

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

TRADE SUB-COMMITTEE Inquiry into Australia's trade and investment relations with Asia, the Pacific and Latin America.

Public hearing: Melbourne, Thursday, 21st May 2009.

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It is an honour to be invited to appear before this hearing on matters of critical economic and strategic importance to Australia's relations with the Asia, Pacific and Latin American region. (The views I present below are my own and should not be attributed to others). .

As members will appreciate, the region is comprehensively recognized in an organizational sense through APEC, Asia Pacific Economic Cooperation. Australia was the major architect of the concept of APEC at a meeting organized in Canberra in 1989. It has since grown to be the pre-eminent economic forum of the region, represented by 21 economies and including the US, China, Japan, Korea, Canada, and most of the South East Asian economies and New Zealand, Mexico, Peru and Chile.

There are of course other important regional fora, including ASEAN, ASEAN + 3, ASEAN + 6, the emerging East Asian Summit and a concept still being developed, the Asia Pacific Community. At this juncture, APEC is the regional forum which brings together Australia's major economic partners, the US, China, Japan, Korea and the major ASEAN economies.

As members will know, Australia has bilateral trade treaties with a number of regional economies, including importantly with the US; last year the Minister for Trade signed the ASEAN-Australia-New Zealand Free Trade Agreement and which brings together in the treaty 9 of the 21 members of APEC. The AANZFTA covers a region of 600 million and with an annual GDP of \$A3.1 trillion. Australia has resumed negotiations for comprehensive agreements with Indonesia and Malaysia. Work continues to reach bilateral Free Trade Agreements with China and Japan and negotiations with Korea are planned to commence later this year.

Australia and other APEC members are involved in negotiations on trade and investment agreements during a period when it is proving all too difficult to conclude the WTO Doha Development Round negotiations. It is also occurring when the Americas are deepening relations with Europe and with Asia, and within the Americas, and when the European community is expanding. It is occurring at a time when China, India, Russia and the oil states are positioning themselves and exerting greater influence on global financial flows and in international organizations such as the IMF, the World Bank, and in forums such as G20.

Global financial and economic dynamics are challenging all countries and impacting on the objectives of the forums in which countries seek membership or where they are already members. It remains a critically important aspiration that countries work assiduously to agree the WTO Doha Round but in the absence of a successful agreement countries must develop other external policy options to grow and develop. And that is the policy that Australia and almost every other country is pursuing to expand trade and economic opportunities.

It is in Australia's strong interests to remain at the forefront of advocacy for the successful completion of the WTO Doha Round and that is the bipartisan policy of Australian governments. Australia should and does seek to influence ways to achieve agreement under the WTO negotiations, but quite clearly as we confront the reluctance of some WTO members to conclude the negotiations, Australia has to pursue other regional, sub-regional and bilateral options and we are doing that.

As already noted, APEC is the pre-eminent regional forum in which Australia pursues its regional trade, economic and social policies. APEC has agreed goals to achieve open trade and investment in the region, to achieve regional economic integration and to support the capacity of member economies to achieve and implement those goals.

It is noteworthy that the accession of China and Vietnam to the WTO – both APEC members – has changed fundamentally the approach of those economies have to their external trade and investment relationships. Both economies are now much more open to foreign participation and influence, as evidenced by high levels of foreign direct investment and trade growth, at least in the recent period before the onset of the global financial crisis. I would also note the remarkable openness of the Chilean economy through the adoption of APEC-like goals of trade and investment liberalization and changes occurring in Mexico and Peru as those APEC economies implement structural reforms to enhance their competitiveness in an open trade and investment environment.

The remainder of this note focuses on the relevance of APEC to Australia's opportunities to expand trade and investment in the region, with particular attention to the four issues identified for this inquiry.

The nature of existing trade and investment relations

As noted above, Australia seeks to expand its trade and investment opportunities, primarily through the WTO and so far as previous global rounds have been successful, through the General Agreement on Tariffs and Trade, Australia like many other members of the WTO has gained great benefits from the expansion of trade growth over the last four decades or so which has occurred under multilateral agreement to reduce trade barriers and to promote the rules of engagement, including the settlement of disputes. The major principles of MFN and National Treatment remain as the most significant achievements in multilateral trade affairs.

