Australian Government

Department of Foreign Affairs and Trade

Inquiry into Australia's Trade and Investment Relations with Asia, the Pacific and the Americas

Submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade

November 2009

Australia's Trade and Investment Relations with Asia, the Pacific and the Americas[1]

1. Overview

Trade is one of the key drivers of Australia's economic performance. Our participation in foreign markets and the contribution of foreign goods and services, investment and expertise to the Australian economy, provide both a competitive dynamic and access to markets, products, skills, and ideas that boost Australia's productivity, growth and employment prospects.

Australia's very active trade policy agenda reflects the importance of trade to our national prosperity. The prime focus remains the successful conclusion of the WTO Doha Round. At the same time, Australia is actively pursuing complementary regional and bilateral trade liberalisation agreements to lock in market access commitments ahead of those anticipated under the Doha Round or to go beyond what will become the new multilateral benchmark. Regional and bilateral agreements also provide momentum towards the completion of the Round. The combination of these efforts – multilateral, regional and bilateral - creates a self-reinforcing network of commitments at a number of levels - a so-called cascade effect - where each agreement flows into building an overall more robust and predictable trading environment for Australia.

Australia's trade policy also encompasses an active trade promotion and trade facilitation agenda, the provision of tailored trade finance support, and development assistance activities that promote capacity building and stronger trade performance among our developing country partners. It further encompasses an active reform agenda to address domestic constraints on Australia's trade performance and increase our capacity to take advantage of trade and investment opportunities wherever they emerge.

Asia, the Pacific and the Americas dominate Australia's global trade and investment relationships. They account for around 80 per cent of our merchandise exports, supply about 70 per cent of our merchandise imports, constitute the most dynamic element of our global services trade, and are the most important regions for foreign direct investment (FDI) into and out of Australia.[2]

Inevitably across the vastness of Asia, the Pacific and the Americas, the magnitude and nature of Australia's trade and investment relationships differ greatly from country to country and region to region. Relationships are small in economic terms with Pacific island countries but are wide ranging and of major political importance; massive and fast growing with North and Southeast Asia; strong and diverse with North America, especially the United States; and full of potential with South America providing inadequate transport links, trade barriers and unfamiliar business environments are addressed over time.

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[1] The term 'wider Asia-Pacific region' is used here to encompass Asia, the Pacific and the Americas. The term 'region' is used to refer to geographical areas like North Asia and Latin America.

[2] Annex 1 provides a statistical snapshot of Australia's trade and investment relationship with Asia, the Pacific and the Americas.

Australia has four key policy priorities in advancing trade and investment relations with the wider Asia-Pacific region. First, the world economy must be re-energised through sustained and effective cooperation at the highest levels of government. The key to achieving this is the Group of 20 (G20) and the benefits from bringing the Doha Round to a successful conclusion. Timely and effective cooperation at the highest level between G20 countries in response to the global economic crisis helped to ensure that the world did not descend into another Great Depression with its beggar thy neighbour policies. The challenge of managing the recovery could be at least as complex as managing the crisis at its height at the end of 2008 and during the early months of 2009. Acting cooperatively to address global economic, financial and trade issues will continue to be key, and will shape opportunities for building Australia's trade and investment relationships with the wider Asia-Pacific region in the years ahead.

Second, Australia must be involved in helping to develop regional economic frameworks and mechanisms to maximise trade and investment in the region. Asia in particular is likely to emerge from the crisis stronger, more confident and more important to Australia. The challenge for Australia and others is to harness regional cooperation in its various and evolving forms in order to accelerate trade and investment relations with the wider Asia-Pacific region and beyond, and project regional interests and perspectives in broader international groupings.

Third, Australia must continue to enhance key bilateral relationships, including by negotiating and implementing regional and bilateral FTAs that support and reinforce the multilateral trading system and that make possible deeper liberalisation in areas like services and investment than is currently possible through the multilateral system.

The cascading approach to trade liberalisation is essential to maximising trade and investment opportunities within and beyond the wider region. Trade liberalisation is important in opening up markets and shifting resources in line with competitive strengths. Beyond this, liberalisation bolsters economic efficiency by opening the way for more foreign investment and associated knowledge and skill transfers. Increased import competition encourages domestic producers to increase productivity using better technology and through faster uptake of new approaches and systems for doing business. Liberalisation of other countries' trade barriers also may enable exporters to access economies of scale.

Fourth, the Australian Government must continue to improve the productivity and competitiveness of Australian industry through reforms behind the border. Along with trade liberalisation, these reforms are a key pillar of the Government's trade policy. This approach recognises that Australia's trade performance is enhanced by improving the productive potential of the economy and by removing impediments to export capacity that are imposed on the domestic market. This requires addressing infrastructure bottlenecks so that goods can be stored and transported quickly and efficiently, ensuring businesses have access to a well educated and skilled labour force, lifting performance in research and development to develop new and emerging industries, and reducing the regulatory burdens on business. Ongoing attention to this agenda will help to ensure that the Australian economy is well placed to take advantage of emerging trade opportunities wherever they occur.

In pursuing these four priorities, government-to-government negotiations and dialogue at the international level is reinforced by extensive liaison with business and State and Territory Governments across the range of our negotiations and domestic competitiveness issues. Engaging the broader community, including through facilitating international and domestic level business-to-business discussions and through regular dialogue with think tanks, pays dividends in various ways. At one level it provides the Government with information on impediments to trade and investment in specific markets, and on emerging skills and technologies that may underpin new areas of competitive advantage. These insights are valuable in fine tuning approaches to international negotiations. At another level, liaison with community groups helps to increase awareness of the central importance of international trade and investment to Australia's well-being and long term prosperity.

2. Global economic crisis and its legacy

The global economic crisis started with the sub-prime crisis in the United States in 2007, spread to developed countries via the interdependence of product and financial markets and then was transmitted to developing countries, in the process weakening global economic growth, trade and investment. The crisis precipitated the most severe, and highly synchronised, contraction in economic activity in the post-war period. No region escaped.

The IMF forecasts global output will shrink by 1.1 per cent in 2009 compared to growth of over 5 per cent in 2007 and around 3 per cent in 2008. Relative to trend, the loss in global economic output through to the end of 2009 is likely to be around A$6 trillion – equivalent roughly to the loss of about one-third of US annual GDP. The International Labour Organisation projects that as many as 59 million more people around the world may be unemployed in 2009 compared to 2007[3]. World trade volumes are forecast to fall by between 10 per cent (World Trade Organization) and 11.9 per cent (IMF) in 2009. UNCTAD data suggest that global FDI flows fell by 14 per cent in 2008 and will plummet by 30-40 per cent in 2009.[4]

There are now signs of recovery. Financial conditions have improved markedly, commodity prices are rising and world trade is beginning to pick up. The IMF forecasts global GDP and world trade volumes to grow by 3.1 per cent and 2.5 per cent respectively in 2010. But the recovery is uneven and fragile and the outlook for the global economy remains uncertain. On the positive side, the IMF forecasts that China and India will grow by 9 per cent and 6.4 per cent respectively in 2010 and that advanced economies will return to growth: the forecast contraction in advanced economy GDP of 3.4 per cent in 2009 is expected to turn into growth of 1.3 per cent in 2010.

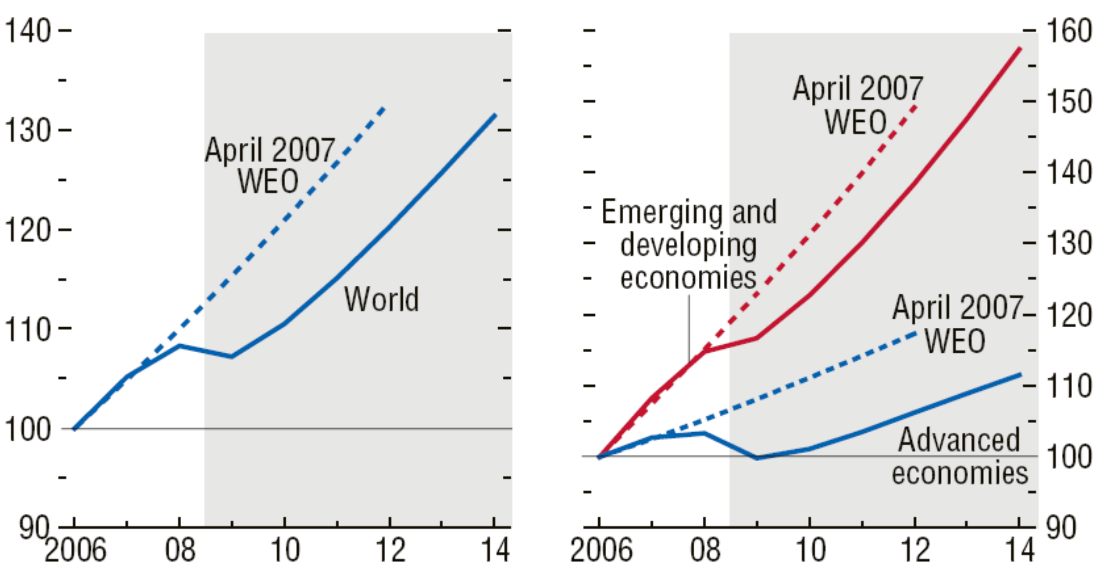
A key issue for the medium term performance of the post-crisis global economy is the extent to which the crisis has lowered the growth potential of economies through the

[3] Global Employment Trends – Update, ILO, May 2009

[4] International Monetary Fund (October 2009), *World Economic Outlook;* World Trade Organization, OECD, UNCTAD, (September 2009), *Report on G20 Trade and Investment Measures.*

destruction of capital stock and increased financing constraints. Experience suggests that recessions associated with financial crises tend to be unusually severe and subsequent recoveries are typically slow. On current IMF projections, real growth in the global economy might not return to its pre-crisis level for several years, and this could be more protracted in some advanced economies as they reduce their financial leverage and work towards achieving medium term fiscal consolidation. All things being equal, slower growth in the world economy is likely to be associated with slower growth in world trade.

Global GDP (Index 2006 =100)



Source: IMF (October 2009), *Global Economic Outlook.* Note: GDP path predicted in the April 2007 World Economic Outlook (dashed line) versus current GDP path (solid line).

Other important issues which will have a bearing on global economic performance over the medium term include the emergence, timing and durability of new sources of growth in advanced and emerging economies; the extent to which global economic imbalances are addressed by tempering consumption and bolstering savings in deficit countries like the United States and expanding domestic demand in surplus countries like China; the speed and manner in which temporary policy responses to the crisis are unwound — the 'exit strategies'; the effectiveness of efforts to improve medium and long term fiscal sustainability, particularly among some advanced economies; the degree of government intervention in the financial sector; reform of international financial institutions; and the success of efforts to resist financial and trade protectionist pressures. [5] Carefully coordinated international policy action will ensure the recovery; more unilateral action could put it at risk.

[5] See Annex 2 for an overview.

3. Global Responses

3.1 G20 leaders' process

Just as the G20 finance ministers' process emerged from the Asian Economic Crisis in the late 1990s, the G20 leaders' process was a response to the severity of the current global economic crisis. Leaders judged that existing arrangements for high level economic cooperation lacked sufficient inclusiveness and legitimacy and that a new institution was required. As a result, the G20 has now been designated as the premier forum for global economic cooperation.

The G20 balances the competing demands of representation and efficiency. Its membership[6] accounts for over 85 per cent of global GDP. It includes countries from all regions and it reflects the major shifts that have occurred over the last couple of decades in the relative economic weight of countries and regions. At the same time the G20 is small enough to operate as an effective decision-making body. Over half of the membership is from the wider region covered by this Submission, and there is good representation from our immediate region - Japan, China, India, Indonesia, and South Korea, as well as Australia. Singapore and Thailand also have attended G20 summits in their respective capacities as chairs of APEC and ASEAN.

The first leaders' meeting took place in Washington in November 2008 and was followed quickly by meetings in London and Pittsburgh in April and September respectively this year. A snapshot of the scope of their work is indicated by outcomes from the Pittsburgh Summit summarised in Annex 3.

To date the G20's effectiveness is demonstrated by the coordinated and sustained policy responses that underpin the first signs of global economic recovery. But ultimately the group's effectiveness will be judged by its capacity to harness the resolve and common purpose of member governments at the highest level to advance the international reform agenda and remove blockages that might otherwise mire negotiations on issues of global economic significance. From the perspective of Australia's trade and investment relationships, a key element of this wider objective is the extent to which the G20 can use its political influence and authority to resist protectionism in its various forms and bring the Doha Round to a successful conclusion by the end of 2010.

