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Australian Perspectives on the AFTA-CER Proposal

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AUSTRALIAN PERSPECTIVE ON THE AFTA-CER PROPOSAL

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INTRODUCTION

Before offering you an insight into AFTA-CER CEP as a case study, I'd like to give the audience an appreciation of the Australian Government's attitude to free trade agreements, their relationship with the multilateral system and APEC, and a brief outline of our current trade policy agenda.

APPROACH TO FTAS

By dint of nature and history, Australia is a trading nation and cannot survive - let alone prosper economically - without striving to discover and open new export markets. The GATT served us well and we are strong supporters of, and active participants in, the WTO, believing that the greatest progress towards trade liberalisation can be derived from binding global rules agreed through multilateral negotiations. For a country like Australia, with a range of exports to diverse markets the multilateral system continues to offer the greatest potential gains. The launch of a new WTO round is Australia's highest trade priority, one which we are thoroughly committed to pursuing in Qatar in November. The meeting last week in Shanghai of APEC Ministers Responsible for Trade gave a strong message of support for launching a new WTO round in Qatar and the need for flexibility by all WTO members if agreement is to be reached on a balanced, sufficiently broad-based and achievable agenda for the round.

Nevertheless, we are not ideologically wedded to only one means of achieving the desired end - we can walk and chew gum at the same time. The Australian Government relies on an integrated approach to trade policy through multilateral, regional and bilateral channels. Our trade policy is not static, but evolving, in light of developments in the region, our key trading partners and macro-economic circumstances. Above all, we are pragmatic: where substantial gains for Australia can

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be delivered in a shorter timeframe than through multilateral negotiations, we are open to concluding bilateral or regional free trade agreements (FTAs/RTAs).

To state the obvious: pursuing an FTA is an acknowledgment of the benefits of open markets. The very fact of considering FTAs does not diminish our support for the WTO. Entering into WTO-consistent agreements can actually complement multilateral efforts, by breaking new ground or setting high standards. In fact, the realisation that the competitive drive between countries in their pursuit of FTAs will leave less attractive economies behind, may even prove a spur to the multilateral system.

The key component of Australia's regional trade policy is APEC, which remains a strong coalition in support of the multilateral trading system at both a political and a practical level. The importance of APEC economies to us is amply illustrated by the fact that they account for almost three quarters of Australian merchandise exports. We work hard to fulfil our commitment to keep APEC relevant and vibrant. The Bogor goals of free trade by 2010/20 are still within reach: a recent study we undertook for the APEC Meeting of Ministers Responsible for Trade showed that 69 percent of goods imported by APEC were subject to tariffs of 5 percent or less. However, it's worth remembering that as tariff barriers decrease towards zero, other forms of non-tariff barriers increase in relative importance. APEC's role needs to be expanded to better address these issues. We hope that work begun in preparation for the Shanghai Leaders' meeting will be able to consider how APEC might develop its forward work plan so as to better address the range of issues still facing the region and its important goal of free and open trade and investment.

Over the past few years, the unilateral liberalisation that characterises APEC could be seen to be in the process of a transformation. A signal of this is the expanding network of FTAs under consideration, study or negotiation among the 21 economies. You will have heard much of this over the course of the last day. But is APEC's underlying concept of open regionalism at odds with this trend, or even under threat from it? One could view the recent proliferation of FTAs (or better said, intentions to enter into FTAs) as simply a means of kicking along the slow down in unilateral reductions which occurs naturally as economies are faced with the last, most sensitive tariffs. The "quid pro quo" treatment offered by a bilateral FTA could be regarded as - comparatively - the easiest means of inching towards Bogor goals. As long as these agreements are open for other countries to join, the effects of potential trade diversion can be minimised.

But let's not get ahead of ourselves or carried away. Much of the talk of FTAs in the region is merely that; in fact, there has only been one new FTA successfully negotiated within APEC in the past 2 years (Singapore-New Zealand). Those that are currently under negotiation are by no means certain of conclusion in the near future. In FTAs, as in the multilateral context, negotiations can be tough. In fact, the brake on taking forward many of the current proposals for FTAs is the WTO requirement to cover "substantially all trade", including sensitive sectors. Agriculture is often a key hurdle.



While the feasibility of other bilateral FTAs among APEC economies is being studied, these may not ever proceed to negotiation. The complementarity of trade may actually not be as great as imagined or the balance of benefits may not be worth the domestic political risks. From a purely practical point of view, inter-governmental negotiations can be heavily resource intensive. There is a lot of hard slog, with sometimes years elapsing, between an announcement, a successful conclusion to negotiation and the eventual results. Of course, the complexity of negotiations is compounded the more numerous parties involved, as we ourselves found in the AFTA-CER context.

Other FTA proposals would seem to have been announced for political reasons, or more for the perception of preparedness to liberalise than the reality. The current academic debate on FTAs - exemplified by the fact we are discussing their significance here today - disguises the fact that not much action has resulted to date. Reform-shy countries may seek to take advantage of this distraction, as well as the short-term hiatus in the global pressure to liberalise, in an attempt to shelter from the force of globalisation. In the long run of course, this would seem to be an untenable stance.

FTAs/RTAs are becoming a regular item for discussion in APEC forums. We see APEC as having a role in ensuring that the burgeoning FTA agenda has some sense of coherence and, should the number of touted FTA proposals become fact, APEC may also have a role in smoothing the complexity of the administrative web this will create. Work on new issues undertaken in APEC, such as competition policy, could become the base mark for their inclusion in so-called "new age" FTAs. Importantly, through the force of peer pressure and moral suasion, APEC could also act as an additional means of encouraging transparency and in ensuring that FTA agreements entered into by APEC economies are WTO consistent. At this point, APEC itself seems less likely to become a free trade area - many believe that the difficulties that this would entail are almost equal to the challenges of a multilateral negotiation, but for less gain.

