



An Australia-USA
**Free Trade
Agreement**

ISSUES and IMPLICATIONS

A Report for the Department
of Foreign Affairs and Trade

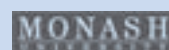


**FOREIGN
AFFAIRS AND
TRADE**

by The Australian APEC Study
Centre, Monash University
August 2001



The Australian
APEC
Study Centre



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Foreword

The Australian APEC Study Centre, based at Monash University, was commissioned by the Department of Foreign Affairs and Trade to prepare an analysis of the impact on Australia of negotiation of a free trade agreement between Australia and the United States.

Mindful that free trade agreements perform a larger role in today's globalised world than simple removal of trade barriers – they are instruments to promote closer relations between economies – this study was conceived from the outset to assess the impact of an agreement between Australia and the US for its wider implications.

Consider the case of investment. In the past, free trade agreements did not cover investment. However so much production today is global that in many industries the capacity to invest has become as important as a capacity to trade for companies in international business.

This is highly relevant to the economic importance of the United States to Australia. It is Australia's second largest trading partner (just shaded in 2000 by Japan) but it is by far Australia's largest source of foreign investment. It is without question Australia's most important economic partner.

Trade agreements necessarily are instruments which shape relations among countries in the long term. Commitments to make changes are usually secured through a series of incremental steps staged over time to give business and the community time to adjust to change. So a long-term view of interests is necessary. It is never easy to predict the future but it is even more difficult to do so today.

The global economy is in a process of dramatic change. We talk regularly about globalisation and focus on the negatives as well as the positives. However the greatest agent for change in the global economy and global society is information technology. We have entered the Information Age but the pace of change is so great that all we know with certainty is that the full impact of information technology will be greater and different to what we expect.

A final point to make about wider implications stems from an old truism about trade: businesses trade, not governments. Evidently one of the key impacts of closer economic relations with the US will be on the Australian business community. It has become

apparent in recent years that Australian business and management culture is increasingly influenced by US mores.

With the foregoing in mind, the Australian APEC Study Centre assembled a team with multidisciplinary expertise to prepare this report. As well as reviewing the traditional impacts on trade between the two countries and of the strategic importance to Australia's wider foreign and trade relations, the report aims to address the impact on Australia's investment interests, the impact on Australia's capacity to succeed in the Information Age and the impact on business and management culture in Australia.

The research group was Alan Oxley, Chairman of the APEC Study Centre and Director of International Trade Strategies, Dr Alan Moran of the Institute of Public Affairs, Patrick Xavier of the Swinburne University and Consultant to the OECD on Information and Communications Technology, David Uren, Director of *themanager.com.au* and Editor of *Asia Inc* magazine and Kristen Osborne, a consultant with International Trade Strategies.

The group received considerable assistance from the Department of Foreign Affairs and Trade, in particular Dr Ashton Calvert, David Spencer, Bruce Gosper, Tim Yeend, Jon Richardson and Rajan Venkataraman. Susan Begley also advised on trade statistics and provided updates on previous DFAT analysis.

The APEC Centre also held a conference in Canberra on 21 June which was well attended by the business community. It received financial support from a number of businesses as well as the Department of Foreign Affairs and Trade, which met the costs of attendance by some American experts. A number of valuable papers were prepared and a number of issues considered in depth. The Centre also consulted on 22 June in Canberra with business groups on attitudes to an FTA. These activities have assisted greatly with the preparation of the analysis.

The common view of participants at the conclusion of the June conference was that a Free Trade Agreement is more important to Australia than had previously been considered. The research group reached the same conclusion as it worked on this report.

Alan Oxley

Australian APEC Study Centre

August 2001



Executive Summary

Introduction

Australia has signalled its interest in negotiating a Free Trade Agreement (FTA) with the United States. Australia is in good company. The success of the US economy over the last decade has excited the interest of many countries around the world in closely linking their economies with the US. In so doing, they hope not only to improve access to the world's largest consumer market, but also to secure the attention and gain the confidence of the world's largest source of investment capital.

While the US had until recently signed only one FTA (ie, the North American Free Trade Agreement, NAFTA), so far this decade it has signed an agreement with Jordan and has begun negotiations with Singapore and Chile. It is also at the forefront of negotiations for a Free Trade Area of the Americas (FTAA) covering the entire Western Hemisphere (except Cuba).

