²

Australian Fear

The realisation that the US is more focused on protectionism than multilateral free trade has serious and long-term implications for Australia, for it shows that economic interests have diverged to the point of disrupting the bilateral relationship.²¹³ While the US-led Indo-Pacific Economic Framework (IPEF), released in May of 2023, is supposed to increase economic engagement with allies and assuage fears of the choice between the US or China, it lacks market access (such as tariff reduction), is not a trade agreement, nor is enforceable.²¹⁴ The lack of US commitments in IPEF – only three bodies to secure supply chains, and goals for trade, clean energy, and corruption – reinforces the fact that the US

²⁰⁸ The White House (2023) *Building a Clean Energy Economy: A Guidebook to the Inflation Reduction Act’s Investments in Clean Energy and Climate Action*, 49.

²⁰⁹ Cooper (2022) *Explainer: The CHIPS and Science Act 2022*.

²¹⁰ Cooper (2022) *Explainer: The CHIPS and Science Act 2022*.

²¹¹ Channer and Edmonstone (2023) *US Industrial Policy Explained and What It Means for American Allies and Partners*.

²¹² Cooper (2022) *Explainer: The CHIPS and Science Act 2022*.

²¹³ Edmonstone (2023) *USSC Insights: IPEF Supply Chain Agreement*, <https://www.usssc.edu.au/analysis/usssc-insights-ipef-supply-chain-agreement>.

²¹⁴ The White House (2022) *FACT SHEET: In Asia, President Biden and a Dozen Indo-Pacific Partners Launch the Indo-Pacific Economic Framework for Prosperity*, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/fact-sheet-in-asia-president-biden-and-a-dozen-indo-pacific-partners-launch-the-indo-pacific-economic-framework-for-prosperity/>. Ash Center for Democratic Governance and Innovation (2022) *Indo-Pacific Economic Framework holds value, but it’s unclear if it will counter China’s influence says Senior Economist David Dapice*, Harvard University John F. Kennedy School of Government, <https://ash.harvard.edu/indo-pacific-economic-framework-holds-value-it%E2%80%99s-unclear-if-it-will-counter-china%E2%80%99s-influence>. Manak (2022) *Unpacking the IPEF: Biden’s First Big Trade Play*, <https://www.cfr.org/article/unpacking-ipef-bidens-first-big-trade-play>. Edmonstone (2023) *USSC Insights: IPEF Supply Chain Agreement*. Kalinauskas (2023) *Finishing the Job: The Future of US Trade Engagement in the Indo-Pacific*.

values protecting its domestic industry more than expanding free trade.²¹⁵ The reality is that Australian and American economic interests have diverged to the point where the bilateral economic relationship may suffer serious disruption.

²¹⁵ U.S. Department of Commerce (2023) *Press Statement on the Substantial Conclusion of IPEF Supply Chain Agreement Negotiations*, <https://www.commerce.gov/news/press-releases/2023/05/press-statement-substantial-conclusion-ipef-supply-chain-agreement>. The White House (2022) *FACT SHEET: In Asia, President Biden and a Dozen Indo-Pacific Partners Launch the Indo-Pacific Economic Framework for Prosperity*. Manak (2022) *Unpacking the IPEF: Biden's First Big Trade Play*.

Conclusion

The bilateral Australia-America economic relationship is of massive significance, both geo-economic and geo-strategic, yet many people do not understand its depth, scale, complexity, nor cruciality. While the defence and security relationship garners most attention and coverage, the economic relationship is foundational in the broader Australia-America relationship. It has evolved from the simple movement of people and goods to a relationship worth over \$2 trillion. Once driven by whaling, gold mining, and agriculture, it is now driven by foreign investment and service and mineral exports.²¹⁶ It links the world's largest and thirteenth-largest economies and extends to employing each other's citizens, accessing government procurement, and facilitating innovation, among others.²¹⁷ To say it is important is an understatement. It is a cornerstone of the broader Australia-America relationship.

Despite the criticality of the bilateral economic relationship, there are real concerns for the future. Although Australia turned away from multilateralism at the turn of the 21st century and with the AUSFTA, it has pursued multilateralism anew since the 2010s. The US, on the other hand, has quite clearly chosen protectionism as its economic policy of the future. The divorced economic interests risk badly disrupting the bilateral economic relationship. And while the deep economic links between the two countries, such as the investment relationship worth the most ever, Australia's top global production of iron ore and lithium, and institutionalised preferential access to each other's economies, will likely sustain threats of disruption, alarms have sounded louder than ever before.²¹⁸ If the US seriously wishes to retain its global leadership – economic, strategic, and cultural – it needs to earnestly consider the effects of its protectionism. Hopefully, just as Australia returned to multilateralism, the US will, too. The foundational Australia-America economic relationship depends on it.

²¹⁶ Of course, as is clear from this paper, both agriculture and goods trade are incredibly important.

²¹⁷ IMF (2023) *World Economic Outlook Database*.

²¹⁸ The institutional links are incredibly strong, to the point that the Biden administration seeks to designate Australia as a domestic source of critical minerals under the Defense Production Act, which would enable the US government to invest in Australian critical minerals projects and possibly open the door to Australian companies receiving IRA credits. Also, the Climate, Critical Minerals and Clean Energy Transformation Compact is a bilateral US-Australia compact “to expand and diversify clean energy and critical minerals supply chains,” including alignment of the IRA and Australia's Powering Australian plan (see, Channer and Edmonstone (2023) *US Industrial Policy Explained and What It Means for American Allies and Partners*. Also see, Prime Minister of Australia (2023) *Australia-United States Climate, Critical Minerals and Clean Energy Transformation Compact*, <https://www.pm.gov.au/media/australia-united-states-climate-critical-minerals-and-clean-energy-transformation-compact>).