The G20 provides a valuable opportunity for its Asia-Pacific members to work together, and with others, to promote strong, sustainable and balanced global growth. Canada will host the G20 Summit in June 2010 and Korea the second summit in November that year. The Korean summit will be significant as the first held in Asia. Australia strongly supported the decision that Korea should host a G20 summit in 2010 and looks forward to working in partnership with Korea to maximise opportunities for regional engagement in the G20. Beyond this, Australia sees a continuing and growing role for the G20 in regional

[6] G20 members are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, South Korea, Russia, South Africa, Saudi Arabia, Turkey, United Kingdom, United States, and European Union.

economic integration and will work to ensure that this forum and regional groupings operate in ways that are mutually reinforcing.

3.2 The WTO and Doha

Bringing the Doha Round to a rapid conclusion was important before the crisis but is even more important now. Agreeing a substantial liberalising package would be the most effective way of constraining protectionist pressures. According to the WTO, "There is no indication of descent into high-intensity protectionism as a reaction to the crisis, involving widespread resort to trade or investment restriction or retaliation." But it notes some "slippage towards more trade restriction on the part of many G20 members," particularly in a narrow range of products like agriculture, iron and steel, motor vehicles and parts, chemical and plastic products, and textiles and clothing. The WTO further notes that "This compares unfavourably with the situation prevailing prior to the crisis when the balance of trade policy actions worldwide lay firmly for several years on the side of trade liberalisation."[7] Trade and investment policy risks are likely to remain while the recovery is shallow and jobs growth is slow.

Concluding the Round would boost global confidence at a critical time by acting as a global stimulus package independent of the public purse. The WTO estimates that US$150 billion per year would be added to the world economy through tariff reductions alone, and the US-based Peterson Institute estimates that US$300-700 billion per year could be added to the world economy on the basis of what is already on the table.[8] Doha would play a role in building political commitment behind global structural reform and in helping to restore trend rates of global economic growth.

Achieving an ambitious and balanced outcome to the Round is the Australian Government's top trade policy priority. Only the Round can deal with the problems of agriculture – the most distorted sector of world trade and the sector which is most important to many countries in the wider Asia-Pacific region. Concluding Doha could reduce developed country agricultural tariffs by up to 70 per cent; cut domestic support in Europe, the United States and Japan by 70-80 per cent and eliminate export subsidies on agriculture by 2013. The Round also could deliver significant benefits for trade in industrial goods and services, and make overseas investment easier. For an economy like Australia, where around 80 per cent of GDP is generated by services, an ambitious outcome on services is important. Services trade is growing rapidly between developed economies, and could become a major long term source of growth in trade with developing countries as their economies evolve and as they rely more on sophisticated services to boost economic efficiency and competitiveness. Reducing border and behind-the-border measures is essential to realise the potential of services trade.

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[7] WTO, OECD, UNCTAD (September 2009), *Report on G20 Trade and Investment Measures.* See Annex for a summary of key findings of the Report.

[8] Matthew Adler, Clair Brunel, Gary Hufbauer and Jeffrey Schott (August 2009), *What's on the Table? The Doha Round as of August 2009,* Working Paper Series, Peterson Institute for International Economics.

Extra momentum has been injected into the multilateral negotiations recently: India's hosting of a trade ministerial meeting in New Delhi in early September marked its re-engagement on the Round and willingness to take on a leadership role; senior officials in Geneva have started a more intensive engagement on technical issues; and G20 leaders at Pittsburgh have re-confirmed their commitment to conclude the Round in 2010. But these developments alone, while welcome, are not enough to conclude the Round next year. The gap between leaders' commitment and results in Geneva remains significant and further political engagement and hard bargaining is needed.

The countries of the wider Asia-Pacific region have not traditionally seen themselves as an Asia-Pacific grouping, or as a de facto grouping with common interests, for the purposes of WTO negotiations. That said, the habit of coordination and consultation is growing. It is ingrained in agriculture where many countries from the wider Asia-Pacific region have come together as the Cairns Group of agricultural exporting countries[9] to present a united and strong voice in the WTO against further agricultural distortion. More broadly, there are now many opportunities for leaders, trade ministers and senior trade officials to meet formally and in the margins of regional meetings such as the East Asia Summit (EAS) [10] and APEC[11] to discuss global and regional economic issues: Australia, like others, actively uses these opportunities to engage on issues such as Doha.

The countries of the wider region have a large stake in successfully concluding the Doha Round. APEC plays an important role in bringing together many of the key WTO members, for example major economies like the United States, Japan and China, important middle powers like Australia and Korea, and highly influential countries like Indonesia, which chairs the G33 group of key developing countries. APEC Trade Ministers can help to convert political will to conclude Doha into tangible action, as signalled in their declaration at Singapore in mid-November:

> We remain determined to ensure an ambitious and balanced conclusion to the Doha Round in 2010, based on the progress already made, including with regard to modalities. To this end, we must translate recent political commitments into tangible progress in the negotiations. The Seventh Session of the WTO Ministerial Conference in Geneva from 30 November to 2 December 2009 will be an important

[9] Cairns Group countries come predominantly from the regions covered by this Submission. They are: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, and Uruguay.

[10] EAS members are the ten ASEAN countries - Brunei Darussalam, Burma, Cambodia, Indonesia, Lao PDR, Malaysia, Philippines, Singapore, Thailand and Vietnam plus Australia, China, Japan, India, New Zealand, and the Republic of Korea

[11] APEC members are: Australia; Brunei Darussalam; Canada; Chile; People's Republic of China; Hong Kong, China; Indonesia; Japan; Republic of Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; Philippines; Russian Federation; Singapore; Chinese Taipei; Thailand; United States of America; and Vietnam.

> opportunity to take stock of progress. We support further intensification of work to reach the 2010 target. In order to do so, we will accelerate efforts to advance into the endgame negotiations in Agriculture and NAMA, and advance in parallel Services, Rules, Trade Facilitation and all other remaining issues in the DDA in accordance with agreed Geneva work plans. We urge greater substantive engagement at all levels utilising all possible avenues, including text-based negotiations under the Geneva Chair-led process and direct engagement between Members to evaluate and close the remaining gaps. We note the importance of continued involvement and stand ready to engage directly to ensure momentum is maintained. We agree to direct our officials to exercise pragmatism and maximum flexibility on all issues to narrow gaps and secure convergence on a final package. This will pave the way for Ministers to assess the situation no later than early 2010.[12]

4. Regional Architecture

Over the next 12-18 months, Australia's trade with ASEAN countries is likely to overtake trade with the European Union – as a group Australia's largest traditional trading partner. More broadly, North Asia now accounts for more than half of our total trade, with trade growing faster than with any other region in the world. Members of the EAS account for almost 60 per cent of our total trade and the APEC economies for around 70 per cent.

Australia has a fundamental interest in ensuring that a broad range of frameworks and mechanisms are in place to promote regional stability, security and prosperity, and is committed to playing a full role in the regional architecture of which we are a part, including through ASEAN's economic arrangements and our memberships of the EAS and APEC. Australia similarly is committed to participating fully in discussions on the evolution of regional architecture. Prime Minister Rudd's proposed Asia Pacific community (APc) is a prominent example.

Australia also chairs the Pacific Islands Forum[13] until Vanuatu takes on this role in mid-2010. As chair, Australia is working closely with the Pacific Islands Forum Secretariat and Forum members to implement commitments made at the Cairns Leaders' meeting in August 2009 to strengthen development coordination in the Pacific, address climate change and build economic resilience in response to the global economic crisis.

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[12] Extract from Joint Statement, 21st APEC Ministerial Statement, Singapore, 11-12 November 2009.

[13] Members of the Pacific Islands Forum (PIF) are: Australia, the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, the Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Fiji is currently suspended from the Forum.

4.1 APEC

APEC is the pre-eminent regional forum for Australia's economic engagement with the Asia-Pacific region. It has a strong track record of building support for the multilateral trading system, regional economic integration and structural reform, and has been influential over the past two decades in reducing regional tariff and non-tariff barriers, improving the investment environment and contributing to capacity building among APEC developing economies. As testament to the long term benefits of this work, unpublished research by APEC's Policy Support Unit suggests that APEC economies tend to trade and invest more intensively with one another than with non-members, underlining the complementarities between trade and investment and the benefits that flow from international cooperation.

In the current environment, APEC is well placed to contribute to supporting, and delivering on, the G20 agenda, which is aimed at achieving strong, sustainable and balanced growth. APEC can mobilise resources and expertise on both sides of the Pacific to (i) advance financial market reform and trade liberalisation and (ii) strengthen the resilience of member economies to external shocks through its work on investment liberalisation and structural adjustment.

Australia is keen for APEC to intensify work on regulatory reform, competition policy and regional economic integration through structural reforms at the border (for example, in customs procedures, standards and conformance and business mobility); across-the-border (for example, by improving supply-chain connectivity); and behind-the-border (for example by reducing regulatory burdens and squeezing transaction costs). Australia is working with Singapore, Hong Kong, China and other APEC members on a Framework on Supply Chain Connectivity to identify chokepoints that impede trade logistics in the Asia-Pacific region, assess measures currently in place to ameliorate these chokepoints, and recommend further action to remove impediments to trade logistics.

In addition to these efforts, Australia has been a strong advocate of progressing APEC's work to address infrastructure challenges within the region. At the sixteenth APEC finance ministers' meeting in November 2009, Australia tabled an expert public-private partnership (PPP) study on the benefits of greater uniformity in PPP procurement processes. This initiative builds on APEC's previous work on PPP frameworks.

Australia also is pushing hard for APEC to develop ambitious work programs on trade in services, taking the lead in developing a Services Action Plan endorsed by leaders and ministers in November 2009.

For several years there has been discussion within APEC of a possible overarching FTA – the so called Free Trade Area of the Asia-Pacific (FTAAP).[14]. The APEC

[14] APEC leaders instructed senior officials in 2006 in Hanoi to "undertake further studies on ways and means to promote regional economic integration, including a Free Trade Area of the Asia-Pacific (FTAAP) as a long-term prospect". The resulting report on *Strengthening Regional Economic Integration*, adopted in Sydney in September 2007, contains four recommendations concerning a possible Free Trade Area of the Asia-Pacific (FTAAP). They address identification of possible negotiating issues, a comparison of existing free trade agreements in the APEC region, economic

Business Advisory Council (ABAC) is among the prominent proponents of this concept.[15] Most APEC economies view the conclusion of an FTAAP as a long term undertaking which would require extensive preparatory work. The important question of the geographical spread of a possible FTAAP has not yet been discussed, but there is a shared view that not all APEC members would be either willing or ready to participate in it. Australia has participated actively in APEC's exploratory work on FTAAP on the basis that a genuinely trade liberalising high quality FTA with significant membership could make a strong contribution to economic integration in the Asia-Pacific region.

4.2 Trans Pacific Partnership (TPP) Agreement

The proposed TPP Agreement involving Brunei, Chile, New Zealand, and Singapore (the signatories of the original P4 agreement that entered into force in 2006), together with Australia, Peru, the United States, and Vietnam may go some way towards achieving FTAAP's objectives. Australia welcomed the US announcement that it will participate in the TPP Agreement as it enables the negotiations to move forward: Australia will host the first negotiating round early in 2010.

Specific goals and objectives have not been determined. Australia's general aim is to negotiate a plurilateral FTA that supports the multilateral trading system, deepens trading relationships and strengthens commercial opportunities. The Government will explore opportunities for setting a high benchmark for trade and investment liberalisation across the broader region, including by addressing behind-the-border regulatory barriers; opening membership to countries able to meet that benchmark; harmonising some of the complexities in the existing suite of FTAs in the region; and contributing to emerging regional economic architecture.

4.3 East Asia Summit (EAS)

As a leader-led forum, the EAS has the potential to address key challenges in the region including economic recovery and financial stability, energy and the environment, education, pandemic influenza, and natural disaster preparedness/mitigation. Australia's primary focus in the EAS is on regional financial and economic integration and disaster response.

At the fourth EAS held in Thailand in late October 2009, leaders recognised the need for an EAS Finance Ministers' meeting. An EAS Finance Ministers' process would open the way for input from the EAS into the G20 - six EAS member countries are in the G20. EAS leaders can garner a broad range of views for the G20's consideration and also can implement G20 policy responses and reforms.

Leaders at the fourth summit also agreed that the Comprehensive Economic Partnership in East Asia (CEPEA) initiative, including a potential EAS-wide FTA, will

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analysis of the impact of an FTAAP and an examination of the feasibility of using existing agreements as the basis for an FTAAP.

[15] APAC (2008), *APEC Business Advisory Council, Report to APEC Economic Leaders*, Lima, Peru.

go forward for detailed consideration by officials. Genuine trade liberalisation across the broad membership of the EAS would benefit all member countries, but the FTA is a long term proposition and will be considered alongside a proposal for an ASEAN+3 FTA (including the ten ASEAN nations plus China, Japan and Korea). These decisions do not mean that FTA negotiations have been launched. Rather they mark the beginning of a process for considering complex next steps on regional economic integration.