In seeking to negotiate an FTA with the US, Australia would be joining a trend not restricted to the US alone. Global interest in using free trade agreements to expand trade, investment and other economic linkages between countries has increased dramatically in the last decade and a half. Even so, it would be a significant step for Australia. To date Australia has a free trade agreement with only one other country – New Zealand. An agreement with the US would add a new dimension to Australia's trade policy. It would also mean a significant new element in the bilateral relationship with the United States as a whole.

There has already been some debate about the advantages and disadvantages of an FTA with the United States. Arguments so far aired in favour are that an agreement would:

- Increase investment and trade between the two countries;
- Produce dynamic benefits from closer economic links with the world's biggest and most competitive economy and the heartland of the Information Economy;
- Strengthen the overall bilateral relationship; and
- Give momentum to liberalisation in the WTO and in APEC.

Some reservations have also been expressed, the most common being that it would represent a departure from Australia's broad strategy of strengthening economic relations in East Asia and that it would qualify Australia's strategy of pursuing trade liberalisation on a multilateral basis through the World Trade Organization. There is also concern in some quarters that an FTA would result in more competition from US companies or that it might impinge on some sensitive areas of domestic policy.

This report was commissioned to assess the implications for Australia of an Australia-US Free Trade Agreement (AUSFTA). Towards that end, it considers the pros and cons of FTAs in general and the relevance of free trade agreements today, trends in Australia's trade and investment with the United States, what an AUSFTA might cover, and the impact on Australia's economy. It also discusses the implications for Australia's bilateral relationship with the US and implications for Australia's global interests and regional relationships.

The relevance of free trade agreements

The extent to which countries of the world have removed barriers to trade in the last half century is unprecedented. The level of trade among countries has never been greater and the corresponding benefit is that standards of living around the world have never been higher. The underpinning of this system was laid down with the multilateral trading system that was established by the General Agreement on Tariffs and Trade after World War Two and continued under the WTO.

This new system has emerged in parallel with the traditional system of managing relations among states to promote political goals and advance national security. Trade liberalisation is a new tool in international relations. It promotes economic interdependence between countries and, accordingly, where economic interdependence between countries is deep, it can directly enhance national security.

The global interest in FTAs is an integral part of this process of promoting economic integration of states. FTAs are legally binding agreements involving two or several states to remove all barriers to trade between them. In recent years FTAs have become increasingly popular. FTAs are seen as easier and quicker to negotiate than multilateral agreements, as there are unlikely to be as many contentious issues. Furthermore, countries can set more ambitious goals for full liberalisation in the context of an FTA where such goals may not win support in larger forums.

FTAs have become increasingly popular for another reason. Commitment to facilitate freedom of trade and investment between two countries has become an important way of building and cementing a closer relationship between them in a broader context. The proposal for a Free Trade Agreement between the United States and Australia needs to be seen in this context.

Pros and cons of FTAs

A long-standing debate about FTAs focuses on their potential to divert rather than create trade. The theoretical basis for this argument is well understood, by providing special conditions for the partner country, an FTA can divert trade away from the most efficient supplier of a particular good to a supplier in the partner country, with the result being less than optimal allocation of resources. However, such risk tends to be lower where the countries negotiating an FTA do not impose high trade barriers against other countries. This is the case with Australia and the US. Studies on the impacts of FTAs, including by the OECD, have shown that FTAs have produced relatively little diversion and have played a role in encouraging wider trade liberalisation.

FTAs can also lead to practical difficulties. They create a host of new rules which can sometimes be a complication for businesses. For example, FTAs create rules of origin to distinguish between products from within the free trade area and products from outside it and can create new rules on customs procedures, technical standards and labelling. Negotiators need to aim to minimise the cost to business of such rules when negotiating the details of FTAs.

What would an FTA cover?

Based on respective experience from FTAs with Canada and Mexico (US) and with New Zealand (Australia), AUSFTA is likely to cover a similar wide range of issues. An agreement to lower most tariffs to zero should be expected, as well as measures to expand investment and trade in services. Agreements to harmonise standards and facilitate trade would be likely.

Agriculture is likely to be the thorniest issue, with US barriers very high on particular products, such as sugar and dairy products. It is argued by some that the United States would not be prepared to make concessions on some agricultural products and that the value of an FTA would therefore be substantially, if not wholly, removed. On the other hand, the United States has granted concessions to other countries in FTAs, notably Mexico in NAFTA, where Mexico secured long-term commitments to almost full access to US agricultural markets. Furthermore, both Australia and the US have been strong supporters of the WTO principle that FTAs should eliminate tariffs and quotas on substantially all the trade between the parties, covering all major sectors.

