
Chapter Three

Impact of Recent International Trade Policy Developments



Australia and Japan recognise that their individual interests are best advanced by a strong and effective multilateral trading system as well as through cooperative mechanisms to promote economic development in the Asia Pacific region. Australia and Japan have worked together in the World Trade Organisation (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT). The two countries have also played an instrumental role in establishing and developing the Asia Pacific Economic Cooperation (APEC) forum, reflecting the strength of their shared commitment to building a secure and prosperous Asia Pacific region.³

3.1 WTO

Australia and Japan have benefited greatly as members of the WTO and signatories to its predecessor, the GATT. Since the GATT was signed in 1947, membership has increased from 23 to the current 148 members of the WTO. Trade under WTO rules now accounts for over 95 per cent of world trade.

Successive rounds of the GATT negotiations have liberalised the international trading environment, including that between Australia and Japan. The last concluded round of negotiations, the Uruguay Round, established the WTO, revised and strengthened many rules and brought a large number of new trade areas under the multilateral umbrella for the first time. Australia and Japan have benefited from this institutional strengthening and the greater security and predictability this has brought to the multilateral trading system.

The Dispute Settlement Understanding agreed at the Uruguay Round is a fundamental aspect of this institutional strengthening. Both Australia and Japan have used the strengthened mechanism to preserve their trading interests (see tables 3.1 and 3.2).

Table 3.1 WTO disputes – Australia as complainant

		Australia as complainant
European Communities		Export Subsidies on Sugar
European Communities	Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs	
United States		Continued dumping and subsidy offset act of 2000
United States	Safeguard Measures on Imports of Fresh, Chilled or Frozen Lamb Meat from New Zealand and Australia (concluded)	
Korea	Measures Affecting Imports of Fresh, Chilled and Frozen Beef (concluded)	
India	Quantitative Restrictions on Agricultural, Textiles and Industrial Products (concluded)	
Hungary	Export Subsidies in respect of Agricultural Products (concluded)	

³ The information in this chapter is current as at 31 March 2005.

Table 3.2 WTO disputes – Japan as complainant

	Japan as complainant
United States	Definitive Safeguard Measures on Imports of Certain Steel Products (Concluded)
United States	Sunset Review of Anti-Dumping Duties on Corrosion-Resistant Carbon Steel Flat Products from Japan (Concluded)
United States	Continued Dumping and Subsidy Offset Act of 2000
United States	Anti-Dumping Measures on Certain Hot-Rolled Steel Products from Japan
United States	Anti-Dumping Act of 1916
Canada	Certain Measures Affecting the Automotive Industry (Concluded)
United States	Measures Affecting Government Procurement (Lapsed)
Indonesia	Certain Measures Affecting the Automotive Industry (Concluded)
Brazil	Certain Automotive Investment Measures
United States	Imposition of Import Duties on Automobile from Japan under Sections 301 and 304 of the Trade Act of 1974 (Concluded)

A significant outcome of the Uruguay Round was the extension of the rules and disciplines of the GATT to include, for the first time, trade in agriculture commodities. Under the WTO Agreement on Agriculture, all agricultural tariffs were required to be bound (with the exception of Least Developed Countries, which were not required to make any commitments). All Australian agricultural tariffs were bound at rates ranging from 0 per cent to 29 per cent. Products with zero applied tariffs include major items such as beef, wheat, wool, sugar and cotton. For its part, Japan reduced and/or bound its applied tariff on a range of agricultural products of trade interest to Australia, including beef, grains, dairy and sugar.

Japan's removal of its beef quotas in 1991, and its reduction of its tariff from 70 to 50 per cent two years later, lowered consumer prices and resulted in an increase in beef imports and consumption. Australia's beef exports to Japan more than doubled between 1990 and 1995, from \$US453 million to \$US956 million.

Since the Uruguay Round, Japan has agreed to bind its beef tariff at 50 per cent and to reduce voluntarily its applied tariff to 38.5 per cent, beyond the WTO commitment over the implementation period of the Uruguay Round.

An emergency tariff measure was introduced as a part of the tariff reduction package. The measure returns the tariff on beef to 50 per cent (WTO bound rate) if imports from all sources increase by 17 per cent over a corresponding period in the previous year. The measure was designed to protect Japan's domestic industry from a sudden surge in beef imports. Since its introduction, the measure has been triggered on three occasions - in 1995 and 1996 on frozen beef just after the beginning of the tariff reduction according to the Uruguay Round agreement, and in 2003 on chilled beef as a result of the increase in chilled beef imports due to a recovery in the market following the discovery of BSE in Japan.

Japan also administers an emergency tariff measure on imports of pork, agreed as part of the Uruguay Round negotiations. Under the agreements, the gate price for imported pork will return to WTO bound

level if import levels increase by 19 percent over the average for the corresponding period for the previous three years. In recent years, the measure has been triggered 4 years in row as a result of increased pork imports.