AUSTRALIA'S FTA/CEP AGENDA

The only reciprocal FTA to which Australia is currently a party is the Closer Economic Relations Trade Agreement (CER) with New Zealand, which has been in place since 1983. We like to think of it as one of the world's most successful and comprehensive FTAs. However, it is a good example of how reducing tariff barriers - the objective of a traditional FTA - can transform over time into virtual economic integration, covering not only trading and competition conditions, but also areas such as standards harmonisation, transport and food safety regulations.

It was over 15 years after CER before our next foray into FTA territory was taken. In 2000, a high level Task Force - consisting of eminent representatives from each of the twelve countries and chaired by former Philippines Prime Minister, Cesar Virata - studied the feasibility of an FTA between ASEAN and Australia and New Zealand (the CER countries). Although the genesis of the idea originated from ASEAN, Australia and New Zealand were keen to explore it and, given the eventual positive



recommendations of the Task Force, eager to institute some form of process towards regional economic integration. But more of that in a minute.

We followed that step forward with the more ambitious decision in November 2000 to enter into FTA negotiations with Singapore. In keeping with our determination to meet the WTO criteria on FTAs, the agreement will be comprehensive in scope - covering goods, services and investment. However, since actual tariffs in both countries are already relatively low, Australia will be looking at making inroads in major services sectors in Singapore and exploring cooperation in newer areas, such as e-commerce, competition policy and intellectual property. We aim to have the agreement concluded by October this year - a pretty mean feat given the difficulties inherent in any trade negotiation.

Summing up our present FTA agenda, we have signaled our interest in exploring the possibilities of bilateral FTAs with both Thailand and the United States. The concept of a cross-regional FTA (the Pacific- or P-5) that would include Australia, the US, Chile, NZ and Singapore has also not been dismissed. Elsewhere, we and New Zealand are engaged in concluding a Pacific Regional Trade Agreement (PARTA), which offers the opportunity for Forum Island countries to become more integrated in the global economy, with better prospects for long-term sustainable development.

A free trade agreement - in the traditional sense - is not the be all and end all. It is a means to an end, and one that may not be the most appropriate or best option to maximise bilateral trade and economic prospects. In pursuing ways in which to strengthen the economic partnerships with our most important North Asian trading partners, Japan and Korea, we opted for full-scale studies into facilitating trade and investment, covering old and new economy issues. As a result of the "Strengthening Economic Relations" report on the Australia-Japan relationship, we are now discussing with Japan a Trade and Investment Facilitation Agreement (TIFA) to update the bilateral trading framework and address problems/barriers which were identified by Australian and Japanese business communities. The Korean studies are due to be finalised in September.

Let me turn now to the AFTA-CER Closer Economic Partnership (CEP) proposal.

Australia's trading relationship with ASEAN continues to evolve and mature as bilateral relationships with individual member countries deepen and become more resilient, and as the region's institutional architecture develops. ASEAN faces several challenges and it is in both our interests that the economic and political stability of the region be consolidated, to continue to maintain its competitiveness - especially to attract vital FDI. Not insignificantly, ASEAN now accounts for 14 percent of Australia's global merchandise trade and close engagement with ASEAN will continue to be an abiding priority in Australian trade policy.

The decision last October of the Trade Ministers of the twelve AFTA-CER countries to work towards a Closer Economic Partnership (CEP) builds on years of practical



business facilitation and technical cooperation with ASEAN, under the aegis of the AFTA-CER Linkage. CER agreed with the arguments in favor of an FTA put forward in the high level Task Force's report and its recommendation that an FTA between the two free trade areas was not only feasible, but also advisable. In Chiang Mai, Ministers acknowledged the need to sustain the momentum generated by the work of the Task Force. However, in recognition of the different levels of economic development and appetite for reform in ASEAN at present, we opted for pursuing economic integration through a CEP, the parameters of which are in the throes of definition.

Australia, working closely with New Zealand, is keen that this process very much reflect the "P" in C.E.P – that is, partnership. In working with ASEAN on the development of the CEP, officials have been tasked to take into account the recommendations of the Task Force. This includes a commitment to continued development assistance in the form of technical assistance and capacity building for ASEAN.

The scope of the CEP was agreed in its broadest sense by Senior Officials in late March and discussions on the details will be progressed in a joint working group, the first meeting of which is due to take place here in Bangkok next week. We aim to include trade facilitation, capacity building, trade and investment, intellectual property, regulatory co-operation and e-commerce on the CEP agenda. While the pace of progress on tariff reductions in the region may be constrained by the reticence of certain ASEAN members, we hope that tariff liberalization can continue to be a longer term objective under the ASEAN-CER CEP. In addition to agreeing to a Framework for the CEP at the 6th ASEAN Economic Ministers (AEM)-CER Ministerial Consultations in September, we hope that this will form the basis for developing a kind of rolling Action Plan through which practical outcomes for business could be implemented.

To wrap up, Australia is pursuing its trade interests in the best ways available to it. In the first instance, this means vigorously working to build support for a new round of multilateral trade negotiations; secondly, it signifies contemplating and entering into bilateral and regional strategic partnerships, which may be in the form of FTAs or other mutual agreements, where such arrangements maximize trade and economic opportunities; thirdly, it means standing by our commitment to advancing APEC's goals. The raft of FTA/RTA proposals circulating in APEC at the moment need not be seen as a threat, if they comply with WTO rules, but an opportunity to maintain the impetus of global trade reform and bolster the value of open markets.