An agreement gives Australia an opportunity to bid for improved access to the US agricultural market. Australia may also face challenges from the US, such as to remove the single desk marketing arrangements for exports of grain. Notwithstanding these differences, agriculture should not block negotiation of an FTA. The very broad range of interests that each country could pursue in an FTA should help create scope for negotiating solutions from which both will benefit without compromising vital interests.

Moreover, the agricultural issue needs to be seen in a broader and longer-term context. FTAs provide scope to phase in reductions over longer periods to enable adjustment in the sectors concerned. Furthermore, the current situation regarding agricultural protection in the US is by no means immutable, given changing global production patterns. It should also be recognised that US-Australian linkages in food and agriculture go far beyond difficulties in sensitive sectors: in particular there is very substantial investment by each country in the other's agrifood sector.

An FTA would also create an institutional arrangement where both countries could reach agreement on regulatory issues such as technical standards, business visas and recognition of professional qualifications which, while seemingly mundane, often impede the conduct of business.

Economic impact

Australia's trade and investment with the US has been more dynamic and has grown faster over the last five years than with any other major trading partner.

Trade and investment will expand under an FTA. The Centre for International Economics, Canberra, has modelled the effect of the removal of all barriers to trade between the two economies. Its broadest conclusion is that the Australian economy could expand by as much as \$4 billion. The United States would experience gains of a similar magnitude. Gains to Australia would accrue in all sectors.

However, in addition to the direct impacts of removing bilateral trade barriers, an FTA would have dynamic benefits for the Australian economy. An FTA would link Australia's economy to the world's biggest, most competitive and most innovative economy. Possibilities of economic downturn in the US in the short term notwithstanding, the prospects are that over the next two decades the US economy will remain very strong and will lead the world economy. As well as the greater investment and trade such a closer alliance would deliver, an FTA would enhance Australia's direct access to the world's best practice in development of the Information Economy, business practice and public policy in economic management.

Investment

The United States supplies one third of Australia's foreign investment, more than any other economy. Foreign investment from the US has been growing at an annual rate of 25 per cent, compared to 17 per cent for investment from all sources. Australia ranks eleventh among destinations for US direct investment abroad.

The United States is now host to over 50 per cent of Australia's direct investment overseas, having superseded the UK in 1998 as the leading destination for Australian FDI.

Australia is also the eighth largest foreign owner of US assets. The 134 companies that are ultimately owned by Australian interests had a total value of over \$US59 billion in 1998, employing around 84 000 people.

Foreign investment will continue to be vital to maintaining growth in Australia. An FTA will directly and indirectly boost US investment in Australia.

While the United States is now the largest source of foreign investment in Australia, only one per cent of the offshore stock of investment by US enterprises is in Australia. Australia is competing not just with the rest of the world for investment by US enterprises, but is in effect competing with every one of the 50 States in the USA. This is a very busy and large market in which it is difficult to be seen or heard. The physical distance between Australia and the US and the location in nearly opposite time zones are additional disincentives for Americans to seek to engage with Australia.

Negotiation of an FTA is an event of public policy significance in the US. Conclusion of an FTA is seen by the US business community as an endorsement by the Administration of the partner country's long-term prospects as a place to do business. While the negotiation is under way, the FTA commands as much attention as a very highly priced investment promotion campaign. This process alone will boost Australia's investment stocks in the US.

More directly, an FTA could improve conditions for investors from both countries through putting in place legal guarantees and implementing other measures aimed at providing a further sense of certainty for investors. Such measures would not only encourage US investors to invest in Australia but may also further encourage them to use Australia as a base for operations in the Asia-Pacific region.

Expanded trade

The US market accounts for around 11 per cent of total Australian exports and is the source of one fifth of Australia's imports. Trade between Australia and the US has accelerated over the past five years and would increase in both directions under an FTA.

In recent years, merchandise exports to the US have grown more than exports to any of Australia's other major trading partners. Particularly noteworthy have been elaborately transformed manufactures and wine exports. The changing composition of exports reflects the changing nature of the Australian economy. Whereas resources and agricultural commodities once dominated Australian exports, over the last fifteen years the highest average growth in exports has been in manufactured and processed products and services. The US now takes one quarter of Australia's manufactured exports and one third of its services exports.

The US will continue to be a large market for agriculture and minerals, but it will also be a growth market for manufactures and services. This is likely to be a long-term

trend. Australian industries in these sectors are globally competitive and the US market is largely open.

