

# Unleash the North

We could make Northern Australia the next powerhouse of the global economy. **Tim Wilson** and **Elizabeth Griffiths** explain how.

**N**orthern Australia's potential is being wasted. The northern half of Australia is used for precious little, other than grazing cattle and as a backdrop for the film industry.

It is a neglected and under-utilised area that lies so close to Australia's key export markets in South East, Central and Northern Asia. So how can we unleash the potential of the north? It's simple—create a free trade zone. It might sound crazy—but it's not as farfetched as you think.

## Free trade zones—their beginnings

In general free trade zones are defined as a specific designated area where lower taxes and a decreased regulatory burden are used to stimulate economic growth and development.

Free trade zones are not a new idea. In fact the principles of these zones first appeared nearly two millennia ago through the development of free ports which were

designed to increase trade volumes.

The reasons for the creation of free ports were not solely economic. Political priorities to increase a country or empire's strategic position and harm the economic interests of their competitors were often achieved through the development of free ports.

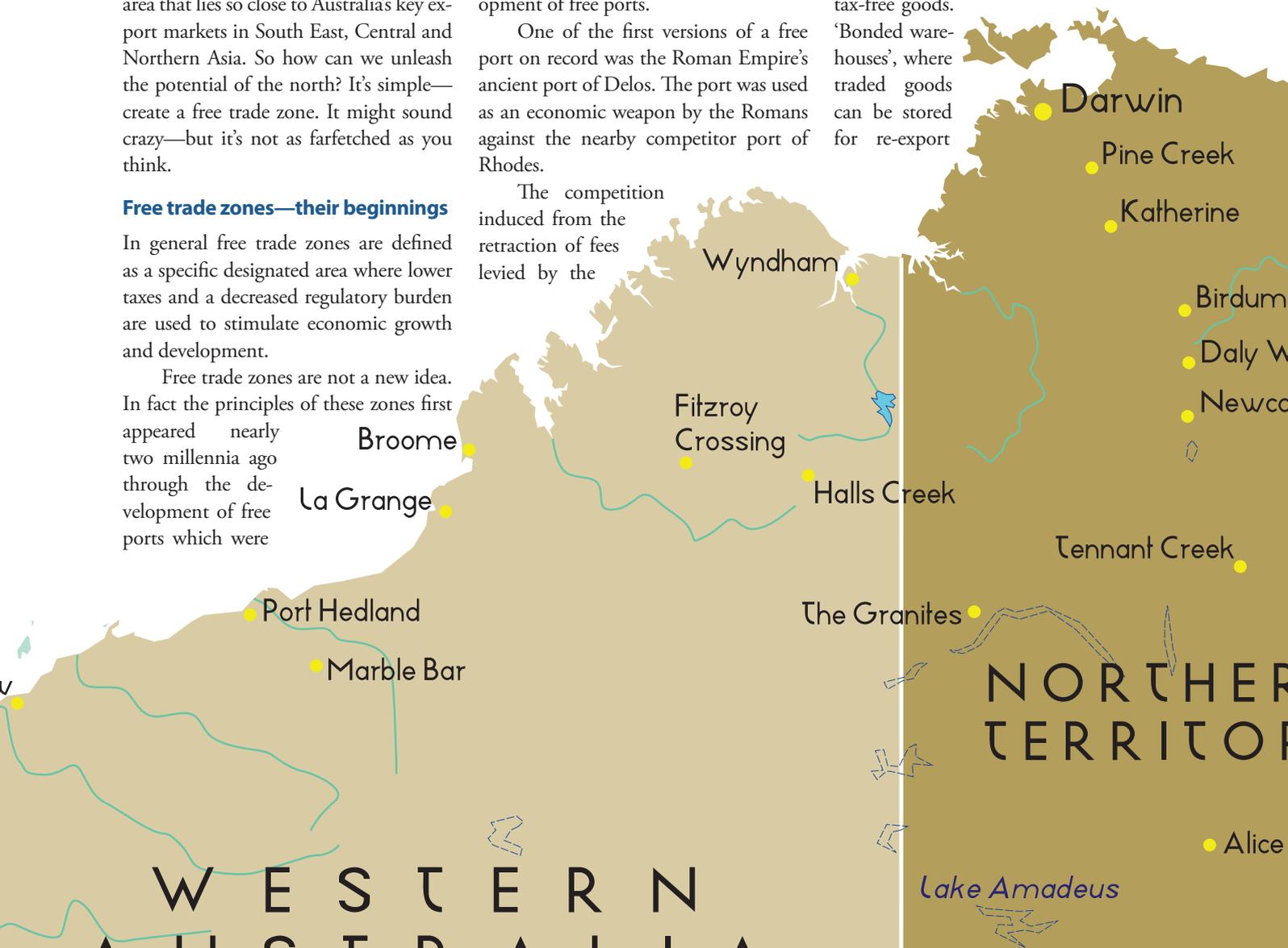
One of the first versions of a free port on record was the Roman Empire's ancient port of Delos. The port was used as an economic weapon by the Romans against the nearby competitor port of Rhodes.