4.4 Association of Southeast Asian Nations (ASEAN)

Australia's strong links with ASEAN are based on a robust trade and investment relationship, significant people-to-people contact, support for ASEAN's economic integration, and cooperation on regional security. The economic relationship will be consolidated by the recently signed Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA), which enters into force on 1 January 2010. [16] AANZFTA is the largest, and first plurilateral, FTA concluded by Australia, and is the most comprehensive trade deal ASEAN has negotiated. It will add momentum to Australia's strategic engagement with Southeast Asia by providing a platform for Australia's ongoing economic engagement with ASEAN; demonstrating a collective commitment to maintaining open markets in the face of the global economic crisis; and potentially bolstering Australia's influence on the evolution of an inclusive regional economic architecture.

Australian exporters stand to gain from AANZFTA across many sectors, including manufacturing, agriculture and services. The deal:

- eliminates tariffs on 96 per cent of Australia's current exports to ASEAN nations by 2020 – at present two-thirds of our exports have tariff free entry;

- binds almost all tariff lines at the 2005 applied rates. This is important because ASEAN nations' WTO tariff bindings are considerably higher than applied rates;

- contains regional Rules of Origin which will enhance Australia's capacity to tap into global supply chains;

- secures 'WTO plus' outcomes on services such as professional services, education, financial services, and telecommunications;

- establishes a regime of legal protections for investment, including investor-state dispute settlement resolution;

- provides for economic cooperation to support AANZFTA implementation and to promote economic integration, including through the development of sound intellectual property systems and capacity to enforce intellectual property rights; and

[16] See Annex 4 for details on AANZFTA.

- allows for trade and investment commitments under AANZFTA to expand and deepen over time as the ASEAN Economic Community evolves.

4.5 Asia Pacific community (APc)

While institutions like ASEAN, the EAS and APEC contribute greatly to regional stability and prosperity, none, as currently configured, engages all relevant countries across the wider region in dialogue across economic, security and political areas: for example, India is not a member of APEC and the United States is not a member of the EAS. The Prime Minister proposed in 2008 that regional countries discuss the development of an APc which has the membership and mandate to address economic, security and other transnational challenges at leaders' level. An APc could help ensure that the process of regional economic and financial integration is driven forward; nurture a culture of cooperation and collaboration on security; and provide a vehicle for discussion and cooperation on other challenges such as climate change, resource and food security and terrorism. It could help to develop a genuine and comprehensive sense of community, whose primary operating principle is cooperation. Discussion on the development of an APc will continue in Sydney in December this year at an international conference of prominent government officials, academics and opinion makers.

4.6 PACER Plus

Australia's relationship with Pacific island countries is strategically important for the sustained development and stability of the Pacific. Australia places a high priority on fostering greater international trade and investment opportunities for Pacific island countries through economic cooperation and economic integration. Australia is the largest trading partner of Pacific island countries with total trade currently around A$7 billion per year.

In August 2009, Pacific Islands Forum leaders agreed to launch negotiations for a new regional trade and economic agreement known as 'Pacific Area Closer Economic Relations (PACER) Plus'. This was a welcome step because closer integration of Pacific island countries with Australia and New Zealand is one of the best means available to create jobs, strengthen private sector development, raise living standards, and bolster long term economic growth in the Pacific.[17]

Along with trade and investment liberalisation, PACER Plus negotiations will include elements of trade capacity building and trade development assistance to strengthen Pacific island countries' ability to respond effectively to opportunities offered through economic integration and liberalised trade. Negotiations will take into account different country contexts, stages of development, levels of capacity, and national interests.[18]

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[17] Pacific Islands Forum Leaders agreed that PACER Plus negotiations will involve all Forum countries with the exception of Fiji, while suspended from the Forum, though Fiji officials would be kept informed of developments and have indirect input into the negotiations.

[18] The outcomes document released by Forum Trade Ministers in October 2009 sets out guidance on future PACER Plus negotiations.

5. Enhancing key relationships

5.1 The Pacific

Australia's trade and investment relationship with the Pacific fits broadly into two categories: the trans-Tasman relationship with New Zealand and the much smaller, but strategically important, partnership with Pacific island countries.

The bilateral economic relationship with **New Zealand** is the most diverse and comprehensive Australia has with any country. The relationship is underpinned by the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) - one of the world's most open, comprehensive and successful FTAs - and by a range of complementary agreements and arrangements covering specific aspects of trans-Tasman economic and trade activities like mutual recognition arrangements for goods and occupations. After a quarter of century of work expanding and refining ANZCERTA, the Australian and New Zealand economies are now very closely integrated: Australia is New Zealand's principal trading partner, major source of foreign investment and major destination for outward investment. New Zealand is Australia's seventh largest trading partner and third largest market for outward investment.

With most traditional trade goals achieved, the trans-Tasman economic work program is now focused on 'third generation' trade and investment facilitation issues under the Single Economic Market (SEM). The SEM initiative aims to foster closer economic integration through regulatory harmonisation across a wide range of areas of direct relevance to business. Negotiations also are underway to complete an investment protocol to ANZCERTA to further facilitate trans-Tasman investment flows. [19]

Australia has a substantial relationship with **Papua New Guinea (PNG)**. The 'Strongim Gavman' program is a priority with both governments working together to strengthen PNG's financial and economic management, public sector reform, law and justice and border security. Both governments cooperate on major commercial projects. For example, the PNG Liquefied Natural Gas Project provides an important opportunity to improve the wellbeing of Papua New Guineans through job creation and increased business activity, as well as generating investment and trade opportunities for Australia both directly and indirectly.

Australia continues to support peace and prosperity in **Solomon Islands** through practical bilateral cooperation and Australia's leadership of the Regional Assistance Mission to Solomon Islands.

Trade and investment prospects in **Fiji** are dependent on resolving the current political impasse. Commodore Bainimarama's coup in 2006 has damaged the economy and depressed living standards, and ongoing political and economic uncertainty has weakened investor sentiment. Natural disasters and the global economic crisis have added to Fiji's problems. The Australia-Fiji trading relationship nevertheless continues

[19] Annex 5 provides an overview of closer Australia-New Zealand engagement since 1983.

to be reasonably robust. Fiji benefits from privileged access to the Australian market under existing international agreements and arrangements. Australia has no trade or economic sanctions against Fiji and none are contemplated.

Australia is working with partners in the region and with international organisations to maintain pressure on the Bainimarama regime to respect human rights and return Fiji promptly to democracy and the rule of law.

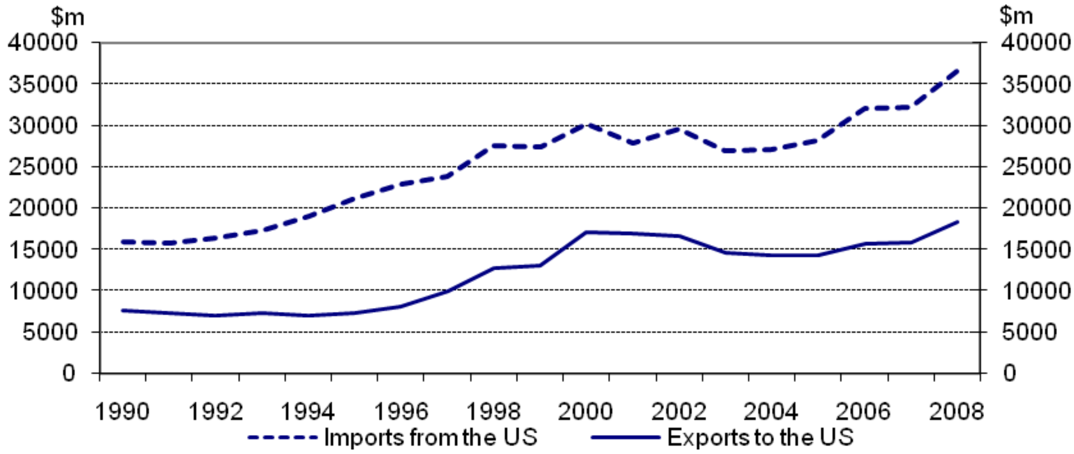
The Australia-**New Caledonia** trade relationship is quite small but has potential to increase substantially. New Caledonia has around one-quarter of the world's known nickel deposits and mining is a major part of its economy. It is close to Brisbane; its per person GDP is similar to New Zealand's and its economy is larger than Papua New Guinea's. Australia and France will continue to work closely with New Caledonia to achieve greater regional integration at all levels, and specifically to increase merchandise trade, services and investment.

5.2 North America

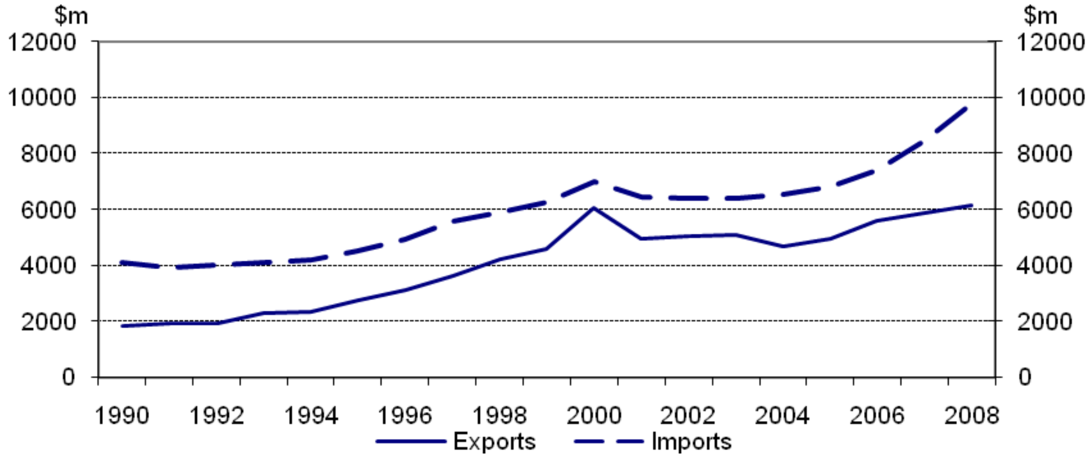
Australia's trade and investment relations with North America are dominated by the **United States.** The vitality of Australia's partnership with the United States is critically important to Australia across our political, economic and security interests.

The Australian and United States trade and investment relationship extends back over 100 years. The United States has remained comfortably in Australia's top ranked trading partners over this period.

Exports and Imports of Goods and Services: Australia and the United States



Services Trade: Australia and the United States



While our trade relationship with North and Southeast Asia has grown dramatically over recent years, the United States remains a significant economic and commercial partner, and the trade relationship has become more diverse. Growing trade in services, investment by the United States in Australia, and Australia's investment in the United States (along with income flows earned on these investments) have intensified bilateral economic links. The United States is our largest trading partner in services – for many services it accounts for over one-third of the trade – and is crucially important as an investment partner. In 2008, more than two out of every five dollars invested by Australia abroad as direct investment funds went to the United States. The proportion was smaller in the case of US investment in Australia: around one out of every four dollars was sourced in the United States.

Going forward, the United States and Australia will remain key economic partners underpinned by:

- further opportunities arising from the Australia-United States Free Trade Agreement (AUSFTA);
- the attractiveness of Australia as an investment destination for US investment;
- close cooperation regionally, for example in APEC, multilaterally in the WTO and in fora like the G20; and
- the strong and dynamic political, cultural and people-to-people linkages that have developed over time.

The United States was seriously affected by the global economic crisis and its recovery is likely to be protracted and subdued. According to the IMF, the US economy is likely to contract by 2.7 per cent in 2009 before growing by 1.5 per cent in 2010. [20] The prospect of below trend economic growth over the medium term may be expected to have some affect on trade growth, but new commercial opportunities will emerge under AUSFTA, bolstering bilateral trade. Australia is working with the United States to expand access for Australian professional service providers to support further trade.

[20] IMF (October 2009), *World Economic Outlook*, Washington D.C.

As with the United States, Australia's relationship with **Canada** is mature, highly productive and broadly based. People-to-people contact is wide-ranging; bilateral relations extend from trade to social security to consular assistance; and habits are ingrained of working regionally and multilaterally for trade and investment liberalisation.

The trade and investment relationship is substantial. Canada is Australia's 21st-largest merchandise trading partner, reflecting strong similarities in our economies. Trade in services is growing, particularly in tourism and transport-related services, and there are good prospects for growth in agri-business technologies and services, transport security-related services and education-related products and services. Bilateral investment also is significant and becoming increasingly diversified across mining and energy, finance, information technology, communications, and food manufacturing.

Australia has a modest trade and investment relationship with **Mexico** given the size of its economy, which is among the ten or so largest measuring GDP on a purchasing power parity basis. Several instruments are available to bolster bilateral economic cooperation, including a Trade and Investment Agreement (1997) which established a Joint Trade and Investment Commission, an Investment Protection and Promotion Agreement (2007), and agreements on energy cooperation and on education and training. An Airline Services Agreement also is ready for signature.

