



AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY

Editorial Comment by Peter Hendy, Chief Executive, to the Australian Financial Review – Thursday 24 July, 2003

Bold Approach Will Pay Off in Trade Deal

The proposed Australia-United States free-trade agreement is likely to be one of the most important bilateral economic and commercial agreements ever negotiated by any Australian government.

For the US, it will be an important addition to its “hub and spoke” model of free-trade agreements with other favoured nations.

The commercial and economic importance of the US to Australia cannot be understated.

The US is Australia’s largest single trading partner, the second most important destination for our manufactured exports (after Japan) and the most important market for investment and services.

Australia also has a strong and growing investment relationship with the US. According to official statistics, the US was the largest single destination for Australian investment abroad (\$177 billion) and our largest single source of foreign investment (\$235 billion) in the 2000-01 financial year.

Realising the bilateral FTA will not be without its challenges. The political spin surrounding any final agreement must not obscure the more important issue of its economic and commercial substance.

First, any agreement must not detract from the primacy of the World Trade Organisation system in international trade law liberalisation. Australia’s vital national economic interests are best served by challenging, not facilitating, any trade or related initiative that has the potential to compromise the principal and overriding standing of the WTO and the rule of international trade law.

Commerce and industry believes strongly that the creation of alternative systems to the WTO and/or trade arrangements that detract from the WTO will ultimately come at great cost to smaller trading nations, such as Australia, and the world economy and its people.

Second, the free-trade deal must be “WTO-plus” delivering outcomes beyond those achievable within the WTO system. If the deal merely repackages the trade liberalisation and facilitation opportunities available in the WTO suite of agreements, then the negotiations will have been for naught.

Third, both countries will come to the negotiating table with difficult issues on which they will be seeking concessions from the other country, while having their own sensitive sectors where making concessions may prove particularly challenging.

But ignoring or unreasonably delaying negotiations on such “difficult and sensitive” sectors will diminish the credibility and the ultimate commercial and economic value of any final agreement.

Fourth, while the US represents an important bilateral economic relationship for Australia, careful consideration must be given to the implications of any free-trade deal for our bilateral and regional relationships elsewhere in the world.

Commentary about sensitivities within Asia to the AUSFTA tend to be overplayed, implying that if Australia has a closer economic relationship with the US, we must be distancing ourselves from Asia. This (wrongly) suggests trade relations is ultimately a zero-sum game.

As any well-informed observer would be aware, a growing list of Asian countries already have, or are looking to negotiate, economic and trade agreements with the US.

Australia can't be a member of every bilateral FTA around the world and, for those FTAs to which we are not a party, we must give careful attention to the implications for our competitiveness and access to export markets.

The third round of negotiations, underway this week in Hawaii, should crystallise many of the essential issues likely to form the hard yards for the Australian and American negotiators – that is, the elements from which the dividends are likely to be greatest.

The tangible nature of this week's negotiations is evident from the intention of the Australian and US negotiators to exchange their first formal offers – the concessions they are prepared to make to advance trade liberalisation and facilitation between the nations. In many respects, the nature of these offers – in particular, the extent to which they meet the “bold and comprehensive” threshold test set down for the FTA – will be an early measure of whether the exercise is likely to be one of diplomatic and political “spin” or commercial and economic substance.