The competition induced from the retraction of fees levied by the

Roman port, encouraged trade to move quickly from Rhodes thereby stifling their economic activity.

The legacy of free ports can be seen today. One familiar example is the 'duty free' zone at modern airports where consumers can buy tax-free goods.

'Bonded warehouses', where traded goods can be stored for re-export



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without attracting taxes, were also born from the model of free ports.

The impact of free ports has been extensive in the economic rise of modern nations. By establishing Hong Kong and Singapore as free ports, both rose from small colonial villages into economic powerhouses and hubs for regional trade.

Perhaps the best known contemporary free trade zone is the Shekou Industrial Zone in China which prompted the economic development of Shenzhen.

The zone, modelled on Hong Kong, relaxed regulation and taxation and took Shenzhen from a city contributing half a per cent of the exports of the Guangdong Province to 19 per cent within five years.

Despite the fact that most modern zones are established in developing countries, first world countries have also used free trade zones to aid urban redevelopment.

Under President Ronald Reagan, the United States went through a free trade zone craze. Zones had existed in the US before the 1980's, however it was the model used by Margaret Thatcher in Britain which reignited the concept.

Free trade zones were set up in 30 of the 50 states after the first one was established in Connecticut in 1982. In 1987 federal legislation was passed which provided exemptions from Housing and Urban Development regulation within the zones.

The free trade zones varied enormously throughout the US, and in addition to reduced housing regulation, the zones often eliminated or reduced sales and property tax. By 2008, 40 of the 50 states contained free trade zones.

Despite free trade zones being common around the world, the idea is unfamiliar to most Australians. Historian Richard Thoman presents a possible reason for this, explaining that free trade zones 'followed the routes of colonial and subsequent international shipping to all continents but Australia.'

However in 1985, Australia's first and only free trade zone was established. The Darwin Trade Development Zone was created to increase Australia's investment and export potential to competitor Asian markets.

However, the underwhelming Darwin Trade Zone was a government-led example of how zones should not be designed. Eventually the zone faded away into what is now an industrial business park, collapsing in 2003 because of government interference and a focus on low-skilled labour.

Despite this failure, free trade zone principles are still used by the Australian Customs and Border Protection Service. The Manufacturing-in-Bond and Tradex programs allow the import, value-adding and re-exporting of goods to encourage industrial development.

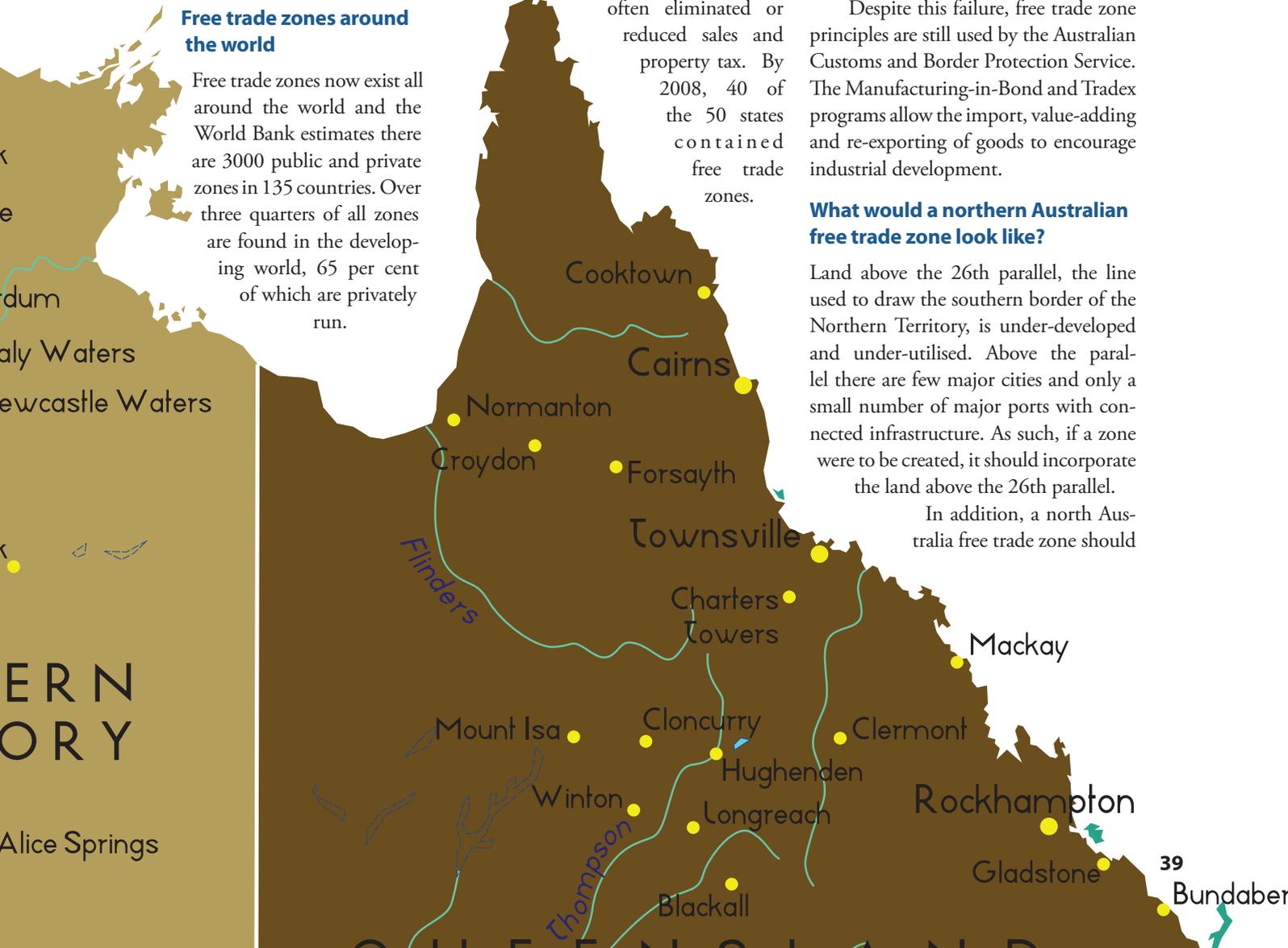
### What would a northern Australian free trade zone look like?

