

Analysis of the Effects of the EU Trade Agreements with Australia and New Zealand

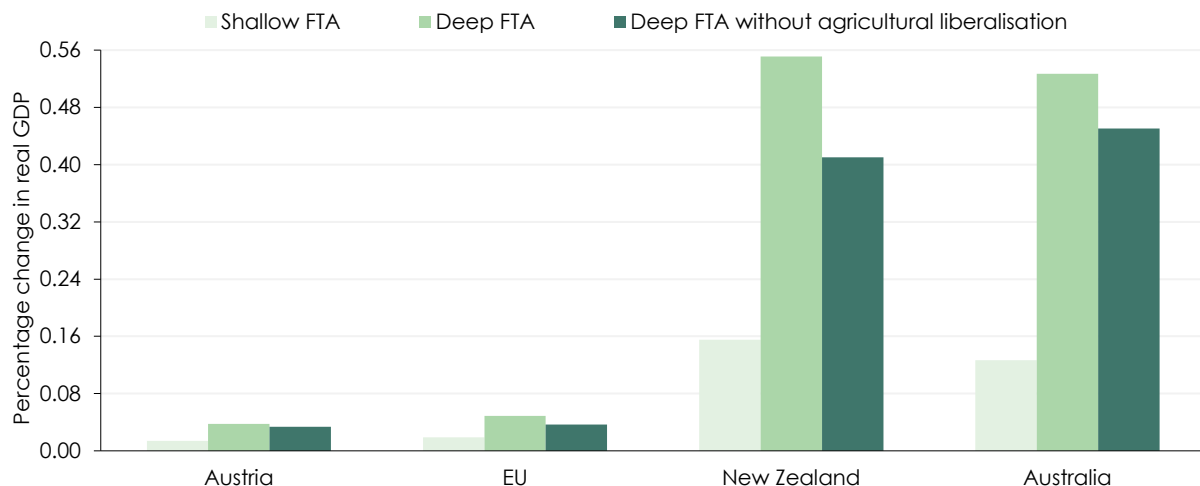
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Executive Summary

The changing geopolitical situation and rising protectionism require a strategic reorientation of EU trade policy. In recent years, the EU has recognised that deepening trade relations with like-minded partners, such as Australia and New Zealand, is crucial to strengthening its economic and geopolitical objectives. A Free Trade Agreement (FTA) with New Zealand was successfully concluded in 2023, while negotiations with Australia stalled due to disagreements in the agricultural sector. Both agreements are crucial for strengthening EU trade relations in the Indo-Pacific region, a region of growing economic importance where the EU has limited FTA links.

This study provides a comprehensive overview of the contractual elements of the EU's FTAs with Australia and New Zealand, taking into account both macroeconomic and geopolitical implications. The core of the analysis is a model-based quantitative assessment of the expected long-term macroeconomic impact of these agreements based on simulations of different trade facilitation scenarios using the KITE model, a general equilibrium model of the world economy and international trade. The synthesis of macroeconomic and geopolitical findings can provide important guidance for the assessment of the European trade agenda and contribute to a better understanding in order to strive for a holistic view of trade agreements in the geopolitical context.

Figure E1: Welfare effects of EU-FTAs with New Zealand and Australia by extent of trade liberalisation



Source: WIFO calculations based on the KITE model.

The model results show that the EU's two FTAs with New Zealand and Australia could moderately increase welfare in terms of changes in real GDP, total trade and bilateral trade relations, with the magnitude of the effects increasing with the degree of trade liberalisation. For example, deep EU-FTAs with New Zealand and Australia increase welfare in New Zealand and Australia by 0.551% and 0.527% respectively, while in the long run real GDP in Austria and the EU increases

by 0.037% (€ 142.8 mn) and 0.049% (€ 6.8 bn) respectively. In a deep EU-FTA scenario without agricultural liberalisation with both trading partners, the welfare gains are significantly lower for New Zealand (0.410%) and Australia (0.450%) as well as for the EU (0.037%; € 5.1 bn) and Austria (0.034%; € 127.9 mn), with particularly large agricultural exporters in the EU tending to be adversely affected. Looking at sectoral changes in bilateral export flows to New Zealand and Australia, the EU recorded the strongest growth in the motor vehicles and parts sector. The Austrian exporters benefit most in the machinery and equipment sector.

In addition to the economic benefits, the agreements with Australia and New Zealand have important geopolitical implications. They strengthen the EU's position in the geopolitical power play with the USA and China and contribute to the diversification of trade relations. This is particularly important given the growing importance of the Indo-Pacific region and China's increasing economic dominance and integration in this region, especially since the RCEP agreement came into force. Through the agreements with New Zealand and Australia, the EU could reduce its dependence on China while increasing its influence in a strategically important region. At the same time, the agreements offer an opportunity to extend the reach of EU rules and secure supplies of critical raw materials. Australia and New Zealand are important raw material partners for the EU to diversify access to raw materials such as lithium and cobalt, which are crucial for the EU's green transformation.

However, the stalled negotiations with Australia also illustrate the challenges of the EU's new trade policy, in which non-trade objectives are increasingly taking centre stage in trade agreements, particularly in view of the strategic interest in diversifying trade relations and ensuring supply chain security for (critical) raw materials. For the EU, this increases the pressure on sensitive policy areas such as agriculture. Australia, for example, is exploiting the disagreement over access to the EU's internal market for Australian agricultural exporters to obtain far-reaching concessions in exchange for improved access to Australian raw material markets. Conflicts of interest in these strategic negotiating positions risk jeopardising the successful conclusion of a FTA, even though the economic benefits to the parties would far outweigh failing to agree.

Taken together, the EU's FTAs with New Zealand and Australia are an essential element of the EU's new trade policy, which aims to strengthen the resilience of the EU economy, intensify cooperation with democratic nations and safeguard European competitiveness. The EU's FTA with New Zealand, which has recently entered into force, and the advanced state of the negotiations on the agreement with Australia are important contributions to realising the economic potential of this promising region in terms of trade policy. At the same time, both agreements help to strengthen the EU's economic position in the Indo-Pacific region and promote geopolitical cooperation. The EU should seize these opportunities by balancing strategic interests and addressing the challenges in the negotiations with Australia. Increased cooperation with the Indo-Pacific region would also be an opportunity to counter the trend towards unilateralism and protectionism and to enforce common trade rules. For Austria, as a small open economy, such agreements are particularly important as they secure access to international markets and promote economic growth and employment.