Japan is the most important export market for Australian dairy products. Its commitment under the Uruguay Round to import about 140,000 tonnes of dairy produce (milk equivalent) each year provided greater access opportunities for Australian exporters. Japan also bound and reduced its tariffs on a number of dairy products of interest to Australia, in some cases (such as frozen yoghurt and some cheeses) by more than the minimum 15 per cent required. Since 1995, the volume of Australian dairy exports to Japan has risen by 29 per cent.

Another major outcome from the Uruguay Round was the conclusion of the General Agreement on Trade in Services (GATS). The most important general obligation of the GATS was its assurance of MFN treatment for most trade in services. It also guaranteed market access and national treatment for services included in Members' schedules of commitments, and promoted transparency. Australia has benefited from Japan liberalising access for professional and other business services, some aspects of the insurance and banking market and a number of transport services. Japan has similarly been able to take advantage of Australia's commitments, such as allowing a commercial presence in Australia for foreign travel agencies and tour operators, and for foreign construction firms.

In the industrials negotiations, all developed WTO members, including Australia and Japan, made an overall reduction in tariffs of an average of 38 per cent. The developed countries also increased their bound commitments to cover 99 per cent of goods. Japan is the second largest source of merchandise imports for Australia, and these are largely composed of value-added manufactures, such as motor vehicles and parts. Australia's commitments to increased tariff bindings and more predictable rules generally gave Japan greater certainty of access in a range of areas of export interest, including in electronics and computers.

The Agreement on Trade-Related Aspects of Intellectual Property (TRIPS), negotiated during the Uruguay Round, improved transparency and created a predictable, rules-based system for settlement of disputes about trade-related intellectual property issues between members. This has helped Australian and Japanese exporters to expand and diversify trading opportunities in intellectual property and value-added products.

Market access negotiations have continued in some sectors since the Uruguay Round. Both Australia and Japan participated in negotiations that led to agreements on basic telecommunications services, on tariff-free trade in information technology products and on financial services covering banking, insurance, securities and financial information. The liberalisation of these sectors has provided significant opportunities for both Australia and Japan in what are some of the fastest growing areas of world trade. The conclusion of the telecommunications negotiations, for example, expanded opportunities for Australian carriers overseas, including in Japan. And the Information Technology Agreement reduced both Australian and Japanese tariffs on these products, and provided improved opportunities for Japanese exporters of technology products to Australia.

The Doha Round of multilateral trade negotiations, launched at the Fourth WTO Ministerial Conference in November 2001, aims to maintain the process of reform and liberalisation of trade policies.

The Doha Ministerial Declaration mandates negotiations on a wide range of issues, including agriculture; services; industrial products; intellectual property; anti-dumping and other WTO rules issues; dispute

settlement; and some trade and environment issues. At Doha, Ministers also recognised the role that the multilateral trading system can play in promoting economic growth and development and agreed that this would be reflected in the Round and the rest of the WTO work program.

These negotiations will provide a basis for further trade liberalisation and will address the elimination of all forms of agricultural export subsidies for the first time

The Doha mandate also encompassed negotiations on the “Singapore issues” (investment, competition, transparency in government procurement and trade facilitation). However, Members agreed in July 2004 that only negotiations on trade facilitation would proceed under the Round.

The Doha Round negotiations, along with the mandate, are a top priority for Australia and Japan, and we have shared interests in a substantive, ambitious and balanced outcome that would boost global economic growth. Australia and Japan’s interests converge in particular in improved access to overseas markets for services and for industrial products, and we are working together to this end. A key priority for Australia is to achieve substantial liberalisation of global agricultural markets.

3.2 APEC

3.2.1 APEC Overview

Role and Goals

Asia-Pacific Economic Cooperation (APEC) is the premier forum in the Asia-Pacific region. It is composed of 21 diverse members. Trade within the APEC region accounts for three-quarters of total global trade. The creation of APEC in 1989 was largely the result of a joint initiative and joint efforts by Australia and Japan. Both recognised the economic potential of the Asia-Pacific region and the need to promote greater integration of economies at various stages of development. Australia and Japan have a history of shared projects in APEC, which includes a range of high-level workshops, seminars and publications. In this way, Australia and Japan have been able to make available the lessons from their experience to other economies and make a tangible contribution to regional economic integration.

APEC’s principal goal is reflected to the Bogor Declaration, issued at the APEC Economic Leaders Meeting in Bogor, Indonesia in 1994, which charted out the goal of free and open trade and investment in the Asia-Pacific by 2010 for developed economies and 2020 for developing economies. In order to realize sustainable economic development within the region, APEC has undertaken major activities in the following areas: the liberalization of trade and investment; facilitation of trade and investment; and economic and technical cooperation.

Trade and Investment Liberalization focuses on opening markets to increase trade and investment among economies, reducing and eventually eliminating tariff and non-tariff barriers to trade and investment.