Land above the 26th parallel, the line used to draw the southern border of the Northern Territory, is under-developed and under-utilised. Above the parallel there are few major cities and only a small number of major ports with connected infrastructure. As such, if a zone were to be created, it should incorporate the land above the 26th parallel.

In addition, a north Australia free trade zone should

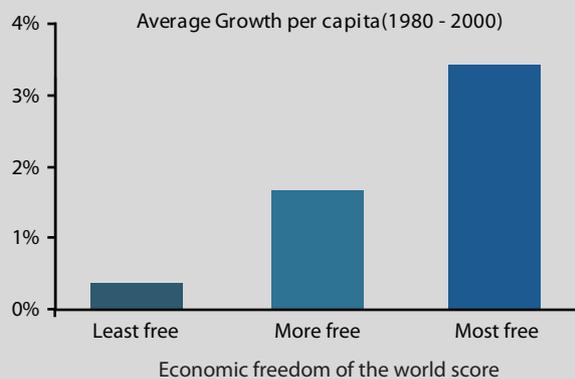
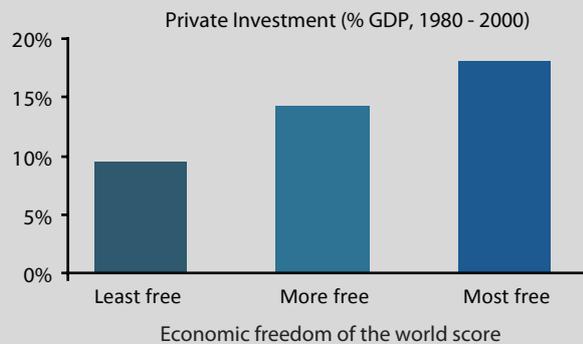
### Free trade zones around the world

Free trade zones now exist all around the world and the World Bank estimates there are 3000 public and private zones in 135 countries. Over three quarters of all zones are found in the developing world, 65 per cent of which are privately run.



## Economic freedom works around the world. It can work in Northern Australia too.

Economic freedom is closely correlated with productivity and economic growth. Economically free jurisdictions attract high levels of investment.



Source: Fraser Institute, *Economic Freedom of the World Report*, IPA

be privately run and owned. Research by the World Bank has concluded that privately owned and managed zones achieve higher standards of development and 'have had better social and environmental track records than public zones'.

But to provide investor certainty they need to be developed through legislative instruments and with timeframes appropriate for investors to raise capital and seek returns.

Stimulating investment to develop northern Australia is challenging, but there is no need to reinvent the wheel. Australia can learn from international experience and create free trade zones to stimulate investment and economic activity in under-developed geographic regions.

In order to successfully design a free trade zone in northern Australia significant cooperation between different levels of government would be needed to provide a simplified pathway through

the morass of overlapping state and federal regulations, taxes and governance requirements.

