

Delivering value for money in government procurement through free trade agreements: a case study of Australia

Abstract

Governments purchase a range of goods and services in order to carry out their public service functions. The size of a country's government procurement market depends on a number of factors, including the size of the public sector and overall economy, and the extent to which the government outsources its procurement function. However, in almost all cases government represents a substantial market for goods and services.

As a general proposition, governments have an interest in delivering value for money in procurement. For present purposes, the term "value for money" refers not necessarily to the acquisition of goods and services at lowest economic cost, but to government achieving maximum benefit from procurement relative to all of the costs involved. Trade considerations aside, a government concerned with delivering value for money in procurement will seek to function more efficiently by attempting to correct at least some of the market failures inherent in its procurement market.

Governments may also improve their capacity to deliver value for money by opening their procurement markets to foreign competition, either unilaterally or by entering into free trade agreements (FTAs). In theory, this makes a wider range of goods and services available and drives prices below those that would apply in the absence of competition. FTAs also provide governments with an opportunity to enhance market access opportunities for their own exporters in counterparties' procurement markets. This may come at the cost of aligning domestic regulation to the terms of the agreements, and through curtailment of governments' ability to use their procurement function to pursue non-economic objectives.

Australia's procurement market is largely open, at least at central government level. Notwithstanding this, Australia has in recent years embarked on a policy of entering into bilateral FTAs to liberalize trade, including in procurement markets, more expeditiously than multilateral processes permit. In this paper, I am interested in exploring the extent to which the government procurement rules Australia has negotiated in its FTAs have furthered Australia's policy objective of delivering value for money in procurement. In my view this involves, at least, a comparison of the potential benefits of enhanced competition in Australian Government procurement, and increased market access for Australian exporters in overseas procurement markets, with the costs of adjusting already well developed domestic regulatory structures to comply with the rules.

The paper is still very much work in progress and I have neither fully developed its components nor drawn firm conclusions at this stage. However, I hope the discussion may ultimately be of value to policymakers seeking to reconcile Australia's domestic interests with the challenges inherent in striking workable bargains with its trading partners. This is particularly the case as Australia continues to vigorously pursue a policy of negotiating FTAs to supplement the process of multilateral trade liberalization.