Trade Facilitation focuses on reducing the costs of trade transactions. APEC’s work on trade facilitation will help boost the economies, especially developing economies, in the region and bring clear benefit to our business communities. In order for all APEC member economies to enjoy the benefits of trade facilitation, APEC Leaders endorsed the APEC Trade Facilitation Action Plan (TFAP) in Los Cabos, Mexico, in 2002, which requests that they implement their commitments, made in 2001, to cut transaction costs by five percent in the APEC region by 2006. Based on the TFAP, APEC members developed a menu of options of concrete measures and actions that economies could implement to facilitate trade in

four areas: movement of goods, standards, business mobility and e-commerce. Japan and Australia have organized a wide range of capacity building and technical assistance or co-operation projects. These are aimed at developing the capacity of developing member economies in APEC to better understand the concept of trade facilitation, to enhance their implementation of trade facilitation measures and also to better understand trade facilitation in the WTO context. To this end, Japan organized, co-sponsored by Australia, an APEC/WTO Trade Facilitation Roundtable in Geneva in February 2005.

Economic and Technical Cooperation (ECOTECH) is aimed at enhancing the region's growth potential by promoting mutual assistance and improving member economies' ability to meet the new economic challenges posed by the changing economic environment. Each APEC member economy implements technical cooperation projects in such areas as human resources development, trade promotion, energy, tourism, and small and medium enterprises.

New Issues - Trade and Security

Following the terrorist attacks of 11 September 2001, APEC Leaders have addressed the issue of terrorism based on the recognition that terrorism is a direct challenge to APEC's goals of free, open and prosperous economies and an affront to the fundamental values that APEC member economies share. Furthermore, APEC Leaders have committed to address security related issues in APEC to take effective measures against new threats in this region, including the threat of terrorist groups, proliferation of weapons of mass destruction, use and acquisition of MANPADS (man portable surface-to-air missiles) and those associated with health security.

3.2.2 Initiatives by Japan and Australia

Japan and Australia cooperate closely in pursuing APEC's goals. This cooperation has been especially strong in the area of structural reform and structural adjustment. The experiences of the two economies in reforming themselves naturally differ because of their different structures. The complementarity of the two economies has, however, encouraged a common interest in enhancing each economy's competitiveness. Cooperation has also expanded into more specialized areas needed to promote healthy and competitive economies. Japan and Australia have been taking a leading role especially in the following areas.

APEC Structural Reform Initiative

Structural Reform has been recognized as one of the important tasks for all APEC member economies and APEC itself, and Japan and Australia have undertaken initiatives to promote structural reform related activities in APEC. Building upon achievements so far, APEC should strongly encourage and facilitate structural reform in each economy. Structural reform (i.e. "behind the border") assists APEC economies in realizing the benefits of trade and investment liberalization and facilitation (i.e. "at the border") and contributes towards the achievement of the Bogor Goals.

In this context, Japan and Australia have drafted the paper of "APEC Structural Reform Action Plan" which was adopted at the 2003 Ministerial meeting in Bangkok as a guiding program for the steady implementation of structural reform related activities. In addition, given the significance of structural reform in APEC, leaders sent a strong political message on the occasion of leaders' meeting. The APEC High Level Conference on Structural Reform was hosted by Japan and co-sponsored by Australia, in September 2004, as a concrete measure to strengthen structural reform related activities in the APEC region. This High Level Conference gave birth to a LAISR initiative adopted by the leaders in Santiago in November 2004, and paved the way ahead in this field.

Strengthening Economic Legal Infrastructure (SELI)

Effective economic legal infrastructure is one of the critical conditions for economic activity. In the Asia-Pacific region, the business sector suffers from various problems that stem from unevenly developed systems of corporate governance. Increased business confidence through improved economic legal infrastructure may bring about diversification of stakeholders in corporate governance, contributing to improving and accelerating business activities in economies. To this end, the APEC SELI coordinating group has taken initiatives, mainly under the guidance of Japan and Australia, to make progress in capacity building and research projects.

Mobility of Business People (ABTC, API)

APEC member economies are committed to enhancing business mobility by exchanging information on regulatory regimes, streamlining the processing of short-term business visitor visas and procedures for temporary residence of business people, and maintaining a dialogue on these issues with the business community. This work is coordinated by the Informal Experts' Group on Business Mobility (IEGBM), which is currently chaired by Australia.

The IEGBM liaises closely with business and private sector in APEC, viz. the APEC Business Advisory Council (ABAC), on facilitation of business travel. In particular, the APEC Business Travel Card (ABTC), a scheme providing bona fide frequent business travelers with visa-free travel and expedited airport processing when visiting participating economies. Australia was a path-finder for this scheme in 1998 at the trial stage and the IEGBM, together with ABAC, continues to be a strong promoter of the ABTC. Japan started to implement the ABTC scheme on April 1 2003. The scheme is in operation in fourteen APEC economies and under preparation in three more.