Nevertheless, there are relatively high barriers in certain sectors, which affect Australian exports. For example, high barriers apply to dairy, sugar, meat and cotton. There are also a few barriers in certain manufacturing sectors, such as shipbuilding, and high tariffs apply to some commercial vehicles, and restrictions, many of which are state-based, act as impediments to delivery of some services particularly the professions.

The agreement among 34 North and South American countries to negotiate a Free Trade Area of the Americas (FTAA) by 2005, creates a very practical interest for Australia as well. Several of Australia's most active competitors in global trade in agriculture will be pressing for preferential access to US agricultural markets in the FTAA negotiations. The FTAA will also constitute a powerful inducement for US investors to invest in Latin American markets. Australia has a keen interest in ensuring that Latin American countries do not secure an advantage over Australia in access to the US market. Especially given the likelihood of the US negotiating more FTAs in the future with more of Australia's competitors, an Australian US FTA constitutes a potentially vital piece of trade negotiating insurance.

Best practice benchmarks for the Information Age

For Australia, one of the most important long-term economic benefits of an FTA with the United States may be the linkages forged between the information economies in each country. A clear lesson from the 1990s was the importance of the information economy for growth.

Australia has not had the dot.com investment boom to the same extent as the US, but adaptation of IT systems in business and society in Australia is almost at the same level as that in the United States. The Economist Intelligence Unit, in its latest assessment of the propensity of economies to fully utilise IT technology, rated the US as first in the world and Australia second.

The United States is the home of the Information Economy and driver of the Information Age. It is likely to remain at the forefront of research and development in this area and at the leading edge of efforts to realise the full potential of e-commerce. Standards developed in the US are likely to become the global standards in the field. An FTA can anchor Australia's economy to these global reference points for success in the New Economy. In addition to dispelling Australia's 'old economy' tag, the closer investment and business linkages that will follow from an FTA will stimulate Australia's adoption of the leading benchmarks of the New Economy that it will need in order to flourish in the Information Age.

Other best practice benefits

Best practice benefits from an FTA can extend to business culture in Australia as well as public policy. Companies learn from each other as much as they draw from the lessons of their own experience. They observe their competitors, suppliers and customers and modify their own strategies to keep abreast of the latest developments. Modern business practices in Australia already draw heavily on US standards and practice, especially in the use of technology as a business tool and in the application of management techniques. It is a process smoothed by Australia's cultural affinity with the US. The growth of trade and investment will amplify the opportunities for businesses to raise their productivity and hence profitability.

Learning from best practice also takes place at the level of government. It has been noted in both Europe and other regions that a process of economic integration between nations can generate a 'policy reform effect' that can enhance the benefits of the process both for internal participants and for businesses from third countries. For example, regional integration might strengthen a country's competition policy or improve public policy in areas like government procurement and intellectual property protection. Such reforms can benefit business, both within the free trade area and from outside it.

Strengthening the bilateral relationship

An FTA would significantly strengthen the bilateral relationship with the United States. This is timely.

Australia and the United States enjoy a genuinely close relationship based on a shared history of cooperation in peace and war, wide-ranging commercial ties and extensive people to people links. The relationship is marked by a shared commitment to democracy, international security, and an open trading system, as well as an interest in maintaining a strong US presence globally and within the Asia Pacific region in particular.

An FTA would help maintain the momentum of the bilateral relationship, with great benefits for both Australia and the US. An FTA would put the Australia-US trade and investment relationship on a similar level to our well established political and strategic relationship. It would reinforce public awareness in both countries, and particularly amongst younger generations, of the enduring relevance of the Australia-US relationship.

Both countries have underlined their commitment to modernising and revitalising the bilateral relationship. As the former certainties of the Cold War recede, along with the passing of generations with directly shared war-time experience, the task of anchoring the rationale of the relationship in the public mind becomes more challenging. In this

respect, an FTA could add a vital dimension to sustaining the relationship as it moves forward into the 21st Century.

An FTA would also create a new mechanism for maintaining a close relationship with the United States at a time when there are new pulls on the United States to pay greater attention to other regions and issues. There is no guarantee that the historic importance of the modernisation of China and the rise of Japan and East Asia will give the idea of the “Pacific Century” a permanent call for priority in Washington. As a global power, there have always been other demands for Washington’s attention. A new and significant contender is the Western Hemisphere.