Both governments want to strengthen bilateral trade and investment relations. The final report of the Australia-Mexico Joint Experts Group (July 2009) recommended revitalising the Joint Trade and Investment Commission and holding an early high level meeting of the Commission as the first step in building the bilateral economic relationship. The Report also noted that, while negotiation of a comprehensive bilateral FTA had the potential to deliver the most economic benefit, it would be prudent to wait until circumstances developed in both countries to enable the political decisions necessary for negotiating a high quality agreement.

5.3 South America[21]

Despite distance, lack of mutual awareness and complex 'behind the border' barriers, Australia's investment, trade and people-to-people links with South America have grown quickly over the past decade, albeit from a low base. There are excellent prospects that Australia's trade and investment relationship with South America will continue to evolve over the next decade, becoming stronger and more deep-rooted. This assessment is based on:

- The size and underlying economic strength of South America. South America has experienced fast economic growth over recent years, the business environment is much improved, the middle class is sizeable, and disposable incomes are rising rapidly;

[21] See Annex 6 for an overview of Australia's relatively under-developed economic and trade relations with Brazil, Chile, Argentina, Peru, and Colombia.

- Australia's increased commitment to enhanced relations with the region. This drives in part from evolving complementarities between Australia and South America across mining, agri-business and services: South America is now one of the fastest growing source regions for full-fee paying students in Australia, and cooperation is expanding is areas like the environment and climate change. The Australia-Chile FTA, which entered in to force in March 2009, was the first FTA Australia has negotiated in South America and marks a major step forward in intensifying our economic engagement with the region. The Trans-Pacific Partnership Agreement may form part of the next major initiative to expand the trade liberalisation agenda with countries such as Peru; and

- South American interest in expanding trade and investment with the Asia-Pacific region. In the past, South American countries focused almost exclusively on the United States and Europe. Now the 'North' is no longer the sole focus in advancing their international interests – a point driven home recently by the severity of the global economic crisis in North America and Europe compared with the rest of the world. Diversification of South American trade and investment, even at the margin, has the potential to generate significant commercial opportunities for Australia.

A growing number of Australian companies are operating in **Brazil,** particularly in mining and related services and investment. Progress is being made to address some traditional constraints on business, for example on airline services, and there may be scope to negotiate a new Trade and Investment Facilitation Agreement. A bilateral FTA is not feasible because of Brazil's membership of Mercosur – the customs union it established nearly 20 years ago with Argentina, Paraguay and Uruguay – and the feasibility of an Australia-Mercosur FTA would depend on its ambition and coverage. To date Mercosur has negotiated goods only FTAs. The two governments agreed in August 2008 to establish a plan of action for an Enhanced Partnership. This is still being negotiated, but strengthening trade and economic links between the two countries in an expanded range of sectors is an important element of the proposed plan.

The **Australia-Chile FTA** offers Australian exporters opportunities across-the-board but should be particularly valuable in boosting investment and trade in services in two broad areas:

- energy (coal, LNG, renewable energy), agriculture (dairy, meat, ovine and bovine genetics, production technologies) and food and beverages including wine; and

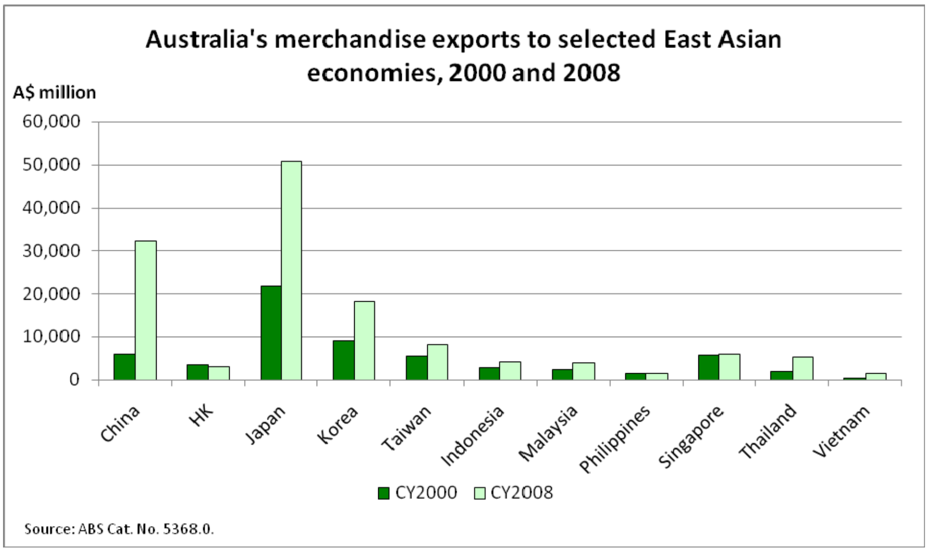
- mining and energy technology and services, engineering and consulting services, franchising services, education and training, information technology, tourism and infrastructure.

Chile's relatively open business environment has encouraged many Australian companies to use it as a base for their South American operations. Nufarm Chile, Orica Mining Services, Orica Chemnet, Pacific Hydro, Ludowici TechPro Min, AGL (Gas Valpo), GDH Promina, and Qantas are examples. The FTA could help in promoting Australia's strategic economic and wider engagement with South America.

There is scope for expanding Australia's commercial relations with other South American countries such as **Argentina, Peru** and **Colombia**. Australia has substantial investment interests – principally in mining - in Argentina and Peru. Australia, for example, is currently negotiating an Air services Agreement with Peru and Peru is party to negotiations for a Trans-Pacific Partnership (TPP) Agreement. Australia also will open an embassy in Peru in 2010.

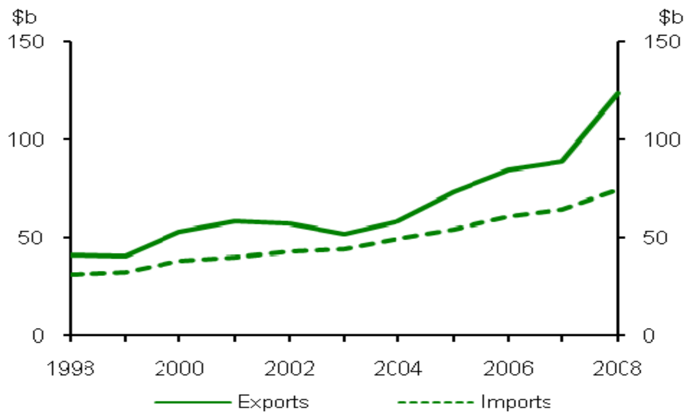
5.4 North Asia

The economies of North Asia (principally Japan, China, the Republic of Korea, Taiwan, and Hong Kong) are of vital strategic and economic importance to Australia. They take over half our exports – they include four of our top ten trading partners - and provide 12.6 per cent of foreign direct investment into Australia.



Australia's total trade with North Asia has increased at an average annual rate of 15 per cent since 2003, making it the fastest growing region for Australian trade.

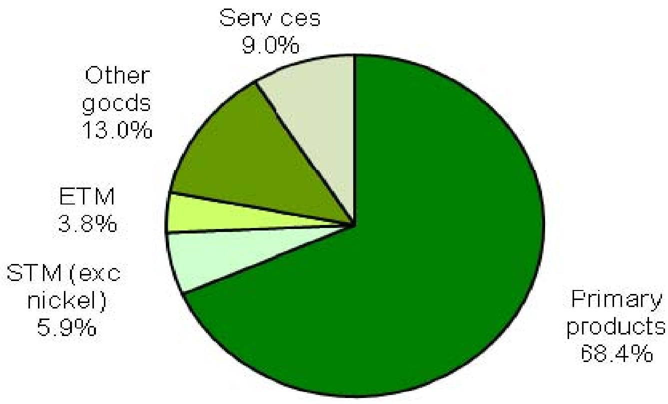
Australia's trade in goods and services with North Asia



Source: ABS trade data on DFAT STARS database and ABS catalogue 5368.0.

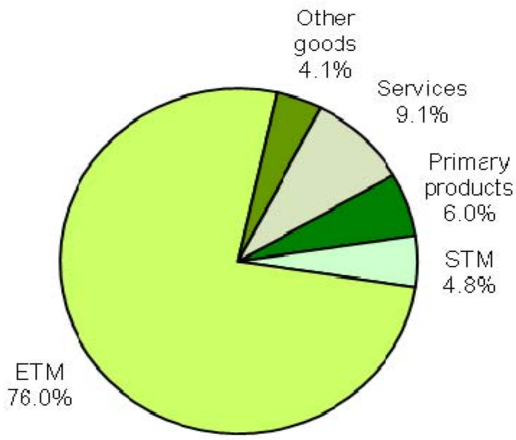
The intensity of the trading relationship is based on fundamental complementarities between our economies: trade and investment is anchored on exchanging commodities and manufactures, though the relationship has broadened considerably over recent decades.

Australia's exports to North Asia 2008



Source: ABS trade data on DFAT STARS database and ABS catalogue 5368.0.

Australia's imports from North Asia 2008



DFAT STARS database and ABS catalogue 5368.0.
Source: ABS trade data on DFAT STARS database and ABS catalogue 5368.0.

The Australia-**Japan** economic and trade relationship is mature and broad ranging and both countries are working to deepen complementary economic ties and common strategic interests. Japan is Australia's largest export market. It also is Australia's third largest foreign investor and is one of Australia's fastest growing major sources of foreign direct investment. Foreign direct investment from Japan went against trend during the financial crisis growing from $31 billion in 2007 to $36 billion in 2008. Total Japanese investment in Australia now stands at nearly $90 billion.

Japan's economic importance to Australia is likely to increase for two broad reasons. First, "The Japanese market is no longer confined to Japan itself. It is a huge international market generated by the activities of Japanese business, especially via production networks in Asia…It is a market in which Japanese business now plays an increasingly important role from an Australian base in manufacturing, agriculture and services."[22] Australia has an opportunity to capitalise on the broadening reach of the Japanese economy by building on the strength of long term existing commercial and policy relationships, and by working with partners in the region to achieve deeper and more efficient economic integration across East Asia.

Second, concluding the Australia-Japan FTA could take the relationship to a new level. There are key new areas of opportunity for trade and investment in addition to trade in agriculture, resources, energy and tourism – the traditional mainstays. Examples are financial services, including insurance and investment management; legal services; investment in clean energy capabilities; and public private partnerships to deliver infrastructure and other projects across the region. Grasping such opportunities will be easier to accomplish if the right economic framework is in place: that is why a comprehensive, high quality bilateral FTA is such a priority for Australia.

New initiatives such as the Australia-Japan Trade and Economic Ministerial Dialogue also will explore new areas of trade and investment and strategies for enhancing cooperation.

Australia's bilateral relationship with **China** is one of our most dynamic and important, the trading relationship expanding dramatically even in the face of the global economic crisis. China now is Australia's second largest export market, accounting for one-fifth of total Australian exports (compared with five per cent in 2000), and is our largest trading partner overall. China also is a significant investor in Australia, particularly in the resources sector. It is ranked currently 15th as a source of investment.

The strong upwards trajectory in our economic relationship reflects the fundamental economic complementarity between Australia as a world class supplier of resources, energy and embodied services, and China as a world class supplier of an increasing range of manufactures – the exchange of commodities for manufactures is even more pronounced than in the relationship with North Asia as a whole. Urbanisation and industrialisation will continue to drive Chinese demand for Australian resources and energy exports, while China's progress in managing the complex long term transition to a more consumption-driven economy could broaden Chinese demand for Australian goods and services. Australia has much to offer China during this transition, particularly in terms of sophisticated services. Similarly, there are opportunities for enhanced cooperation in areas like financial services and in clean energy and innovative green technology as China's economy transforms to address climate change, environmental sustainability and demographic change.

The trade policy task is to develop a structure for the economic partnership that is capable of responding to the challenges that lie ahead. Concluding a high quality bilateral FTA could usefully contribute to the development of such a partnership. Negotiations are broad and complex and both sides are committed to a comprehensive and mutually beneficial outcome. But negotiations are difficult partly because of the broad scope of the subject matter, and partly because China has not previously

[22] Peter Drysdale (13 September 2009), 'Time to re-think the economic partnership with Japan in Asia'. East Asia Forum.

negotiated an FTA with a country that has such extensive interests in agriculture, resources, services, and investment.

Taiwan is an important commodities market for Australia and this should continue as Taiwan seeks to secure future energy and resources needs. The suite of informal high-level economic dialogues Australia undertakes with Taiwan remain important tools to progress the bilateral trade and investment relationship given the important role state-owned enterprises continue to play in Taiwan's economy.

Going forward, increased cross-Strait cooperation, which may result in an economic cooperation framework agreement, could present increased opportunities for Australian interests to access the Chinese market via Taiwan.