Those principles have been carried over into the General Agreement on Trade in Services and so far as members of the WTO have endorsed those principles – and many have, although many with reservations – they become the compass points in international negotiations on services trade and, broadly speaking, in the rules relating to investment.

These essential qualities will be carried through into the WTO Doha Round and they ought to be vital elements in regional, sub-regional and bilateral trade and investment agreements.

Various fora in APEC have strongly endorsed those principles as APEC promotes policies for the region in trade and investment access, in structural reform and regional economic integration. APEC as a regional forum is strongly committed to the successful conclusion of the WTO Doha Round. As the conclusion of the negotiations remains elusive APEC promotes trade and investment principles within its membership which are consistent with the key WTO principles I have mentioned.

Working groups have been established to review articles in bilateral and sub-regional and regional trade and investment agreements which involve APEC members, with the objective of assessing the quality of agreements against best practices and principles to achieve free and open trade and investment. The objective is to promote within member economies a review of the obligations in their existing trade and investment treaties that are compatible with the WTO.

Likely future trends in those relations

The work just described is now a central component of APEC's agenda. How successful this work will be in APEC will be dependent to some important degree by the rigour in which it is pursued and by peer group pressure within the APEC community in encouraging individual member economies to implement reforms and to assist them in that process.

Recent developments in APEC's own structures and procedures are likely to be very important in determining quality outcomes. The recently established Policy Support Unit in the APEC Secretariat – conceived and financed by Australia – is setting down the basis of a disciplined approach to assess the value of policy reforms and to measure success of reforms against relevant benchmarks. High quality comparative assessments across economies of the region should help economies appreciate the value of certain policy outcomes and serve as a basic tool in encouraging and guiding reform programs.

A second important recent change in APEC in determining the future effectiveness of the group is the development of a purposeful structural reform process to promote regional economic integration. The Ministerial meeting in August last year in Melbourne was a major Australian initiative in setting out for member economies a process to determine for themselves the value of a structured approach to reform. The meeting considered ways in which reforms might be pursued, ways to assess priorities and an understanding

of the strong linkages between liberalization of trade and investment at the border and behind the border, and how these are integral elements of a structural reform program.

That particular meeting brought together Ministers, major policy advisors, business representatives and academics from across the region. Its success was to set out a solid framework for the region to pursue a reform agenda to achieve economic integration.

Does the APEC process work? This is a valid question, particularly when the question is posed in the context of an accompanying statement to the effect that APEC is not a negotiating body. APEC was seen to be exposed as not offering much to the region at the time of the Asian financial crisis of 1997. Offsetting these concerns of character weakness, is the growing realization that APEC's greatest strength is its capacity to develop and enunciate the "best policy framework" to advance trade, investment and regional integration and to demonstrate in a most effective way to policy makers and communities in the region how to develop policies to implement its high ideals.

As noted, capacity building is a vital pillar in achieving quality outcomes in APEC. The Australian APEC Study Centre is one of a number of such Centres established throughout the region.

I am pleased to note that the Centre has recently been relocated at RMIT University in the College of Business and with RMIT we are committed to champion APEC's objectives in promoting economic integration, growth and stability in the region.

We successfully bid for PSLP funded projects available from AusAID resources and together with funds made available to us by the State Government of Victoria to finance the Melbourne APEC Finance Centre, we train policy makers and regulators from across the APEC region at training programs we organize in Melbourne aimed at the promotion and advocacy of APEC's priority policy objectives.

The programs we will implement in coming weeks, include the policy framework for food security and trade in agricultural products at a time of rising food prices, regulatory and supervisory policies for pensions, funds and asset management, policies to improve investment environments – covering taxation and trade policies and the policy framework for risk management in public/private partnerships for infrastructure at regional and sub-regional levels of government.