International best practice has established that rather than finding an avenue between levels of government, free trade zones are better established as privately owned and managed while adhering to streamlined applicable regulation.

**Free trade zones address social problems by developing new cities, providing economic opportunities, infrastructure and services closer to remote communities.**

### Why have a northern free trade zone?

Developing zones would help address the known challenges facing Australia's north—a small population and shortage of skilled labour, a lack of investment and inadequate defence of Australia's borders.

A key challenge is Australia's capacity to defend its northern borders resulting from a lack of population and infrastructure.

According to the 2009 Defence White Paper, the limitations on defence as a consequence of poor 'physical and logistics infrastructure' could be partially remedied by increasing the population, transport and connected infrastructure in Australia's north.

The government's own National Resources Sector Employment Taskforce concluded earlier this year that 136,000 new jobs are going to be created by 2015 in the resources sector alone. More recently the taskforce predicted a shortage of 36,000 skilled tradespeople. Similar numbers have been proposed by the Minerals Council.

To attract skilled labour to a free trade zone, incentives would be needed to encourage internal and external migration.

To address internal migration, free trade zones can offer lower rates of income tax and rebating of transactional taxes such as stamp duty.

This idea is not without precedent. Since 1945 the federal government has offered an income tax rebate scheme to people who live roughly above the

26th parallel in Western Australia, the Northern Territory and parts of far North Queensland.

For external skilled labour migration, the government can adapt existing or develop new visa programs for work specifically completed within zones.

As a permanent investment importer Australia has always required foreign investment to build infrastructure, grow industries and provide Australians with a livelihood.

But in a fast paced global economy where investment is attracted to the opportunities for best returns, countries need to be vigilant to ensure their governance framework does not act as an inhibitor to investment.

Although ranking 9th globally in the World Bank's 'Ease of Doing Business 2010' rankings, Australia ranks 62nd for securing 'construction permits', 34th for 'registering property', 57th for 'protecting investors' and 47th for 'paying taxes'.

To attract investment the federal government would need to remove tight regulations that inhibit and delay foreign investment. The negative impact of the Foreign Investment Review Board regulations are real and substantial.

A 2008 study by consultancy, ITS Global, identified that the investment cost to Australia from delays imposed by the Foreign Investment Review Board totalled up to \$4 billion a year. Furthermore, up to \$1.5 billion a year was lost from withdrawn applications following FIRB rejections.

But perhaps the most beneficial contribution of free trade zones could be to bridge the long-term gap between non-indigenous Australians and indigenous Australians living in remote communities.

The Productivity Commission's 2009 Overcoming Indigenous Disadvantage report identified a horrendous divide. Indigenous Australians have shorter life expectancies, childhood mortality rates up to four times higher, require double the rate of disability and chronic disease assistance and are less likely to be educated and make the transition into being economic participants.

Free trade zones can assist in addressing these social problems by developing new cities, providing economic opportunities, infrastructure and services closer to remote communities.

But perhaps most importantly, education and training opportunities could arise for indigenous Australians so that they could then transition into paid employment or establish small businesses to support new industries.

## Free trade zones

The first 'modern zone' was established in Ireland in 1959. Types of zones include:

- **Free trade zones** are fenced-in, duty-free areas, offering warehousing, storage, and distribution facilities for trade, transshipment, and re-export operations.
- **Export processing zones** are industrial estates aimed primarily at foreign markets.
- **Enterprise zones** are intended to revitalize distressed urban or rural areas through the provision of tax incentives and financial grants.
- **Freeports** typically encompass much larger areas. They accommodate all types of activities, including tourism and retail sales, permit on-site residence, and provide a broader set of incentives and benefits.
- **Specialised zones** include science/technology parks, petrochemical zones, logistics parks, airport-based zones, and so on.

### A lack of political vision

Establishing free trade zones requires governments to have vision. By supporting a bigger Australia and being comfortable releasing control, government could allow the private sector to succeed where it has failed.

Turning a vast and barren northern Australia into an economic powerhouse would require enormous political support. Indeed, the ideas that underpin free trade zones have been backed by party leaders in the past. The Manufacturing-in-Bond scheme was heavily supported by former Prime Minister, Kevin Rudd.

At the 1998 federal election former Leader of the Opposition, Kim Beazley, advocated the establishment of a special economic zone around Newcastle.

And the current Deputy Leader of the Opposition, Julie Bishop, recently argued 'there may be a need to establish a special economic development zone' in Western Australia to attract investment.

Despite these small offerings of political support, it is difficult to believe that the vision of a northern free trade zone will be realised. The government's record on tough economic reform is not good. This, combined with their lack of faith in the private sector, means the known benefits of free trade zones are likely to be easier to imagine than to establish.