Other recent developments in the IEGBM includes the implementation of the Advance Passenger Information (API) system, which is an improved immigration process, to make the process faster and smoother for travelers, while more effectively facilitating passenger safety and border security. Furthermore, the IEGBM is progressing work to examine the concept of developing a new Regional Movement Alert List (RMAL) System, which would enhance security through coordination without noticeably impeding travelers' document processing.

A bilateral Framework to Facilitate Mobility for Mutual Recognition of Registered/Licensed Engineers

APEC economies have committed to the development of a practical framework to improve mobility for professional engineers. An APEC Engineer is assessed in his/her own jurisdiction as a professional engineer eligible for independent practice, who has gained a minimum of seven years' experience since graduation, and has spent at least two years in responsible charge of significant engineering work. An APEC Engineer has also maintained their continuing professional development at a satisfactory level. Currently there are eleven fields in which the APEC Engineer can register. These include: Civil Engineering, Structural, Geotechnical, Environmental, Mechanical, Electrical, Industrial Management, Mining, Chemical, Information Technologies, and Bioengineering.

Under the APEC Engineer project, Japan initiated the APEC Engineer Assessment activities for Japanese applicants in November 2000.

On October 1st, 2003, Japan and Australia signed the Bilateral Framework to Facilitate Mobility for Mutual Recognition of Registered/Licensed Engineers, which was the first bilateral framework in the APEC

Engineer project. The two countries chose Mechanical, Electrical, and Chemical as the disciplines for the mutual recognition of registered APEC Engineers.

According to the agreement, in November 2003, Japan started the assessment and registration of APEC Engineers in the above-mentioned three disciplines. Since April 2004, Japan has been ready to accept APEC Engineers from Australia.

As of June 2004, no registered APEC Engineers in either country has applied for mutual recognition. The number of registered APEC engineers in Japan was 2 mechanical, 7 electrical and 3 chemical.

APEC economies and energy security

APEC economies currently account for around 60 percent of world energy demand. The APEC region overall is a net energy importer, meaning that aggregate annual consumption of energy exceeds annual domestic production, with the balance imported from third-party economies.

Energy imports to APEC economies are projected to increase by some 92 per cent from 1995 to 2010, as indigenous (or “within economy”) supply fails to keep pace with expanding energy demand driven by economic growth, industrialization and urbanization.

Energy security is, therefore, very important to the APEC region’s economic, social and environmental goals. Reflecting this, APEC Leaders and Ministers have endorsed the APEC Energy Working Group’s (EWG) strategic approach to strengthening regional energy security through the APEC Energy Security Initiative (‘ESI’) a comprehensive strategy first adopted in Shanghai, China, in October 2001.

ESI falls into five key areas: monthly oil data; sea-lane security; real-time emergency information sharing; oil supply emergency responses; and non-petroleum and longer-term responses. The APEC Energy Working Group has made significant progress towards implementing the recommendations of ESI.

The challenges of energy security are dynamic and responses are necessary to address these challenges, which will evolve over time. ESI must be sufficiently flexible to respond to emerging energy security challenges.

In recognising that the challenges of energy security are dynamic and that responses must evolve over time, the ESI is designed to be flexible. The EWG continues to monitor and review the ESI’s implementation within the context of regional energy security and, where necessary, develops new measures to respond to these challenges. For example, in 2003 and 2004, APEC Leaders and Ministers endorsed the APEC Action Plan to Enhance Energy Security and the CAIRNS Initiative, two key strategies designed to further expand and enhance the ESI.

Paperless trading

APEC agreed that member economies should endeavour to reduce or eliminate the requirement for paper documents needed for customs and other cross-border trade administration and other documents and messages relevant to international sea, air and land transport, that is, “Paperless trading” in goods, where possible, by 2005 for developed and 2010 for developing members, or as soon as possible thereafter.

Australia and Japan are among fifteen APEC members which have explicit individual action plans to achieve the goal.

APEC members have developed systems that began with Electronic Data Interchange (EDI) to systems that utilize the internet so that business users can interface readily with customs and other authorities. Further cooperation is underway to develop a “single window” approach for all relevant transactions.

This strategic approach has required significant levels of cooperation from a wide range of agencies and private sector representatives and is already resulting in large economic benefits for business, port authorities and related government agencies.

APEC is already considering ways to step up progress and establish a strategic plan which involves capacity building, collaboration with other organisations, public private partnerships and strengthening technical capacity which could ultimately see a paperless trading environment throughout the APEC region.

3.3 Economic Partnership Arrangements

3.3.1 Overview

Economic integration in the Asia-Pacific region since the 1950s has been predominantly market-led. The private sector has acted as the driving force for regional integration, while formal inter-governmental agreements have been of lesser importance. Market-led integration in the Asia-Pacific region has worked well, and it remains a secure basis for the region's growing economic prosperity.