Education is a major service export of Australia and the Centre is committed to work with RMIT in promoting the University in the APEC region and in forging links with regional policy makers and regulators. Our mission for the State Government is to promote Melbourne and Victoria as a centre of excellence for training regional financial regulators and for promoting Melbourne as a centre for financial services.

I see Australia's influence in shaping APEC's structure and objectives as fundamental to our trade and investment interests in the region. I believe the Centre complements our

national objectives by making a serious contribution to APEC's institutional capacity building objectives.

The role that these countries might play in advocating the Doha Round of multilateral trade negotiations in the WTO.

The value of APEC is that the 21 member economies representing nearly 60% of world gdp and around 45% of world trade support the conclusion of the WTO Doha Round. That said, there are clearly some well known concerns between members of APEC as they confront the actual listing of offers in the WTO negotiating process. There are perhaps more deeply held concerns between non-APEC members (essentially Europe, India and Brazil) with some major APEC members. APEC is not a forum for resolving these concerns and nor was it conceived to do that. However, it does provide opportunities for Trade Ministers and Finance Ministers and Leaders to meet annually to discuss regional and global issues, including impediments to the conclusion of the WTO Doha Round, and in so doing APEC should contribute to building understanding, confidence and trust over time. These processes should reasonably be expected to make positive contributions to the conclusion of the WTO. And, allied with the work described earlier in the many fora of APEC aimed at seeking conformity with WTO principles in bilateral, regional and sub-regional trade and investment agreements, APEC is a positive force in advancing WTO negotiations.

The role of the Government in identifying opportunities and assisting Australian companies, especially those in rural and regional areas to maximize opportunities in Asia, Pacific and Latin America

APEC is a key component of Australia's external policies to develop the interests of Australian companies in the regions. Members will be aware of the role of the APEC Business Advisory Council, ABAC, where 63 business members, 3 from each member economy, meet regularly to provide business inputs to APEC Leaders and Ministers in ways to achieve APEC's primary goals. I know from personal experience that ABAC membership is broadly based and usually represents a cross-section of the business community in individual APEC economies. ABAC is a solid force for opening borders and for freeing trade and investment flows and for defining policies that will assist and encourage economies in achieving those goals.

Businesses face varying business environments throughout the region, dependent largely on the domestic economic and legal frameworks which govern each economy. For that reason, APEC's structural adjustment program to support enhanced policies to achieve investment and business growth in each economy is particularly important. In short, APEC supports economies in developing and implementing unilaterally the policy framework that best fit local circumstances.

APEC and ABAC are addressing impediments to business growth and development. While barriers at the border, for example those that place onerous conditions on foreign investors or limit the capacity of a foreign investor to compete effectively in a market there are also barriers “behind” the border, for example practices which restrict trade or promote monopolies in an economy.

There are many common impediments to business growth, particularly to small and medium enterprises. ABAC has identified these and they include excessive regulatory burdens, discriminatory treatment against foreign investors, complexities in establishing businesses and in exiting a market where there is business failure, access to finance and information and access to efficient and inexpensive communications systems. There are others but these are some important common impediments.

Members will know that the current economic and financial crisis has impacted on the credit capacities of banks and other financial intermediaries. There is now a marked slow down in trade volumes and investment flows and this arising as a consequence of the serious constriction in credit by financial intermediaries. This issue is under consideration in APEC and I am hopeful that the Centre will make a contribution to policy options that might ameliorate these problems in the region.

In summary, APEC and its business advisory group is deeply engaged in the issues confronting business development. Australia’s leadership in these areas of activity and in the broader APEC agenda is a most serious contribution to assisting Australian business exploit opportunities and to grow in the Asia Pacific region. The APEC agenda I have touched on in this note is as vitally important to Australia’s rural and regional areas as it is to the community broadly. It is about opening markets in the region to access to trade in commodities, manufactures and services and to opening opportunities for the flow of investments in all regional economies.

For these reasons I commend continued support for Australia’s deep engagement and leadership in APEC and that engagement is adequately resourced to enable Australia to drive initiatives in APEC, including in support of developing institutional capacities, that will help deliver trade and investment growth and prosperity, both in Australia and in its partner economies in the Asia Pacific region.

Thank you.