



CHALLENGES AND PRIORITIES FOR ASEAN - ANZ FTA NEGOTIATIONS

The Australian Chamber of Commerce and Industry is a strong supporter of a free trade agreement between the 10 nation ASEAN block and Australia/New Zealand, provided that it is bold and comprehensive and delivers high quality, WTO-plus outcomes in areas such as goods, services, agriculture, investment, intellectual property, government procurement and movement of natural persons. The following article is an edited address delivered by ACCI Trade and International Affairs Policy Director, Dr Brent Davis to a major international conference in late November.

Through our membership, ACCI represents over 350,000 enterprises nationwide, which makes us the largest and most representative business organisation in Australia.

Around one in five – or some 70,000 of those businesses – are either actively engaged in international trade (as exporters or importers) or as service providers to them (for example transport and professional services like customs and freight documentation).

ACCI also hosts a number of business councils devoted to promoting bilateral and regional trade, commerce and investment, including Malaysia and Thailand which are ASEAN member countries.

We also have an active program of outreach and exchange with other chambers of commerce and business councils representing others within the ASEAN region, including Indonesia, the Philippines, Singapore and Vietnam.

The members of ASEAN are Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, Vietnam. The CER, or Closer Economic Relations, partners are Australia and New Zealand.

THE GAINS FROM CLOSER LINKAGES

ACCI looks at the possibility of an ASEAN-ANZ Free Trade Agreement (FTA) with a sense of ambition balanced with realism.

ASEAN Governments have usefully set down a number of guiding principles for the FTA negotiations, including that an FTA should:

- be comprehensive in scope, covering trade in goods, services and investment;

- build on members' existing WTO commitments (where applicable);
- be designed to enhance transparency in trade and investment relations between participating nations;
- cover 'substantially all trade' between the participating countries (as required by their WTO commitments); and
- be subject to periodic review, once completed.

The existing AFTA agreement (between the ASEAN partners) and the CER agreement (between Australia and New Zealand) will continue as distinct functioning agreements.

Finally, governments also put down some time-markers.

The negotiations were to begin in 2005 and be completed by 2007, with all commitments in the final FTA to be fully implemented within ten years of its entry into force. Negotiations however will continue until a satisfactory agreement has been reached.

ACCI ECONOMIC RESEARCH

As part of ACCI's early consideration of the merits, or otherwise, of closer relations between ASEAN and the CER partners, we undertook several major research projects.

Copies of these projects are available from our website at www.acci.asn.au.

The first of these looked at the nature of our economic, trade and investment relationships with the ASEAN countries, both individually and collectively.

The trade and commercial data provided us with several clear messages, the core of which recognises ASEAN as a large and growing market for Australian exporters and importers.

A few numbers tell a big story. ASEAN is a market of some 558 million people, is the third largest market in the world after China and India and is ahead of the European Union and the United States of America.

ASEAN has a combined gross domestic product of around \$US 800 billion (or some \$A1060 billion), second only to China in emerging Asia.

By comparison, the ANZ partners have a combined GDP of some \$US720 billion, or around 90 per cent of the ASEAN grouping, but a total population of a mere 24 million people.

The ASEAN region is also one of Australia's major trading partners, accounting for just under 12 per cent of our exports in the 2004/05 financial year (about \$A17 billion).

This share is higher than those for the European Union (11 per cent), China (10 per cent) and the United States and New Zealand (each around 7 per cent).

Looked at another way, the 10-country members of ASEAN are, as a single group, a larger trading partner for Australia than Japan, China or the United States.

However, while ASEAN is big, Australia's desirability as a free trade partner should not be underestimated. Australia is:

- the 13th largest economy in the world;
- the 10th most economically competitive nation in the world, according to the Global Competitiveness Report for 2005; and
- the 4th most competitive, with the highest productivity per capita in the Asia Pacific region according to the World Competitiveness Yearbook for 2006.

Australia also has a highly skilled workforce, modern financial services sector, sophisticated infrastructure, strategic time zone advantages and open regulatory environment.

Our doors are also open to business and labour skilled migrants.