Hong Kong remains a premier base for Australian business in southern China and a major source of investment in Australia. Its open economy and pre-eminence as a global financial centre means that it is easy to do business in and with Hong Kong.

The Australian Government will continue to support the sizeable Australian business community in Hong Kong and also Australian interests in neighbouring Macau. The Macau market has attracted increased Australian business interest in recent years, particularly in relation to investment in gaming. Some Australian companies have used Hong Kong as a springboard into the Macau market.

The **Republic of Korea** (Korea) is one of Australia's most important trading partners, and in 2008 surpassed the United States to become Australia's third-largest export market for goods and services. As Korea's economy has developed, a highly complementary trading relationship has evolved based on Australian exports of resources and energy for Korea's steel and manufacturing industries, and Australian imports of Korean consumer goods and cars.

Commodities will continue to account for most of Australia's exports to Korea with new opportunities opening up for liquefied natural gas and potentially for uranium and renewable energy and associated technologies and services. For example, the Korean Government's energy policy calls for diversified sources of supply, including sourcing 20 per cent of its liquefied natural gas (LNG) from Australia. Korea is the world's second largest importer of LNG, but currently sources only a small fraction from Australia. Recently announced deals to supply Korea from the Gorgon project and keen Korean interest offer the prospect that LNG could reasonably become one of Australia's most valuable exports to Korea over the next 5-10 years.

Korean living standards have risen dramatically over recent decades. As a result, services have become an increasingly important part of the commercial relationship, particularly tourism, education and financial services. Services trade, together with underpinning investment, seems set to become more important in the economic relationship.

In March 2009 the two governments agreed to commence bilateral FTA negotiations. The Australian Government is committed to concluding a comprehensive and commercially-meaningful FTA that protects and advances our commercial interests in the Korean market. Australia sees the FTA as a vehicle to expand the traditional elements of what is already a very substantial commercial relationship, but also as having the potential to open up new opportunities, particularly in services and investment.

Australia's trade with **Mongolia** is modest, totalling A$19 million in 2008, and consisted mainly of Australian exports of machinery and technical equipment for mineral exploration and mining. Mongolia has extensive mineral deposits whose development may become a pathway to economic sustainability: putting in place required infrastructure and creating a more certain regulatory environment are essential if this prospect is to be realised. On 25 August 2009 the Mongolian Government passed legislation that should facilitate an investment agreement for the massive Oyu Tolgoi copper and gold mine. Rio Tinto is a strategic partner. At current prices, prospective annual revenues from Oyu Tolgoi are estimated at US$3 billion, equivalent to about one-half of Mongolia's present GDP.

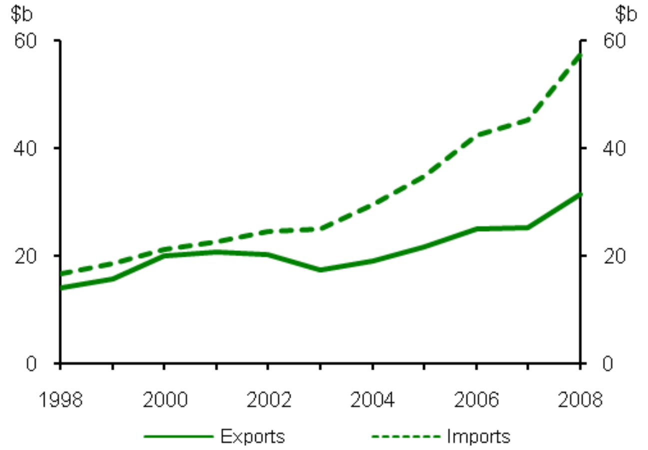
Australia's trade with the **Democratic People's Republic of Korea** (DPRK) is subject to United Nations sanctions (which Australia has fully implemented) and autonomous bilateral sanctions imposed by Australia in response to the DPRK's missile and nuclear tests. There is no expectation that trade and investment relations with the DPRK will develop substantially until it makes significant progress on de-nuclearisation.

5.5 ASEAN nations

Australia's relationship with ASEAN nations has expanded and matured well beyond its initial development assistance focus. It now encompasses trade and investment, security, transnational issues including counter-terrorism, social policy, and people-to-people links across education, tourism and cultural exchange. The trade relationship is substantial. While much smaller than the relationship with North Asia, Australia-ASEAN trade in goods and services exceeds our bilateral trade with Japan, China and the United States. Trade is growing quickly and is far more diverse than trade with North Asia, especially China.

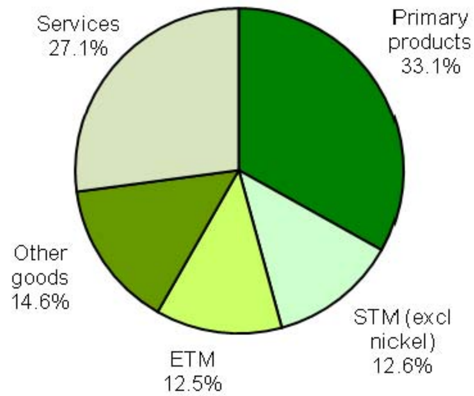
The Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA), discussed earlier in the context of regional architecture, provides a solid platform for growth across all ASEAN nations. AANZFTA will co-exist with existing bilateral FTAs with Singapore (the Singapore-Australia Free Trade Agreement – SAFTA - which entered into force in 2003) and Thailand (the Thailand-Australia Free Trade Agreement – TAFTA - which entered into force in 2005).

Australia's trade in goods and services with ASEAN



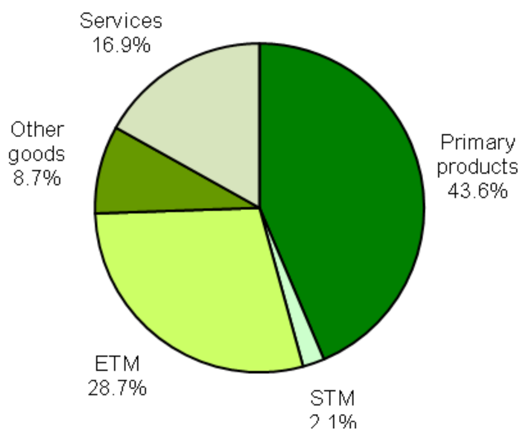
Source: ABS trade data on DFAT STARS database and ABS catalogue 5368.0.

Australia's exports to ASEAN 2008



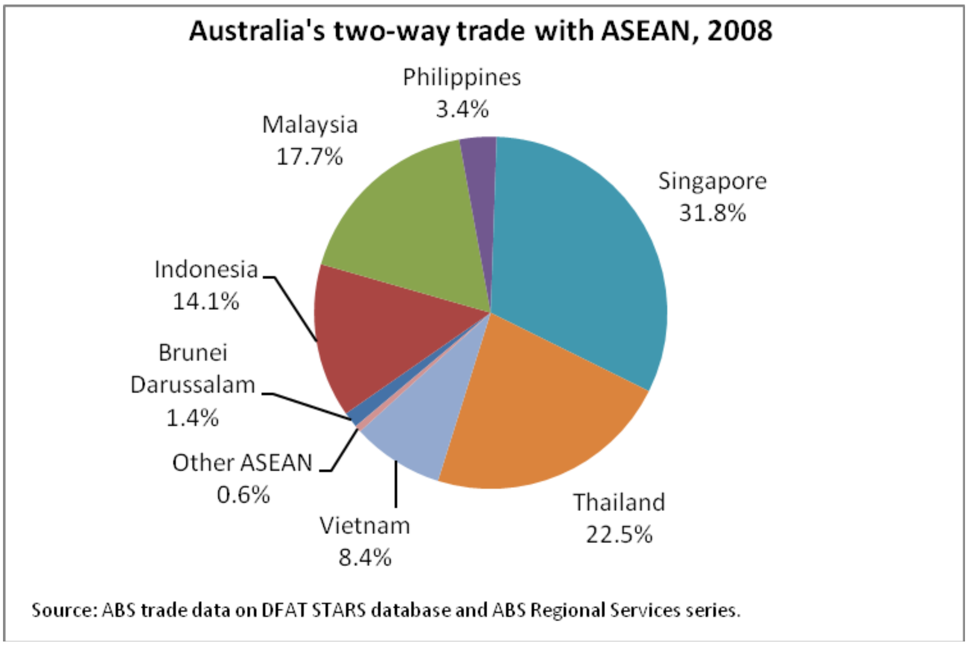
Source: ABS trade data on DFAT STARS database and ABS catalogue 5368.0.

Australia's imports from ASEAN 2008



Source: ABS trade data on DFAT STARS database and ABS catalogue 5368.0.

The scale and depth of the trade relationship varies from country to country. Australia’s largest trade relationships are with Singapore, Thailand, Malaysia, and Indonesia. Trade has grown quickly in the context of productive and wide ranging bilateral relationships, rapid and sustained economic growth in the region over many years and the emergence of new areas of competitive strength.



Singapore is Australia’s largest trading partner in Southeast Asia and was the fourth largest overall in 2008. Australia’s trade relations with Singapore are underpinned by SAFTA, which is one of Australia’s most comprehensive FTAs. In addition to tariff elimination, the agreement increased market access for Australian service providers, and establishes a more open and predictable business environment across a range of areas including competition policy, government procurement, intellectual property, electronic commerce, investment, customs procedures, and business travel. Australia’s key exports to Singapore include oil, gold, copper, lead, and food and food products while Singapore’s key exports to Australia include gold, boats, chemicals and electronic equipment. Education and tourism are Australia’s principal service exports to Singapore. Singapore also is a key investor in Australia with total investments valued at $43 billion in 2008. Australia’s total investments in Singapore were almost $22 billion in the same year.

Thailand is Australia’s second largest trading partner in Southeast Asia and ninth largest overall. Under TAFTA, more than half of Thailand's 5,000 tariffs – accounting for nearly 80 percent of Australian exports (at the time of negotiation) – were eliminated immediately and 98 per cent of tariff lines will be at zero both ways by 2010. Approximately 95 per cent of all current trade between Australia and Thailand will be completely free by 2010. Two-way trade in goods and services has grown to $18.3 billion in 2008, up from $8.3 billion in 2004 – the last calendar year before TAFTA came into force. Further negotiations with Thailand on trade and investment liberalisation under TAFTA’s inbuilt agenda are expected to begin in 2010. The negotiations will cover services, investment, government procurement, business mobility, and competition.

Malaysia is Australia’s eleventh largest two way trading partner (2008–09) and Australia’s ninth largest source of imports of goods and services. Education is the bedrock of the relationship with an estimated 300,000 alumni of Australian institutions in Malaysia. Vocational education and training and developments in green technologies and clean energy are among emerging areas of growth and reflect the increasing breadth of the trade and investment relationship.

Negotiations have resumed on a Malaysia-Australia Free Trade Agreement (MAFTA) after being paused from early 2007 to allow both sides to focus on finalising AANZFTA. Parties are seeking ‘AANZFTA plus’ commitments in areas like market access outcomes on tariffs (agriculture, manufactures), services (professional services, education, financial services, telecommunications), investment (particularly behind-the-border regulatory impediments), temporary movement of natural persons, and mutual recognition arrangements.

The Australia-**Indonesia** Free Trade Agreement joint feasibility study was completed and published earlier this year. Both governments are now considering its findings with a view to reaching an early decision on launching FTA negotiations. A comprehensive FTA with Indonesia has the potential to help unlock untapped potential in the bilateral economic relationship. For example, Australian trade with ASEAN as a whole grew by 159 per cent over the past decade, while Australia’s trade with Indonesia – the largest economy in ASEAN – grew by 69 per cent. As a result our share of trade with Indonesia in relation to total trade with ASEAN fell from more than 25 per cent to 13 per cent over the decade. Moreover, just 15 per cent of Australian direct investment in ASEAN countries goes to Indonesia. A bilateral FTA would provide an opportunity to expand and deepen Australia-Indonesia trade and investment links.

The trade relationship with the **Philippines** remains modest, with companies operating in the Philippines, particularly in mining, facing significant regulatory and security challenges. Australia’s contribution to capacity building in the mining sector – including a new scholarship scheme for Philippine mining students funded by Australian industry, along with strengthened engagement with key Philippine Government agencies on mining – may lead to increased Australian investment over time. There is potential for increased activity in the education sector, and work on mutual recognition arrangements for priority skills and professions (for example in nursing) may help to address emerging workforce shortages.

Although coming off a low base, **Vietnam** is Australia's fastest growing trading partner in ASEAN. The investment relationship has benefited from Vietnam's implementation of its WTO commitments following accession in 2007. While the global economic crisis and low commodity prices have taken their toll on Australia-Vietnam merchandise trade, bilateral services trade appears to be less affected and merchandise trade is expected to rally. Australia will continue to engage with Vietnam to support its work on structural reform, including in the financial sector, and encourage continued implementation of Vietnam’s WTO accession commitments. The Australia-Vietnam Comprehensive Partnership, signed in September 2009, will add impetus to economic engagement. Promotion of economic growth and trade development are key elements of the Comprehensive Partnership. AANZFTA is regarded by both countries as a platform for expanding bilateral trade and investment.