The efforts of private corporations have been supported by non-governmental organisations such as PBEC (Pacific Basin Economic Council), established in 1967, and PECC (Pacific Economic Cooperation Conference), established in 1980. These two organisations helped to bring about APEC (Asia-Pacific Economic Cooperation) and continue to make substantive contributions to the pursuit of regional economic integration. Australian and Japanese companies are among the most active of their members. The business community also continues to contribute to policy development through, for example, ABAC (APEC Business Advisory Council).

More recently, regional governments have come to the view that some impediments to further regional economic integration require a measure of government-to-government intervention to resolve. Of equal importance are the emergence of regional trade arrangements in the Americas and Europe and uncertainties about the pace of negotiations under the WTO Doha Development Agenda. These factors have led to a surge in proposals for regional integration arrangements. Some have been completed. Many are under negotiation or are subject to feasibility studies.

One of the first regional integration arrangements in the Asia-Pacific area was SPARTECA (South Pacific Regional Trade and Cooperation Agreement), signed in 1980. This is an asymmetrical agreement under which Australia and New Zealand offer countries in the South Pacific preferential access for goods. This was followed in 1983 by ANZCERTA (Australia New Zealand Closer Economic Relations Trade Agreement) which, since 1988, also covers trade in services. In South East Asia, the agreement establishing AFTA (ASEAN Free Trade Area) entered into force in 1992. This was followed by the ASEAN Framework Agreement on Services (1995) and the ASEAN Investment Area (1999).

China, Japan and the Republic of Korea, among the world's largest trading nations, did not pursue the possibility of concluding regional trade agreements until the late 1990s and later. Indeed, as late as 2001, China, Japan, Hong Kong, Taiwan and Mongolia were the only WTO members without membership of a preferential trade arrangement.

Recent years have brought dramatic changes in the environment surrounding Japan's external economic policy. One such change is the active drive by other countries to strengthen economic ties. The

expansion of the web of FTAs and Economic Partnership Agreements (EPAs) after 1990 has been remarkable. Around 250 FTAs have been notified to the WTO and are in force. The course of this global tide can be detected in the Asia Pacific region, too.

The main pillar of Japan's external economic policy continues to be maintaining and strengthening the multilateral trading system under the WTO, though building consensus in the WTO involves prolonged negotiation owing to the increased number of members and the wide scope of the negotiation agenda. But given the changes mentioned above, Japan needs to make strategic and flexible use of regional and bilateral frameworks and agreements as a complement to the WTO, while still retaining a focus on WTO efforts. Indeed, Japan initiated the expansion of the web of FTA/EPAs in East Asia with the Japan-Singapore Economic Partnership Agreement, the first FTA concluded between a member of ASEAN and a trading partner.

Japan views FTA/EPAs as an effective means of strengthening partnerships in areas that are not covered by the WTO and achieving liberalisation beyond levels attainable under the WTO. FTA/EPAs are expected to lead to a variety of economic, political and diplomatic advantages in the global economy.

Firstly, FTA/EPAs allow improved access to important markets, expanded trade and investment opportunities, and enjoyment of the benefits of economies of scale.

Secondly, FTA/EPAs induce economic revitalisation and structural reform, through improving the domestic competitive environment. But only a firm commitment to reform enables a country to take the best advantage of this opportunity.

Thirdly, FTA/EPAs increase Japan's bargaining power in WTO negotiations, including through the creation of trade and trade-related rules with like-minded countries, especially in the areas where the WTO has yet to establish rules. Through achieving those different economic and diplomatic benefits, Japan considers that FTA/EPAs can complement the WTO and influence and speed up WTO negotiations. Furthermore, in cases where Japanese companies are suffering disadvantages due to FTA/EPAs that exist between third party countries, Japan sees them as a way of removing such disadvantages.

The last but not least benefit in the diplomatic sphere is that deepened interdependence through FTA/EPAs forms the basis for enhanced political partnerships. These partnerships could contribute to increasing Japanese influence in international and regional affairs.

Japan determines candidate countries and regions for such arrangements in a comprehensive and strategic way, taking into consideration factors such as the scale of economic benefits that can be gained through FTA/EPAs, the importance in the context of the global strategic circumstances including geographic proximity, stability and predictability in the area of economy and politics and requests from the Japanese business community, and a full consideration of the merits, demerits, and impact on sensitive sectors from such arrangements. Japan has been giving priorities to ASEAN countries and the Republic of Korea, as the economic partnerships with those neighbours will contribute to building an East Asia community.

Japan aims to foster an advanced economic region in East Asia, by expanding a web of FTA/EPAs in this region. The comprehensive economic partnership between ASEAN and Japan would provide greater market opportunities to these economies, through the creation of larger and new markets and enabling the industries to enjoy bigger economies of scale. Such partnerships would bring about greater stability and prosperity to this region, nurturing the sense of community between ASEAN and Japan. Japan's first concrete step towards this objective was taken in December 1999, when Japan and Singapore agreed to

launch joint research on a bilateral EPA. Formal negotiations towards an EPA began in 2001. The resulting agreement, the JSEPA (Japan–Singapore Economic Partnership Agreement) entered into force on 30 November 2002. Negotiations towards a FTA with the Republic of Korea are proceeding. Japan is also making progress in the negotiation of bilateral economic partnership agreements with Malaysia, the Philippines and Thailand and remains committed to making maximum efforts to commence negotiations for a ASEAN–Japan Comprehensive Economic Partnership (CEP).