ACCI's research and analysis also found there are good

complementarities between Australia and ASEAN – an essential foundation for realising closer economic and trade relations.

As many would be aware, Australia's merchandise exports to ASEAN are dominated by rural and resource-based products – i.e. inputs to ASEAN export-based manufacturing industries.

In return, Australia's merchandise imports from ASEAN include a very large component of light manufactures, for example electronics.

However, this is not to say our trade relationship is 'commodities going up, and manufactures coming down' at least viewed from our geographic position.

From an Australian business perspective, we have a broad range of trade interests in ASEAN, covering agriculture, resources, manufacturing and services.

Opportunity sectors for services exporters are seen to exist in areas ranging across legal, accounting, engineering, education, telecommunications and financial services, to name just a few.

There is also considerable scope for expanding our bilateral investment relations.

While ASEAN accounts for 15 per cent of Australia's international trade, the region makes up only 3 per cent of the stock of our foreign investment.

The second of our research/analysis projects on ASEAN – ANZ relations looked at some of the broader policy issues underlying closer relations and the third involved an examination using mathematical-economic modeling of the nature of the trade and commercial relationship.

The major research study into the trade complementarity and competitiveness of Australia and ASEAN covered the period 1989 – 2000 and was subsequently updated to 2003, the last year for which we have comparable data.

In overview terms, ACCI found that:

- Australia was a good market match with the ASEAN countries;
- Australia's export performance was better than would be expected based on conventional trade considerations; but
- there has been a trend decline in Australia's market share in ASEAN countries.

Our analysis looked at several measures of trade performance - namely trade intensity, country bias and trade complementarity.

The degree of trade intensity is an indicator of aggregate market shares and our main finding was that Australia generally achieved very good measures of market share until the mid 1990s, although there has been a trend decline since then.

The degree of country bias indicator looks at how well Australian exporters realised Australian export potential into ASEAN and is sometimes viewed as a measure of the impact of trade barriers in the target market(s).

Here we found Australian exporters performed better than potential would have suggested until the mid 1990s, thereafter the performance deteriorated markedly.

Whether this decline was because Australian exporters became less resilient in overcoming ASEAN trade barriers, or more barriers were erected, we cannot say from the available information.

The degree of trade complementarity measures the extent of market match between Australia and ASEAN – how well does each sell what the other wants to buy.

On this measure Australia's performance held up reasonably well over much of the 1990s, although it (understandably) dipped during the Asian economic turmoil of the late 1990s before bouncing back somewhat in the early 2000s.

Taken as a whole, we drew several core messages and inferences from this mathematical-economic modeling work.

Australia's trade performance has benefited from our capacity to ride the wave of ASEAN economic growth and development but we noted that other countries have been outperforming Australia in key ASEAN markets.

While our trade performance with ASEAN may have been commendable up to and during the middle of the 1990s, and then took a buffeting from the Asian economic turmoil of the latter part of that decade, early indications for the 2000s suggest a step down in Australian achievement in ASEAN markets – hopefully something we can redress through an ASEAN – ANZ FTA.

MORE THAN TRADE

The Australia – ASEAN relationship is about more than just trade and investment. There are also strong people-

to-people linkages as well as common interests in defence and security issues.

In the tourism area, more than 600,000 people from south east Asia visited Australia in 2004-05, to see our natural wonders, our unusual animals, and engage in the Australian cultural experience.

In education, over 69,000 students from ASEAN countries are currently studying at Australian educational institutions, secondary and tertiary, last calendar year.

Several of our leading universities are building a physical presence in different parts of ASEAN - the University of New South Wales with a facility in Singapore, Monash University with a medical college in Malaysia and RMIT with a campus in Ho Chi Minh City in Vietnam.

More generally, there are a range of MOUs covering education co-operation and exchanges between Australia on the one hand and Indonesia, Malaysia, Singapore, Thailand and Vietnam (individually) on the other hand.

In the defence and security area, there are a broad range of arrangements covering defence co-operation, bilateral security dialogues and counter-terrorism, all of which help to deliver stability in the region – an essential platform for trade and commerce.