The relationships with Brunei Darussalam, Cambodia, Laos, and Burma are relatively small for a range of reasons. Trade with **Brunei** is dominated by oil: there are good opportunities for growth in education services. Australia has a modest trade relationship with **Cambodia** owing to limited commercial infrastructure and weaknesses in Cambodia's legal framework. However, opportunities for trade and investment are increasing as Cambodia's narrowly-based economy expands. The opening up of Cambodia's extractive sector has attracted interest from major Australian resources companies. Australia has encouraged economic reform in **Laos**, arguing that a stable and transparent trade and investment regime will help generate economic development. Relations with Laos are strengthening, particularly in mining, as it develops a more market-oriented economy. An agreement on the promotion and protection of investment has been in place since 1995. The relationship with **Burma** is constrained by the military regime – the Australian Government neither encourages nor discourages trade.

5.6 South Asia

Australia's relationship with **India** dominates the overall relationship with South Asia. Measured by ministerial and leader-level engagement, officials' engagement, multilateral engagement, trade and investment flows, and people-to-people interaction, Australia-India relations have progressed quickly in a short period of time. To give expression to the expansion and dynamism of Australia – India bilateral ties, Prime Minister Rudd and Prime Minister Singh agreed to take the relationship to the level of a strategic partnership during Prime Minister Rudd's November 2009 visit to India. The Australian Government has committed to take India to the front rank of our international partnerships.

Prime Minister Rudd announced on 12 November 2009 that Australian representation in India would increase significantly with six additional Australia-based staff in New Delhi, including new positions from the Australian Treasury, the Australian Department of Resources, Energy and Tourism, the Australian Federal Police, the Department of Immigration, and the Australian Customs Service. Mr Rudd also announced an expansion of Austrade's network of Indian national commercial staff across a large number of regional cities and the creation of a new Investment Commissioner position in Mumbai. Department of Foreign Affairs and Trade posts will open in Mumbai and Chennai staffed by three and four Australia-based staff respectively.

India was Australia's fifth-largest export market in 2008. Total bilateral trade jumped by 45 per cent between 2007 and 2008 (reaching A$16.5 billion) and has been growing at an annual rate of 30 per cent over the past five years. Australia now sells more merchandise exports to India than to each of the United Kingdom, the United States and New Zealand. Services trade also has grown strongly, particularly linked to education-related travel to Australia.

There are good prospects that trade will continue to grow rapidly. India's economy has emerged strongly from the global economic crisis. Its energy supply/demand balance remains tight and will continue to drive demand for coal. Markets for non-monetary gold – India is the largest purchaser of gold in the world – manufactures and agricultural products also are expanding quickly. These growth prospects should be enhanced by the rising pace of ministerial engagement across the spectrum of the bilateral relationship, by initiatives such as the formation of the Australia-India Chief Executive Officers' Forum – the inaugural meeting will take place in 2010 - and the possibility of launching FTA negotiations. The two governments agreed in August 2007 to undertake an FTA feasibility study. The study is nearing completion.

Australia has key strategic interests in **Pakistan's** security and stability and its capacity to contribute positively to regional stability and growth. More broadly, Australia has interests in strengthening and expanding an important bilateral relationship. Relative to other markets of equivalent size and proximity, the trade relationship is modest and the investment relationship quite limited. Australia has commercial interests in natural gas (BHP Billiton operates the Zamzama gas field in Sindh province), minerals exploration (Tethyan Cooper is undertaking exploratory work in Baluchistan) and some infrastructure projects (SMEC is supervising national highway projects). The Australian Government is exploring opportunities to expand trade and investment linkages. Improvements in Pakistan's security environment and any flow through to economic development and progress are the keys to stronger commercial relations with Pakistan.

6. Conclusions

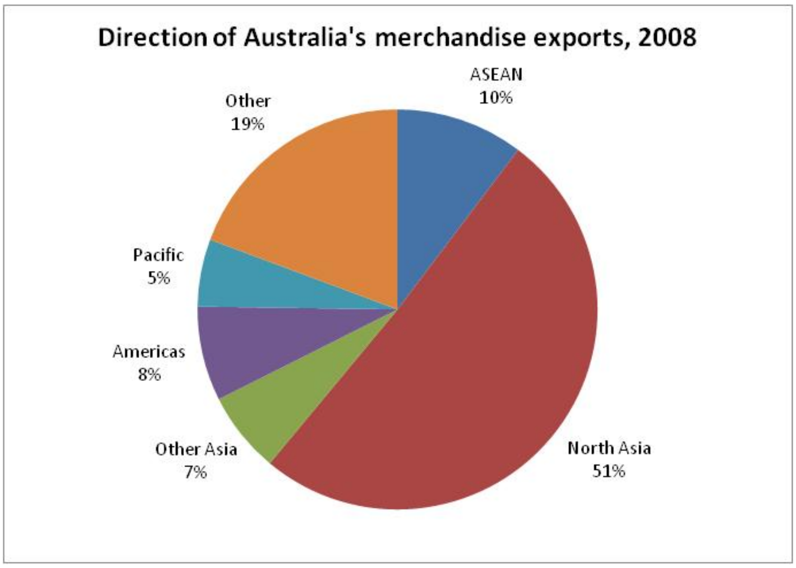
Over the next few decades, the wider Asia Pacific region will increasingly become the centre of the world economy powered by China, India and ASEAN, as well as by the United States and Japan with their massive outreach for trade and investment. Extinguishing the tyranny of distance combined with the strong likelihood of continued rapid long term growth in the wider region have profound implications for Australia. They suggest that Australia has a major opportunity to continue building trade and investment relations and increasing our national prosperity by enmeshing our economy more closely with the economies of Asia and the Americas.

The benefits of closer integration are demonstrated clearly by the long term success of closer economic relations with New Zealand. But, as with CER, the benefits will come over time only after a great deal of hard work. There is no free ride simply based on strong complementarities with the wider region. That is why the Australian Government continues to emphasise the nexus between effective trade policy, trade promotion and trade finance at the heart of international economic engagement. That is why it remains so important to work multilaterally, regionally and bilaterally to create frameworks that are ambitious in promoting economic predictability, trade and investment liberalisation and productivity growth. And that is why Australia must continue to bolster national competitiveness through behind- the-border reforms.

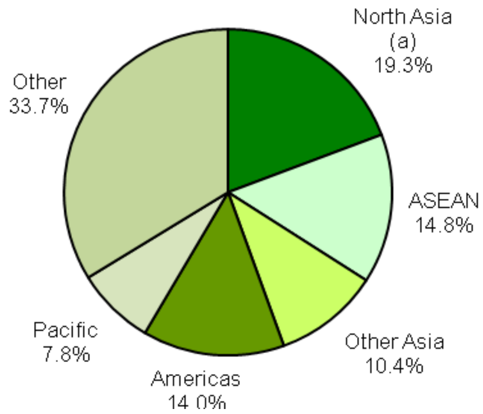
Australia's trade and investment relationships with Pacific island countries are unique. Effective regional frameworks that promote trade and investment and help build capacity to respond to trading opportunities are crucial to long term economic growth in the Pacific.

Annex 1

Australia's Trade and Investment: at a glance

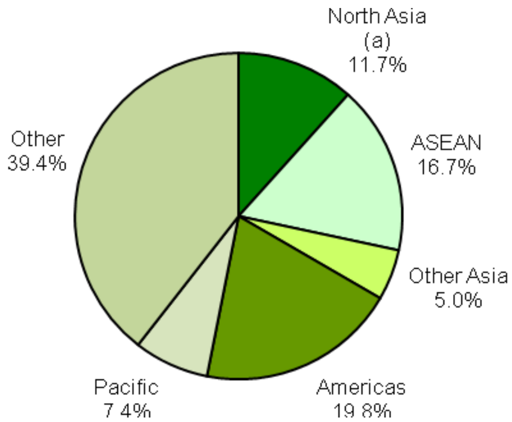


Direction of Australia's services exports, 2008



(a) Includes China, HK, Japan, Korea and Taiwan only.
Source: ABS catalogue 5368.0.

Direction of Australia's services imports, 2008



(a) Includes China, HK, Japan, Korea and Taiwan only.
Source: ABS catalogue 5368.0.

Total foreign investment in Australia - Level
(A$ billion)

	2007	2008	Rank in 2008	% share 2008	% change 2007 to 2008
Total	**1,658**	**1,724**		***100.0***	***4.0***
United Kingdom	406	427	1	*24.8*	*5.2*
United States	430	418	2	*24.3*	*-2.7*
Japan	64	90	3	*5.2*	*40.3*
Hong Kong (SAR of China)	46	56	4	*3.3*	*21.9*
Singapore	39	43	5	*2.5*	*10.5*
Switzerland	31	38	6	*2.2*	*23.4*
Germany	32	36	7	*2.1*	*14.0*
Netherlands	34	33	8	*1.9*	*-4.6*
France	25	29	9	*1.7*	*16.8*
New Zealand	42	27	10	*1.6*	*-35.5*
China	np	8	15	*0.5*	*..*

Source: ABS catalogue 5352.0.

Total Australian investment abroad - Level
(A$ billion)

	2007	2008	Rank in 2008	% share 2008	% change 2007 to 2008
Total	**1,002**	**1,011**		***100.0***	***0.8***
United States	409	395	1	*39.0*	*-3.5*
United Kingdom	133	158	2	*15.6*	*18.8*
New Zealand	71	66	3	*6.5*	*-6.7*
Canada	31	39	4	*3.8*	*25.5*
France	32	35	5	*3.5*	*10.1*
Netherlands	35	30	6	*3.0*	*-14.9*
Japan	35	29	7	*2.9*	*-17.0*
Germany	37	24	8	*2.4*	*-34.2*
Singapore	18	22	9	*2.2*	*22.5*
Hong Kong (SAR of China)	17	20	10	*2.0*	*17.6*
China	6	7	14	*0.7*	*20.7*

Source: ABS catalogue 5352.0.

Foreign direct investment in Australia - Level
(A$ billion)

	2007	2008	Rank in 2008	% share 2008	% change 2007 to 2008
Total	**388**	**393**		***100.0***	***1.4***
United States	93	95	1	*24.3*	*2.5*
United Kingdom	64	60	2	*15.4*	*-6.3*
Japan	31	36	3	*9.2*	*15.7*
Netherlands	25	25	4	*6.4*	*-0.7*
Switzerland	16	20	5	*5.0*	*19.2*
Germany	18	14	6	*3.5*	*-22.0*
France	13	13	7	*3.4*	*2.9*
Canada	11	10	8	*2.6*	*-6.2*
Singapore	14	10	9	*2.6*	*-28.8*
Hong Kong (SAR of China)	7	9	10	*2.4*	*31.4*
China	np	3	15	*0.8*	..

Source: ABS catalogue 5352.0.

Australian direct investment abroad - Level
(A$ billion)

	2007	2008	Rank in 2008	% share 2008	% change 2007 to 2008
Total	**328**	**281**		***100.0***	***-14.4***
United States	154	121	1	*43.2*	*-21.2*
New Zealand	47	34	2	*12.2*	*-26.6*
Canada	18	28	3	*9.9*	*53.4*
United Kingdom	30	23	4	*8.2*	*-22.2*
Germany	11	8	5	*2.8*	*-28.1*
Singapore	9	7	6	*2.4*	*-24.6*
Hong Kong (SAR of China)	6	6	7	*2.1*	*-9.3*
Netherlands	7	6	8	*2.0*	*-19.4*
Switzerland	np	4	9	*1.6*	..
China	2	4	10	*1.4*	*69.4*

Source: ABS catalogue 5352.0.

Annex 2

Medium Term Implications of the Global Economic Crisis for the Global Economy

The global economic crisis has been met by an aggressive and co-ordinated policy response. Following the collapse of Lehman Brothers in September 2008, authorities provided liquidity to financial markets on an unprecedented scale, cut official interest rates to record lows and, where necessary, injected capital into systemically-important financial institutions. To support growth G20 governments also implemented significant fiscal stimulus, with crisis-related discretionary measures amounting to around 2 per cent of GDP in 2009 and 1½ per cent of GDP in 2010.

This forceful and coordinated response reduced the impact of the crisis on the real economy and laid the foundations for recovery. There are signs that global economic activity is recovering, with global financial markets having largely stabilised. However, the outlook for the global economy remains uncertain. Key issues which will influence the medium term performance of the post-crisis global economy include:

- the extent to which the crisis has lowered the potential output of economies through the destruction of capital stock, the impact of financing constraints, and increases in the natural rate of unemployment;
- the durability of new sources of growth in advanced and emerging economies;
- the response to global economic imbalances;
- the speed and manner in which temporary policy responses to the crisis are unwound — 'exit strategies';
- the medium- and long-term fiscal sustainability of some advanced economies;
- the degree of government involvement in the financial sector; and
- the response to protectionist pressures — financial and trade and trade-related measures.