Japan also attaches great importance to its EPA with Mexico. Japanese companies had been suffering from higher tariffs on several manufacturing goods and unfavourable treatment in government procurement, compared to other trading partners of Mexico which have enjoyed the benefits of an FTA. To offset the disadvantages, Japan vigorously promoted the negotiation of an EPA with Mexico. The “Agreement between Japan and The United Mexican States for the Strengthening of the Economic Partnership” was signed by Prime Minister Koizumi of Japan and President Fox of Mexico in September, 2004

At the Japan-ROK Summit Meeting held in Bangkok on 20 October 2003, Japan and the ROK decided to begin negotiations in 2003 for concluding an FTA, aiming at its conclusion in substance in 2005. The framework of negotiations was agreed at the first round of negotiations held in Seoul on 22 December 2003. When Prime Minister Koizumi of Japan held a summit meeting with President Roh Moo Hyun of the ROK in July 2004, both leaders reaffirmed that they would aim at concluding the agreement in substance in 2005.

At the Japan-Malaysia Summit Meeting in December 2003, the leaders of both countries decided that they would begin negotiations for the conclusion of a Japan-Malaysia Economic Partnership Agreement in early 2004, aiming to conclude it within a reasonable period of time. In the following month, the two countries held their first round of negotiations.

At the Japan-Philippines Summit Meeting in December 2003, held in Tokyo, the leaders decided that they would begin negotiations for the conclusion of a Japan-Philippines Economic Partnership Agreement in early 2004, aiming to conclude it within a reasonable period of time. The first round of negotiations was held in February 2004. At the Summit Meeting held in November 2004, the leaders confirmed that both sides had reached agreement in principle on major elements of the Agreement.

At the meeting between prime ministers of Japan and Thailand in December 2003, the leaders decided that they would begin negotiations for the conclusion of a Japan-Thailand Economic Partnership Agreement in early 2004, aiming to conclude it within a reasonable period of time. The first round of the negotiations was held in February 2004, in Bangkok.

At the Japan-ASEAN Summit in October 2003, the leaders signed the “Framework for Comprehensive Economic Partnership (CEP) between Japan and the Association of South East Asian Nations”. Under the Framework, four meetings of consultation were held and the progress of the consultations was reported to the Japan-ASEAN Summit in November 2004. At the Japan-ASEAN Summit, the leaders agreed that Japan-ASEAN CEP Agreement negotiations should commence in April 2005, and took note of the Economic Ministers’ commitment to endeavour to conclude the negotiation within two years from that day.

Australia’s trade policy has as its main goal the creation of new and more open markets for exports to contribute to the growth in its economy, employment and standard of living. This goal is pursued multilaterally through the WTO, by negotiating trade agreements which provide the legal ground-rules for international trade; regionally through APEC, by strengthening trade links and pursuing common trade

and economic goals; and bilaterally, through free-trade negotiations that deliver substantial gains to Australia and which cannot be achieved in a similar timeframe elsewhere. This approach shares many of the characteristics of Japan's trade policy. Australia continues to use unilateral liberalisation measures to benefit consumers and improve the competitiveness of its industries and develop their export focus.

Australia has concluded an FTA with Singapore, which entered into force in July 2003. Australia has also concluded an FTA with Thailand. This agreement was signed in July 2004 and entered into force in January 2005. Australia has also concluded a free-trade agreement with the United States (the AUSFTA), which was signed in May 2004 and entered into force in January 2005.

Strengthening and deepening trade and economic relations with China, Australia's third-largest trading partner, is a major priority for the Australian Government. As part of achieving this aim, Australia and China agreed in October 2003 to undertake a joint feasibility study into a possible FTA between them. The feasibility study will form a basis upon which the two governments can consider the opportunities and challenges of such an agreement before taking any decision to start negotiations. The study is to be completed in the first half of 2005.

In 2001, ASEAN and CER (Australia and New Zealand) Ministers adopted a framework for a Closer Economic Partnership (CEP). This framework established an approach to promoting trade, investment and regional cooperation. The CEP work program includes projects aimed at reducing impediments to trade and lowering business costs in the region in a broad range of areas. Ministers also adopted an initiative to double ASEAN-CER trade and investment by 2010.

On 30 November 2004, leaders from Australia, ASEAN and New Zealand launched negotiations on an ASEAN-Australia and New Zealand FTA. Negotiations began in February 2005 and are to be concluded within two years. Leaders also endorsed a set of negotiating principles, including a commitment to a comprehensive agreement that covers trade in goods, services and investment, and the progressive elimination of all barriers to trade. They agreed that the FTA was to be fully implemented within 10 years.