Democratisation and economic liberalisation in Latin America, with the attendant expansion of trade and investment as well as the growing Latin influence on the United States through migration is returning the Western Hemisphere to the forefront of American thinking about the future. It is in Australia’s long-term interests to be active in maintaining the attention of Washington policy-makers and to encourage US interest in engagement in East Asia. The interests are economic, strategic and geo-political. By increasing US interests in the Western Pacific, an Australia-US FTA is a tangible way of serving these purposes.

Implications for Australia’s trade policy interests

Policy towards the WTO

A leading imperative for Australia’s global trade policy is to maintain the effectiveness and authority of the WTO multilateral trading system. Australia is a global trader, meaning that its exports go to and its imports are sourced from all regions of the globe. This pattern has been crucial to the success of Australian trade over the last few decades and was instrumental in minimising the fall-out from the Asian economic crisis of the later 1990s. Thus, it is in Australia’s interests to seek liberalisation of trade on a world-wide basis and the development of universally accepted rules governing trade.

Furthermore, elimination of global protection of agriculture, a core goal of Australian trade policy, can only be achieved with global solutions through the WTO. The WTO provides the only system through which powerful economies like the European Union, Japan and the United States can be induced to remove unfair trade barriers to exports of agricultural products.

Consequently, no public policy case can be sustained to argue that for Australia negotiation of an FTA with the United States is a credible alternative to negotiations in the WTO. The case for an FTA stands on its own merits, as does the case to prosecute global trade liberalisation through the WTO. The two are not mutually exclusive.

It has been argued that Australia diminishes those global interests by pursuing Free Trade Agreements. However, Australia has shown itself capable of simultaneously pursuing both its overriding global goals and bilateral or regional initiatives. In addition, the global record now suggests that regional and bilateral liberalisation supports, rather than diminishes, global liberalisation.

Countries willing to pursue a more ambitious agenda for liberalisation create momentum for such measures to be considered in the multilateral context. Negotiation of an FTA between Australia and the United States creates an opportunity to reach agreement on measures to promote economic integration that can then be used as benchmarks in the global negotiations. The agreement between Australia and New Zealand in ANZCERTA to open services markets served as a benchmark for the negotiations in the Uruguay Round to create a new system for global liberalisation of trade in services. There are opportunities, for example, in agriculture, investment, harmonisation of standards and enhancement of public confidence in the safety of traded food, for an Australia–US FTA to develop similar cutting edge outcomes.

The degree of commonality between Australia and the United States today on economic policy is striking. The United States will not have negotiated an FTA with a more open economy. Australia and the United States would have a golden opportunity to make their FTA an exemplar on how to use FTAs to advance both their mutual economic interests and encourage wider liberalisation in other bilateral agreements, regional fora and the WTO itself.

Policy towards APEC

For over a decade, a leading international policy interest of successive Australian Governments has been to secure closer engagement with Asia, including by economic integration. A principal vehicle has been APEC, the formation of which was an Australian initiative. Australia has also supported sub-regional trade linkages such as the proposal to join the ASEAN Free Trade Area (AFTA) and the Australia–New Zealand Closer Economic Relations Trade Agreement (ANZCERTA).

Some analysts in the APEC region have expressed concern that the proliferation of proposals for FTAs and sub-regional arrangements undermines APEC. There is a counterview, shared by many governments in the region, that sub-regional agreements actively contribute to the achievement of the long-term goals in the APEC Bogor Declaration to eliminate barriers to trade and investment by 2010 in industrialised economies and 2020 in developing economies. In the same vein, an Australia–US FTA can support the general strategy of promoting economic integration among APEC economies.

The economic crisis in Asia has blunted capacity and interest in trade liberalisation and domestic market reform. It has similarly slowed progress by members of ASEAN in implementing the commitments to reduce tariffs under the ASEAN Free Trade Area. A

number of members of APEC have embarked on proposals for new sub-regional arrangements, although their prospects remain unclear

However, where open economies, like Australia and the US, are willing to execute bilateral FTAs, there is a distinct benefit in the demonstration effect for the rest of APEC. It shows that some members are taking action that is consonant with the long-term commitments in the Bogor Declaration to eliminate barriers to trade and investment.

As described in the previous section, an FTA with the United States is also a tangible way of maintaining a US focus on economic integration in the Asia Pacific region at a time when developments in the Western Hemisphere are demanding more attention from US policy-makers. Continuing US leadership in the region is vital to the success of APEC and as such is in Australia's own interests.

Implications for Australia's regional relationships

One question consistently raised about an FTA is the impact on Australia's relations with third parties. The question has political and economic dimensions, but the most commonly aired question is political – can Australia strengthen its relationship with the US without raising questions in East Asia about its commitment to East Asian regionalism?