Finally, but by no means least, Australia and ASEAN are strong partners in development co-operation, with Australia providing some \$A630 million (\$US480 million) this financial year in aid and other forms of development assistance to ASEAN member countries, collectively.

COMMITTING TO FREE TRADE

ACCI is firmly and unequivocally committed to the cause of free trade.

Our willingness to stand resolutely against those who favour protectionist agendas, however they may be advanced or disguised, is second to none in the Australian business community.

Despite many battles, the fight is still not over as vested interests in Australia and elsewhere continue to press ahead with a beggar-thy-neighbour trade agenda. Witness the challenges confronting the currently suspended WTO Doha Round of trade negotiations.

As such, while we would encourage the ASEAN and the CER partners, individually and collectively, to pursue active trade liberalisation agendas unilaterally and within the multilateral framework, we see worthwhile benefits

from moving ahead with the ASEAN – ANZ FTA negotiations.

Indeed, we are encouraged by the political commitment of all of the national governments involved in the negotiations that a high quality, comprehensive agreement will promote greater trade and investment, which would benefit all participating nations.

However, we are not necessarily convinced negotiators, despite the best will in the world, will be able to meet the initial, ambitious deadline of concluding the negotiations by the end of 2007.

Australian business would prefer to see the negotiations driven by a focus on the breadth, depth and quality of the outcome, rather than an end-point marked on a calendar, although this does not mean an open-ended time frame either.

Perhaps the better middle ground is an objective and rigorous stock-take of progress, and remaining hurdles, involving both business and governments from ASEAN and ANZ countries, say in the middle of 2008.

If the negotiations are going well, with a quality outcome likely to be achieved within a reasonable time, say within two years, then negotiators should press on. If not, business and political leaders should, to use a cricketing term, ‘call it stumps’.

DELIVERING OUTCOMES

Australian business’ engagement in ASEAN – ANZ FTA matters is very much focused on the outcomes we can deliver for our members, especially those actively involved in trade and international affairs.

They are also focused on realizing outcomes that are ‘WTO-plus’ – i.e. trade facilitation and liberalisation outcomes over and above those already available from the WTO system, or likely to be obtained from a successful outcome of the Doha Round.

Australian business wants a bold and comprehensive agreement which delivers high-quality, WTO-plus outcomes in areas such as goods, services, agriculture, investment, intellectual property, government procurement and movement of natural persons, to name just a few.

We believe the ASEAN – ANZ FTA, as with all of our FTA-style negotiations, should be based on a single undertaking – that nothing is agreed until everything is agreed and all commitments enter into force at the same

time.

Thus far, from our work with the Australian Government on the ASEAN – ANZ FTA, the signals are encouraging.

However there is much work to be done if they are to be completed in the next few years.

For 2007, this will require negotiators from all 12 participating nations to put their shoulders to the wheel across the broad sweep of issues such as trade in goods, trade in services, government procurement, investment and intellectual property.

There has already been developments and progress in a few key areas:

- in the trade in goods, there has been a good exchange of information, which assists each side to better understand the situation in the other’s economy and there is an expectation all of the parties will take initial market access offers early next year;
- some useful progress has been made in drafting a chapter on the trade in services, with recent talks addressing issues like transparency of domestic regulation and movement of natural persons;
- there is a first draft of a chapter on investment issues, with future talks expected to focus on matters such as scope, structure and coverage; and
- on economic co-operation, ASEAN wants to include issues such as competition policy and intellectual property along with traditional economic co-operation issues, whilst Australian negotiators would prefer to see them dealt with separately.

The ASEAN – ANZ FTA negotiations will not be easy, quick or simple and they will challenge all concerned.

As a developed economy with experience negotiating high-quality FTAs, we can attest delivering bold, comprehensive and WTO-plus outcomes is a very real challenge – but it can be done.

In Australia we recognise we are negotiating with a diverse region, one with a wide range of interests and differing levels of ambition toward freer trade.