Protecting and rebalancing global growth

Forces lowering potential output in advanced economies

The IMF has emphasised that after the current crisis abates, growth in output is likely to be 'appreciably below' rates seen in the recent past, owing to medium-term fiscal consolidation and a reduction in financial sector leverage. On current IMF projections, growth in the global economy is not expected to return to its pre-crisis trend until 2012. For advanced economies, there are also concerns that potential output may have been permanently reduced, with the IMF and OECD citing depleted capital stocks and the potential for unemployment rates to remain persistently high in the aftermath of the crisis.

The atrophy of skills and capital and lower research and development spending in the wake of the crisis also has the potential to lower productivity. As a result, structural reform will play a key role in facilitating adjustment, by bolstering productivity and helping to overcome some of the pressures restraining countries' potential output.

Adapting to a restrained US consumer

The process of balance sheet repair in advanced economies (both for households and companies) is expected to persist for a considerable period. The IMF has projected that private saving rates in major advanced economies are likely to be substantially higher than in past decades. Therefore, private consumption will contribute less to growth in advanced economies, and emerging economies will have to rely less on external demand as a source of growth and re-orient their economies towards domestic demand. Conversely, advanced economies will need to rely on an increase in net exports as an engine of growth.

A sustained rebalancing of growth in emerging countries is unlikely to occur in the absence of an ongoing process of structural reform that removes impediments to the development of a vibrant services sector, gradually changes spending and saving patterns, reduces capital flow restrictions and increases competitive pressures in previously sheltered areas of the economy. This process will be difficult and gradual.

Adapting to a less highly-leveraged financial sector

Leverage rates in the financial sector are being unwound in the wake of the severe difficulties seen over the past year. While the de-leveraging process will not go on indefinitely, the post-crisis global financial system will probably operate with higher capital ratios and liquidity buffers than pre-crisis and with significantly increased direct government intervention and/or ownership in some countries. The ability of the financial system to 'turbo-charge' growth during the economic upswing will be lessened.

Greater constraints on financial system leverage and a stronger tendency for institutions to focus on home markets may dampen cross-border capital flows for many years to come. Economies that previously relied on such flows to finance high rates of domestic credit growth are less likely to be able to do so in the post-crisis world. Capital flows to emerging economies are projected to regain momentum over the next five years after a sharp drop in 2009, but are likely to remain well below the peak flows of 2007 and 2008. In this environment, domestic financial sector development in emerging economies will be vital to harness local savings into productive investment.

Commodity prices

The global economic crisis brought the commodity price boom to an abrupt halt, with prices falling sharply from September 2008. Nevertheless, many of the factors that underpinned the boom — including rising urbanisation and industrialisation in developing economies — are likely to re-emerge as the global economy recovers. Renewed strength in commodity prices (along with commodity price volatility) poses a risk to the sustainability of the recovery and efforts to alleviate global poverty.

Addressing global imbalances

Global imbalances have increased rapidly over the past decade and have been widely identified as a source of vulnerability for the global economy. In 2008, the combined current account shortfall of the ten nations with the largest deficits amounted to almost 2 per cent of global GDP or around US$1.2 trillion, while the top ten surpluses amounted to around 2¼ per cent of GDP or US$1.4 trillion.

Imbalances played a role in the current global recession through the symbiotic relationship between the large financing needs of the US and the large foreign exchange reserves of surplus emerging market economies. The relationship kept long term interest rates low in advanced countries, underpinning unsustainable consumer spending, house price booms and a search for yield that increased appetite for risk. In emerging countries, especially China, it underpinned rapid growth in exports, which supported employment.

Rebalancing growth and fiscal sustainability

To address large global imbalances, there is a need to lift consumption growth in some emerging economies and to lift savings rates in some of the advanced economies. A key part of increasing savings in the advanced economies is for public savings to increase, as governments seek to move their budgets from deficit back towards balance. Restoring fiscal sustainability will form an important part of the solution to global imbalances.

Exchange rates

Exchange rate issues are integral to addressing global imbalances. Significant changes in the real exchange rate of the US dollar and emerging market currencies will be required. No country has an interest in a disorderly depreciation of the US dollar or the disruptive abandonment of the dollar's unofficial reserve status in either the short or medium term.

In the face of weaker advanced economy demand, emerging economies will have difficulty maintaining export-oriented growth models. As a result they will need to increasingly stimulate domestic demand. This will require a greater preparedness to allow their exchange rates to appreciate and a willingness to move away from self insurance through accumulating large foreign exchange holdings. Adequate representation in global and regional monetary institutions and the capacity of these institutions to offer crisis management that is politically palatable and economically effective are prerequisites for any significant phase-out of self insurance policies.

Exit strategies

Fiscal stimulus

At the London G20 Summit, Leaders agreed to undertake a concerted fiscal expansion amounting to US$5 trillion by end-2010, raising global output by around 4 per cent. This response has been critical in supporting growth, but the stimulus must be withdrawn as the global economic recovery takes hold. Determining the appropriate timing and pace of its removal will be critical for the sustainability of global recovery, especially given the parallel unwinding of expansionary monetary policies.

Fiscal sustainability

The extent of the fiscal deterioration in advanced economies has been without precedent in the post-war period. While fiscal balances are expected to improve over the medium term, the IMF has projected that they will remain weaker than before the crisis. On current policies, gross public debt-to-GDP ratios will continue to increase over the medium term: in 2014 the G20 advanced country average is projected to reach 118 per cent of GDP, 40 percentage points higher than in 2007. Demographic pressures also suggest that debt ratios will continue rising over the longer term.

Financial market regulation

It is vital for the financial system to recover to full health so that it is able to again efficiently intermediate between savers and investors. Over time, significant government intervention in the financial sector should be unwound. To avoid strains and distortions, this must be done in an internationally coordinated way.

Advanced countries will face challenges in establishing a new balance between stability and innovation. The challenge for developing countries (and advanced countries) will be to ensure that post-crisis reforms are implemented and financial sector development continues.

One of the many lessons from the crisis is the imperative to reduce the scope for 'regulatory arbitrage'. Key aspects of prudential regulations must be applied consistently across borders and across financial activities.

New financial protectionism

Reduced confidence in markets and increased government ownership in the finance and auto industries could create pressure to 'de-globalise' by focusing lending on home markets, targeting capacity reductions on foreign factories and scaling back foreign investment. If this happens, it could endanger the recovery and lower medium term growth. Global supply chains are now highly integrated, and protectionism could raise production costs across the entire chain.

All countries have an interest in combating protectionism. Protectionist measures would decrease the efficiency of capital allocation and access to international capital markets.

Trade and trade-related measures

The WTO reports continued slippage towards more trade restricting and distorting policies by many G20 members over recent months. There have been instances of tariff increases and new non-tariff measures (such as non-automatic import licences), and of stricter application of sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) regulations in some G20 countries and of slower procedures and additional procedural requirements in the administration of existing trade measures. The WTO notes that policy actions tend to be focused on a narrow range of products, including agricultural products, iron and steel, motor vehicles and parts, chemical and plastic products, and textiles and clothing. The WTO also notes that the current crisis will result in a significant increase in anti-dumping and safeguard activity.

Concerns continue to be raised by governments and business about the buy, invest, lend and local hire requirements attached to some fiscal stimulus and industrial and financial support programs in G20 countries. Concerns also persist about the competition-distorting effects of the subsidy components of these programmes. The longer the subsidies remain in place, the more they will distort market-based production and investment decisions globally and the more difficult it will become to correct the distortions.

Annex 3: G20: Key Outcomes of Leaders' Summit, Pittsburgh 24-25 September 2009

- Designation of the G20 as the premier forum for international economic cooperation. This is a historic decision for global governance, recognising the increasing importance of emerging economies and the need for a new "driving centre" of global economic governance.
- Commitment to maintain economic stimulus measures until global economic recovery is assured.
- Agreement to launch a Framework for Strong, Sustainable and Balanced Growth. Under this, countries will develop medium term policy frameworks that will be subject to collective peer review.
- Commitments to refrain from protectionist trade measures and seek an ambitious and balanced conclusion to the Doha Round. Ministers to take stock of options for advancing the Round no later than early 2010.
- Support reform of international financial institutions; agreement on a minimum target shift in IMF quota share to dynamic emerging market and developed economies from over-represented to under-represented countries; agreement on a minimum target increase in voting power for developing and transition countries at the World Bank, to the benefit of under-represented countries; and agreement to complete a review of the capital needs of the Multilateral Development Banks by mid 2010
- Support reform of international financial institutions, including agreements on minimum targets for redistribution of IMF quotas and World Bank votes to emerging and developing countries, and to review development bank capital needs by mid-2010.
- Reaffirmation of the commitment to implement measures to strengthen financial supervision and regulation, including agreement on standards to ensure consistent implementation of April 2009 Financial Stability Board (FSB) principles on financial sector compensation.
- Agreement to intensify efforts to reach agreement on climate change at Copenhagen, including through tasking Finance Ministers with further work on climate change financing to be considered at Copenhagen, as well as agreement to a process to phase out inefficient fossil fuel subsidies.
- Agreement to Canada hosting G20 Summit in June 2010 and Korea hosting a further G20 Summit in November 2010 (around the time of the APEC Leaders' meeting). France will host what is expected to become an annual G20 Leaders' Summit in 2011.

Annex 4: ASEAN-Australia-New Zealand Free Trade Area (AANZFTA)

On 27 February 2009, Trade Minister Crean, along with his counterparts from the ten members of ASEAN and New Zealand, signed the Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA). AANZFTA will enter into force on 1 January 2010.

ASEAN, Australia and New Zealand have a combined population of some 600 million people, with an estimated GDP of $3.1 trillion. Australia's trade with the ASEAN region exceeds our bilateral trade with Japan, China and the United States. AANZFTA covers 20 per cent of our trade in goods and services (valued at A$112 billion in 2008), and is the largest, and first, plurilateral FTA Australia has concluded. The agreement also is the most comprehensive trade deal ASEAN has negotiated to date.

Australian exporters stand to gain from the agreement across many sectors, including industrial goods, agricultural products and services. Australia has achieved significant tariff reduction and elimination over time from the more developed ASEAN member countries and Vietnam, including tariff elimination on between 90 and 100 per cent of tariff lines in each country covering 96 per cent of current Australian exports to the region. AANZFTA immediately binds the 2005 applied tariff rates for all but a few tariff lines. For most tariff lines, the WTO tariff bindings of ASEAN countries are considerably higher than the applied tariff rates. The immediate binding of the 2005 applied tariff rates gives Australian exporters certainty of continued market access and additional opportunities over time as tariffs are reduced and, in most cases, eliminated. Exclusions from tariff commitments have been kept to a minimum and generally do not exceed one per cent of national tariff lines.

Australia has secured a good outcome on services, increasing certainty for Australia's services exporters, including through 'WTO plus' services commitments across a range of sectors such as professional services, education, financial services and telecommunications. There also is a framework for parties to make commitments on temporary business entry of natural persons that goes beyond services suppliers to include goods sellers and investors.

On investment, AANZFTA provides greater transparency and certainty for Australian investors in the region and establishes a regime of investment protections, including an investor-state dispute resolution mechanism. Australian investors will benefit from transparency provisions which cover, among other things, minimum standards of procedural transparency and rights of review of administrative decisions and prior comment before the adoption of new measures. AANZFTA also provides for a work program to develop market access schedules, covering pre-establishment issues such as foreign equity limits, within five years of entry into force of the Agreement, subject to agreement of the Parties.

AANZFTA includes useful commitments in other trade-related areas such as intellectual property and economic cooperation – specifically, technical assistance and capacity building among developing ASEAN countries to assist them in implementing the FTA. This cooperation is an integral part of the FTA and Australia has committed up to $20 million for assistance projects over a five year period.

AANZFTA provides a platform for further liberalisation of trade and investment over time. This is achieved in part through a detailed forward work program and an institutional framework providing for regular meetings of officials. The FTA also includes built-in agendas and review mechanisms – in areas such as non-tariff measures, rules of origin, services and investment – which will allow commitments under AANZFTA to expand and deepen over time in line with the development of the ASEAN Economic Community.

AANZFTA may add momentum to Australia's broader strategic engagement with East Asia. ASEAN has concluded goods (or more comprehensive) FTAs with all East Asia Summit (EAS) countries (i.e. Australia, New Zealand, China, India, Japan and Korea). AANZFTA potentially provides a platform for developing closer economic integration between all EAS participants.