There has been no suggestion from any government in East Asia that Australia has diminished the priority it attaches to economic integration among Asia Pacific economies. Australia remains a leading proponent of APEC and it embraced the proposals from ASEAN to link the ASEAN Free Trade Area with the Australia-New Zealand Closer Economic Relations Trade Agreement. It was failure of ASEAN countries to agree among themselves to proceed with this concept that put the idea on hold. Australia is nevertheless an enthusiastic participant in the less ambitious goal of building a Closer Economic Partnership between ASEAN and Australia and New Zealand.

Australia is also negotiating a free trade agreement with Singapore and has agreed to a joint scoping study with Thailand on a possible free trade agreement. Australia initiated an exploration with Japan about measures to strengthen the economic relationship, which concluded with a major study that identified strategies such as negotiation of a Trade and Investment Facilitation Agreement.

Perhaps the most tangible commitment by Australia in recent years to economic development and stability in the East Asian region was its pledges totalling four billion dollars to provide support for the balances of payments of Indonesia, Thailand and South Korea following the impact of the Asian currency crisis. Only Japan was more generous.

So long as Australia is negotiating agreements with East Asian Governments and stands ready to pursue any proposal to achieve economic integration with other countries in East Asia, pursuing an agreement with the US should not detract from Australian engagement with East Asia. While maintaining its support for economic integration in and with Asia, there is no good reason why that goal should lead it to set aside proposals to enhance economic interdependence with countries or regions outside East Asia where significant benefits can be won.

The second impact to consider on other countries in the region is whether or not an Australia-US FTA would create trade diversion and damage the interest of other trading partners. As noted above, the risk of trade diversion from an Australia US FTA is small so long as barriers to other countries are low and continue to be lowered. Preliminary analysis of the impact of removal of barriers in an FTA suggest no significant impact on the trade of Australia's other trading partners. In fact, the Centre for International Economics' analysis indicated very little trade diversionary effect. In fact, New Zealand would experience a small positive economic gain.

In light of increased interest in recent years in regional and sub-regional agreements, there has been advocacy of principles to be followed when negotiating agreements to minimise the risk of trade diversion. Two such principles are that agreements should be comprehensive and structured so that other parties can join them.

Australia should certainly seek to ensure that commitments in an FTA are comprehensive. That is in its self-interest. It is possible to set up a bilateral FTA in a way that other countries could join. Whether this proved workable in practice might be problematic, given the particular market access interests, and sensitivities, each country would be expected to have with prospective members.

Conclusion

The benefits for Australia in negotiating an FTA with the United States are significant and wide-ranging. There will be an immediate benefit of attracting greater investment from the United States and increased trade as a result of the removal of trade barriers. A Free Trade Agreement between Australia and the United States would inject a new dynamism into the liberalisation process.

The long-term benefits are twofold. The first is a strengthening of the overall relationship with the United States. It is appropriate that the defence core of the relationship be broadened by adding an economic core given that in today's world, nations mark closeness of relationships between states by economic linkages as much as military linkages.

The second is the importance of a close economic relationship with the United States as the globalisation of the world's economies proceed and, more importantly, the impact of the Information Age continues to evolve. The US will be the world's leading

economy at least into the first half of the twenty-first century. As the home of the Information Economy, it will continue to set the global standards for economic success. A key economic benefit of an FTA will be to tie economic reference points in Australia more closely to those of the world's leading economy.

The US economy will continue to expand. If Australian business is attuned to US standards and business practices, expansion into the US market will be facilitated.

Australia has always been a global trader and is likely to remain so. Asian markets will remain very important to Australia. To succeed in those markets Australian business has to adopt the highest standards, the world's best practice. Closer alignment with US best practice would increase the chances of success in those markets.

Most of the debate over whether or not Australia should seek an FTA with the United States is based on two questions. Can we do that and maintain our interests in global trade structures like the WTO or important regional structures like APEC? Can we maintain engagement with Asia and strengthen the relationship with the US at the same time? It is a debate conducted largely among the foreign and trade policy cognoscenti in Australia.

When the questions are posed outside that rather narrow group of specialists, the inevitable response is "why not?" This response not only has the virtue of common sense, it reflects a basic reality. From the time Australia began its long process of engagement with Asia in the late sixties, it has never been perceived as being at the expense of long-standing and traditional relations, such as with New Zealand, the United States and Europe. Australia's historical trade and investment patterns show it to be a global trader and this is not likely to change.