In July 2004, Australia and Malaysia agreed to undertake parallel scoping studies into a possible FTA between the two countries. At a meeting of the Australia-Malaysia Joint Trade Commission, the Australian and Malaysian trade ministers agreed to complete the studies within the first quarter of 2005 following which, if agreed, the two countries would move to negotiations.

ASEAN countries themselves have embarked on a program of closer integration. They announced their intention in October 2003 of proceeding to the establishment of an ASEAN Economic Community by 2020. They also have entered into FTA negotiations with China and India. An early harvest has been concluded in both cases, but the negotiations for a full agreement will take longer. In November 2004, leaders from ASEAN and Republic of Korea agreed to begin negotiations on a free trade area in early 2005, with the aim of achieving tariff-free trade on 80 per cent of products by 2009.

Of the individual ASEAN members, Singapore and Thailand have been especially active in seeking FTA partners. Singapore has concluded FTAs with Australia, Japan, New Zealand, the United States, Jordan and the European Free Trade Area (covering Switzerland, Norway, Iceland and Liechtenstein) and is currently negotiating bilateral FTAs with Canada, the Republic of Korea, Kuwait, India, Mexico, Panama, Qatar and Sri Lanka. It has also agreed to launch FTA negotiations with Bahrain, Egypt, Peru and the United Arab Emirates. Regionally, Singapore is also pursuing the Pacific Three FTA between New Zealand, Chile and Singapore.

The Thailand-Australia FTA entered into force on 1 January 2005. Thailand has also concluded FTA negotiations with New Zealand, implemented an early harvest with India and accelerated bilaterally, for fruit and vegetables, the ASEAN-China early harvest. An early harvest with Bahrain remains unimplemented. Thailand is continuing its bilateral negotiations with Japan, the United States, India, Peru and Bahrain. Thailand is also in various stages of initiating FTA negotiations with Mexico, the South African Customs Union and the European Free Trade Area. It is also a party to the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation Free Trade Area Framework Agreement, along with Bangladesh, Bhutan, India, Myanmar, Nepal and Sri Lanka.

ASEAN and China, Japan and Korea (ASEAN+3) have embarked on a program of increased economic cooperation. Some have called for the conclusion of an FTA between them, but no timetable has been established. Nevertheless, the various activities undertaken by this grouping will bolster regional economic integration.

Two other initiatives for ASEAN are the US proposal for the *Enterprise for ASEAN Initiative* and the *Trans-regional EU - ASEAN Trade Initiative*. The former is expected to lead in time to bilateral FTAs between the United States and some ASEAN members. The latter is aimed initially at expansion of trade and investment flows, through closer cooperation and understanding of issues of mutual interest.

Other regional countries are also pursuing various FTA initiatives. Korea and Chile concluded negotiations in 2003, and the agreement entered into force on 1 April 2004. China and Hong Kong concluded a Closer Economic Partnership Agreement in 2003 which eliminated tariffs on some goods and opened some Chinese services sectors to Hong Kong. In 2000, China also acceded to the Bangkok Agreement, a preferential trade arrangement including also Bangladesh, India, Laos, the Republic of Korea and Sri Lanka.

Market-led integration will remain a basic driving force for regional economic integration. But the many proposals for FTAs involving regional economies will ensure that policy-led integration will become a much larger factor in regional economic life. This will be the case even if some of the more ambitious proposals are not taken up in the medium term.

To some extent, the course of negotiations towards regional trade arrangements will be influenced by the multilateral negotiations under the WTO Doha Development Agenda. Australia and Japan both consider the two approaches to be complementary. The ability of bilateral and regional free-trade agreements to break down complexities into simpler issues will benefit the multilateral negotiations.

APEC members also are working towards meeting the Bogor goals of free trade and investment by 2010 for developed countries and 2020 for developing countries. The contribution of these actions towards the realisation of regional economic integration has been considerable and promises to remain so.

3.3.2 Impact of economic partnership arrangements to which Australia is a party

This section provides an analysis of Australia's FTAs with the United States, Thailand, Singapore and New Zealand, against the backdrop of Japan's trading and investment interests. It gives an indication of the impact of the arrangements on the bilateral trade and investment relationship. All these FTAs can be expected to make for a stronger Australian economy.

3.3.2.1 Australia-United States FTA

Australia and the United States concluded FTA negotiations in February 2004, and the FTA came into force on 1 January 2005. The FTA is expected to further strengthen what is already a very strong bilateral economic relationship.