Annex 5: Closer Australia-New Zealand Economic Engagement

The burgeoning Australia-New Zealand economic relationship is anchored by the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA). ANZCERTA dates from 1983 and has been extended and liberalised over time. Since 1 July 1990, all goods meeting ANZCERTA rules of origin enter duty free and are not subject to quantitative import restrictions. Services were brought under the agreement from 1989. A small number of exclusions remain. Australia excludes air services, broadcasting and television, third party insurance, postal services and coastal shipping. New Zealand excludes airway services and coastal shipping.

The Trans-Tasman Mutual Recognition Arrangement (TTMRA) for Goods and Occupations came into effect in 1998 and substantially reduced regulatory impediments to trans-Tasman trade. The underlying principles are that any good that may be sold legally in one country can be sold legally in the other; and, similarly, any person registered in one country to practice an occupation is entitled to practice in an equivalent occupation in the other. The TTMRA was reviewed by the Productivity Commission in 2008. A cross-jurisdictional committee (Commonwealth, New Zealand and States and Territories) has been considering responses to the Productivity Commission's recommendations with a view to refining the TTMRA.

Unlike Australia's more recently concluded free trade agreements, ANZCERTA does not include substantive commitments on investment liberalisation. In February 2006, Australia and New Zealand agreed to commence negotiations on an Investment Protocol to ANZCERTA. Negotiations are now at an advanced stage.

With most of the trade goals met, the trans-Tasman economic work program is now focused on 'third generation' trade and investment facilitation issues under the Single Economic Market (SEM). This initiative fosters closer economic integration through regulatory harmonisation and trans-Tasman business collaboration. Significant progress has been made on the SEM agenda, including in areas like banking supervision, securities offerings and accounting standards. Current focal points for the SEM include:

- business law (the Memorandum of Understanding on Business Law Coordination applies to cross-border insolvency, company registration, mutual recognition of securities offerings)*;*
- prudential regulation (seamless banking, insurance, banking crisis and failure management);
- superannuation (portability, interaction between retirement income systems); and
- taxation (double tax agreement, imputation credits).

On 20 August 2009, the Australian and New Zealand Prime Ministers committed to a Single Economic Market Outcomes Framework. This sets out principles for delivering the benefits of a seamless trans-Tasman economy quickly and effectively to consumers and businesses. The principles include:

- persons in Australia or New Zealand should not have to engage in the same process or provide the same information twice;

- measures should deliver substantively the same regulatory outcomes in both countries in the most efficient manner;
- regulated occupations should be able to operate seamlessly between each country;
- both Governments should seek to achieve economies of scale and scope in regulatory design and implementation;
- products and services supplied in one jurisdiction should be able to be supplied in the other;
- the two countries should seek to strengthen joint capability to influence international policy design; and
- outcomes should seek to optimise net Trans-Tasman benefit.

At that time both Prime Ministers also committed to streamline trans-Tasman travel, agreeing to:

- undertake a joint feasibility study on the alignment and integration of automated passenger clearance systems (SmartGate) for Australian and New Zealand passport holders;
- undertake a joint feasibility study into implementing a new streamlined passenger clearance model (pre-clearance options);
- improve bio-security screening and passenger processing on both sides of the Tasman; and
- work with Queensland University of Technology and Brisbane Airport Corporation on the ‘Airports of the Future’ research project to streamline use of transferred x-ray images.

Annex 6: Bilateral Trade and Investment Relations with South America

Australia has diplomatic posts in South America in Brasilia, Buenos Aires, Port of Spain, and Santiago de Chile.

Two-way merchandise trade has grown rapidly, but still comprises less than two per cent of Australia's global two-way merchandise trade. Education links are growing quickly and South America has emerged as one of the fastest-growing sources of full-fee paying students in Australia. Most student enrolments originate from Brazil and Colombia.

Australian investment in South America is mainly in mining and agriculture. Data on Australia's investment relationship remain sparse owing largely to methodological constraints. Available data suggest significant and growing investment relationships with Brazil, Chile and Argentina. Australian official data suggest that total Australian investment was over A$2 billion in 2008 in each of these countries.

Brazil

Brazil is Australia's largest trading partner in South America. In 2008, total two-way merchandise trade rose by 70 per cent to A$3 billion and merchandise exports rose by 82 per cent to A$1.5 billion. Education exports increased to A$0.36 billion.

Coal is Australia's largest merchandise export to Brazil (A$1.14 billion in 2008-09). Other exports include crude petroleum, fertilisers and measuring and analysing instruments. Australia's largest merchandise imports from Brazil include aircraft, spacecraft and parts, animal feed, civil engineering equipment and parts, and pig iron.

A growing number of Australian companies operate in Brazil. The Brazilian mining sector continues to generate trade and investment opportunities for Australian business, particularly in consulting services and in extraction and processing technologies and software. More generally, opportunities exist in education, agri-business, information technology, biotechnology, transportation (rail and marine), telecommunications, banking and insurance, water and waste water management, oil and gas, power, agribusiness, tourism, and infrastructure.

Responding to opportunities is complicated by distance, lack of mutual awareness and complex regulatory 'behind the border' barriers. Some progress is being made at government-to-government level to address such constraints, but it is incremental. For example, an Australia-Brazil Air Services Agreement is currently ready for signature; negotiations are underway for a science and technology agreement; and negotiations have started on an Enhanced Partnership Agreement to strengthen *inter alia* bilateral trade and economic links across a range of sectors.

There may be scope to negotiate a new Trade and Investment Facilitation Agreement – the existing agreement needs updating – but it is not feasible currently to negotiate a bilateral Free Trade Agreement (FTA) because of Brazil's membership of Mercosur.[23] Australia engages Mercosur through the CER-Mercosur Dialogue: the process was established in 1996 and the last meeting occurred in 2004. Australia and New Zealand are considering the possibility of reconvening the Dialogue with a re-invigorated agenda, including trade facilitation, investment and behind-the-border issues.

The Australian business community supports strengthening commercial engagement with Brazil through concluding a Double Taxation Agreement. To date this has not been possible because of major differences in our respective taxation systems.

Chile

In 2008 total Australia-Chile merchandise trade was valued at A$1.03 billion and services trade at A$392 million. Coal is Australia's largest merchandise export (worth A$136 million in 2008-09); copper the largest merchandise import (worth A$159 million in 2008-09). Approximately 120 Australian companies actively trade with Chile. More than half of Australian or Australian affiliated companies with offices in Chile are engaged in mining.

The Australian Bureau of Statistics (ABS) estimates Australian investment in Chile at A$1.06 billion in 2008, but this probably understates investment by a large margin. Business sources suggest that Australian investment exceeded US$3 billion in 2007. (Chilean investment in Australia is not substantial and data are not available.) Significant Australian private sector investors include BHP Billiton (mining) and Pacific Hydro (power generation).

The Australian and Chilean Governments signed an FTA on 30 July 2008 which entered into force on 6 March 2009. The FTA offers Australian exporters opportunities across-the-board but should be particularly valuable in boosting investment and trade in services in two broad areas:

- energy (coal, LNG, renewable energy), agriculture (dairy, meat, ovine and bovine genetics, production technologies) and food and beverages including wine; and

- mining and energy technology and services, engineering and consulting services, franchising services, education and training, information technology, tourism and infrastructure.

The FTA eliminates tariffs on all merchandise trade by 2015. On entry into force, the agreement eliminated Chile's tariffs on almost 92 per cent of tariff lines covering 97 per cent of goods currently traded. This includes Australian coal, meat, wine, and priority dairy exports, as well as all manufactured goods of interest to Australia. On services, Chile agreed to maintain an open and non-discriminatory market in areas of

[23] Mercosur was formed in 1991 by Brazil, Argentina, Paraguay and Uruguay. It is a customs union with common external tariffs ranging from 3-23 per cent on all but highly sensitive products, and is the world's fourth largest trading bloc behind the North American Free Trade Area, the European Union and the ASEAN Free Trade Area. Mercosur to date has not produced a high level of economic integration among its members. Trade with non-member trading partners remains far more important than intra-Mercosur trade.

importance for Australia such as education, professional services, mining, engineering, management consulting, and financial services. On investment, Chile agreed to access provisions and strong protections for Australian investment, including investor-state dispute settlement provisions – an important feature given Australia's role as a major source of foreign direct investment.

Argentina

Australia has a modest trade relationship with Argentina. Australia's total merchandise exports were valued at A$274 million in 2008-09 and included coal, fertilisers, specialised machinery and parts, and crude vegetable matter. Australia's total merchandise imports from Argentina were valued at A$393 in the same year, and included animal feed, goods vehicles, leather, and fixed vegetable oils and fats.

Australia has invested around A$2 billion in Argentina, mainly in mining, agri-business, entertainment, port management, freight equipment, and workers compensation insurance. In recent years, Argentina has focused on developing commercial links with Asia. Australian and Argentinean companies are cooperating in developing third markets in East Asia. Currently over 30 subsidiaries of Australian companies operate in Argentina both to supply goods and services to local markets as well as to facilitate trade with the broader Asia-Pacific region.

Argentina and Australia signed an Investment Promotion and Protection Agreement in 1997. This protects Australian investors against possible expropriation and establishes an international dispute settlement mechanism. A double taxation agreement entered into force in 2000. In November 2003, Australia signed an MOU on scientific and technological cooperation.

Peru

Australia's trade relationship with Peru is modest but continues to grow gradually. Australia's commercial presence in Peru has more than tripled since 2004, albeit from a low base. Around 48 Australian companies are now selling goods and services or investing in Peru, compared with just 13 in 2004.

Australia's total merchandise exports to Peru were valued at A$134 million in 2008-09 and included milk and cream, civil engineering equipment and parts, goods vehicles, and measuring and analysing instruments. Australia's merchandise imports from Peru were valued at A$118 million in the same year and included ores and concentrates (mainly zinc ores and concentrates), animal feed, animal oils and fats, and prepared or preserved vegetables.

Australia is among the top ten foreign investors in Peru, primarily in mining. For example, two-thirds of the Antamina copper and zinc mine is owned by BHP Billiton and Xstrata – an investment worth in excess of $US2 billion. The focus on mining is predictable given that Peru is the world's largest producer of silver and tellurium, second largest producer of zinc and third largest producer of tin, cooper and bismuth.

The trade and investment relationship at government-to-government level has evolved steadily and is now accelerating. A bilateral Investment Promotion and Protection

Agreement was concluded in 1995 and entered into force in 1997. Australia and Peru are currently negotiating an Air Services Agreement. Australia and Peru's involvement in prospective Trans-Pacific Partnership Agreement negotiations may open up important new opportunities for liberalising trade and investment. Australia and Peru cooperate on the environment, fisheries management, international law enforcement, and education. In May 2006, the two governments signed an MOU on Cooperation in Education and educational links are growing. Peru is a member of APEC and joined the Cairns Group in 2008.

Colombia

Australia and Colombia enjoy sound bilateral commercial relations in the mining, energy and education sectors. Australia's merchandise export to Colombia amounted to A$58 million in 2008-09 and consisted principally of nickel ores and concentrates, electrical circuits equipment, electrical machinery and parts, and electrical distributing equipment. Australia's merchandise imports were valued in the same year at A$32 million and included coffee and substitutes, specialised machinery and parts, and toys, games and sporting goods.

After Brazil, Colombia is the second largest source of international students to Australia from South America. In 2008, 7,117 students were enrolled at Australian education institutions. Education-related exports to Colombia were valued at A$202 million in 2008.

Australia's export opportunities are predominantly in mining (and related services), education, agriculture, and telecommunications. Colombia has the largest coal reserves in South America and has significant reserves of gold, silver, platinum and iron ore. Mining (perhaps along with education) is likely to remain Australia's principal focus, building on BHP Billiton's significant investments in refining plant and coal and nickel mining ventures in Cerrejón Norte, Central and Cerro Matoso, and on Sedgman Coal's investment in coal washing at the Cerrejón Norte mine.

Government-to-government linkages are strengthening. In March 2009, Australia and Colombia agreed to negotiate a memorandum of understanding aimed at strengthening trade and investment. Negotiations are nearing conclusion: it is envisaged they will result in agreement to establish a Joint Committee to review progress and consider further steps to strengthen trade. The low level of bilateral trade precludes a bilateral FTA at this stage. But Colombia's increasing engagement with Asia Pacific countries – including its proposed membership of APEC - and renewed interest in engaging with Australia suggest scope for making progress, particularly at the sectoral level.

Bilateral Trade Related Agreements with Argentina, Brazil, Chile, Colombia, and Peru

Trade Agreement or Trade and Investment Framework Agreement	**Free Trade Agreement**	**Double Taxation Agreement**	**Investment Promotion and Protection Agreement**	**Air Services Agreement**	**Science and Technology Agreement**
Brazil (1978)	Chile (2009)	Argentina (1997)	Argentina (1997)	Chile (2005)	*Brazil (2009 under negotiation)*
			Peru (1997)	*Brazil (2009 ready for signature)*	
			Chile (1999)	*Peru – under negotiation*	

Source: DFAT Treaties Database