We acknowledge those on the ASEAN side are at different stages of economic development and have varying capacities to negotiate across the full range of issues and at different intensities.

Indeed, the Australian Government has recognized the financial demands regular negotiating sessions, currently around four per year, at different locations around the region can place on some of the least developed country members of ASEAN.

As a sign of Australia's good faith, and to assist some of the ASEAN countries in their trade negotiating capacity building (both for the ASEAN – ANZ FTA, and potentially for the WTO Doha Round), the Australian taxpayer has been willing to provide financial assistance to Burma, Cambodia and Laos to attend negotiating sessions held in this country.

Nevertheless, we would encourage all of those with a stake in the outcome to recognise the potentially substantial commercial and economic (and through them, social) dividends which could come from a high-quality ASEAN – ANZ FTA.

As part of its early thinking on the ASEAN – ANZ FTA the Australian Government commissioned some rigorous econometric modeling on the potential net benefits, or otherwise, of a high quality FTA for the participating countries.

In broad terms, such an FTA would add just over \$US48 billion in net present value terms to the national outputs of the ASEAN and ANZ countries collectively, over a 20 year period.

Most of the gains (around \$US26 billion) would accrue to the ASEAN partners, more so than Australia and New Zealand.

Looked at another way, economic growth would be around 0.3 per cent higher for Australia, New Zealand and the 'older' ASEAN members, and 0.4 per cent higher for the 'newer' ones.

These estimates are likely to be at the lower bounds of the potential economic dividends, as they do not include difficult to model factors such as the complementarity of FTA-based trade liberalisation with other economic and commercial reforms which produce flow-on gains.

THE FTA AGENDA

While there are substantial commercial, trade and investment dividends to be had for both the ANZ and the ASEAN parties in a prospective FTA, neither side is placing all its eggs in one basket.

Both sides, and individual countries within each region, have active FTA negotiating agendas.

ASEAN is currently working on a range of initiatives designed to develop and/or strengthen its trade and investment linkages with countries such as China, Japan, India, South Korea and the European Union - as well as deepen its own internal integration arrangements.

In Australia, we already have free trade agreements with New Zealand, Singapore, Thailand and the United States, and are getting closer to finalizing one with Malaysia.

The Australia – Thailand Free Trade Agreement was Thailand's first with a developed nation.

The Australian Government's forward agenda includes FTAs with ASEAN, China, Japan and potentially the Middle East (more formally, the Gulf Co-operation Council), South Korea and Chile.

ACCI remains a champion for an Australia – Indonesia Free Trade Agreement.

No wonder a former Australian Trade Minister (Mark Vaile) once said, to broadly paraphrase, 'we have a full dance card at the FTA ball'.

THE EAST ASIAN SUMMIT

However Australia is not putting all of its proverbial eggs in one basket in terms of our relations with ASEAN members, individually or collectively.

We are building our relations through a series of bilateral FTAs with Singapore and Thailand, and prospectively with Malaysia and hopefully Indonesia, as well as the nascent ASEAN – ANZ FTA.

Australia is also looking to build its relations with ASEAN and the wider Asian community to our north through the new East Asian Summit (EAS) process.

The EAS brings together the 10 ASEAN nations, plus Australia, China, India, Japan, New Zealand and South Korea, with the fulcrum being the annual Leaders meeting.

While the EAS is still in its formative stage, Australian commerce and industry shares our government's expectation it will evolve into a mechanism to advance closer regional integration on economic and strategic issues.

However in relation to economic issues, ACCI would be reluctant to see it evolve into an 'Asian APEC', supplanting the long-standing and wider APEC mechanism.

CONCLUSION

The Australian Chamber of Commerce and Industry is supportive of the efforts by the Australian Government to negotiate an ASEAN – ANZ FTA.

Such an Agreement would further cement around already strong ties:

- Australia was ASEAN's first formal Dialogue Partner, in 1974 – a formal relationship now of 32 years standing; and
- our accession to ASEAN's Treaty of Amity and Co-operation, last year.

A high-quality, WTO-plus FTA would lift our relationships to a new level, for the benefit of all concerned.