The United States is Australia's second largest merchandise trading partner (after Japan). Total bilateral merchandise trade was valued at more than \$US22 billion in 2004 (11.6 per cent of Australia's trade with all countries). The United States is also Australia's largest services trade partner, with total services trade valued at \$US7.8 billion in 2004. The United States has a substantial overall trade surplus with Australia (some \$US9.3 billion, its largest with any country). The United States is the largest destination for Australian foreign direct investment (FDI) abroad – with an investment stock of \$US44 billion as at June 2003. Similarly, the United States is the largest direct investor in Australia (ahead of the United Kingdom and Japan), with a stock of \$US44 billion.

For Australia, the Agreement provides for:

- Immediate, free and open access to the US market for Australian exporters of almost all manufactured goods and services;
- Duty-free access from day one for over 97 per cent of Australia's manufacturing exports to the US, worth \$US3.8 billion in 2003; sectors to benefit particularly from these changes will be autos, metals, minerals, seafood, paper and chemicals.
- Substantially-improved access for Australia's agricultural sector, including for beef and dairy, with more than 66 per cent of agricultural tariffs going to zero from day one of the Agreement and a further 9 per cent within four years;
- Access for Australian goods and services to a \$US150 billion market for federal government procurement in the United States; and
- Enhanced legal protections that guarantee market access and non-discriminatory treatment for Australian service providers in the US market.

For the United States, the FTA has given:

- Duty free access from the date of entry into force for all US agricultural exports and virtually all manufactured goods;
- Better and surer access for services providers;
- A relaxation of Australia's foreign investment screening;
- Better access to the Australian procurement market; and
- A reaffirmation of high standards of intellectual property protection.

The FTA will also lead to enhanced cooperation between the two countries in a range of areas, including customs and competition policy.

Effects on GDP and Overall Trade

Using the G-Cubed model, the Centre for International Economics (CIE) estimated that the FTA could be expected to boost Australian exports by up to around 1.3 per cent by 2025, and US exports by 0.15 per

cent.⁴ Ten years out, Australian GDP is estimated to rise by nearly 0.7 per cent, and US GDP by around 0.013 per cent. Investment liberalisation is assessed to make the largest contribution to overall economic growth and welfare – ahead of trade liberalisation effects and dynamic productivity gains.

Using the GTAP model, the CIE estimated increased US exports to Australia of around \$US4.6 billion and increased Australian exports to the United States of \$US2.3 billion⁵. As a result of some trade diversion, total world exports to Australia are estimated to increase by \$US2.0 billion and North Asian exports to Australia to fall by \$US0.7 billion. The GTAP results need to be treated with some caution, however, as the model is unable to capture adequately the effects of increased real investment and accumulation, as compared with the G-cubed model. In addition, the demand and supply response elasticities, including the extent to which local production and imports are substitutes, are not separately estimated for all countries.

Effects on Merchandise Trade

The CIE's GTAP results indicate that almost 70 per cent of the US export gains in Australia derive from the machinery and equipment sector (HS84-89). Around 90 per cent of all trade diverted from North Asia is in this sector, split roughly equally between transport and non-transport items.

The CIE acknowledges that some additional caution should be heeded in the case of GTAP estimates for the passenger motor vehicle (PMV) sector. While a reduction in tariffs will provide US producers with an advantage over other suppliers, many other considerations are also relevant, including substitutability of components and parts, Australian technical design standards and consumer tastes.

Nevertheless, sizeable trade diversion from Japan in the machinery and equipment sector, notably in the automotive sector, is to be expected given its significance in the profile of imports from both the United States and Japan, and the structure of Australian tariffs. Imports of machinery and equipment dominate the profile of Australia's imports from both the United States and Japan, accounting for 57 per cent of the total value of merchandise imports from the United States in 2003 and almost 80 per cent of merchandise imports from Japan. The majority of US imports of machinery and equipment (56 per cent) already enter free of duty, while the remainder, aside from PMVs and some automotive components, are subject to an MFN tariff of 5 per cent.

The United States is the second largest source of automotive imports into Australia (\$US1.5 billion in 2003, compared with nearly \$US6 billion from Japan). Before the FTA came into force, PMVs and some components/parts were subject to an MFN duty of 10 per cent, although duties are scheduled to fall in January 2010. Table 3.3.1 illustrates the preponderance of motor vehicle and parts imports amongst Australia's principal merchandise imports from the United States in 2003 currently subject to MFN duties.

While additional competitive challenges will arise for the Australian automotive industry, the sector can be expected to gain from cheaper components and parts, and greater export opportunities in the US market, particularly for utility vehicles which, before the FTA came into force, attracted a tariff of 25 per cent. Some car makers in Australia stand to benefit from likely increased competition and scale economies in the component sector.

Goods may of course include some non-originating materials and yet still qualify as a product of Australia or the United States. The rules of origin under the Agreement are based on a change in tariff

⁴ "Economic Analysis of AUSFTA: Impact of the Bilateral Free Trade Agreement with the United States", report prepared by Centre for International Economics for the Australian Department of Foreign Affairs and Trade, April 2004

⁵ US dollar figures in this paragraph are based on an exchange rate of \$A1=\$US0.70.

classification approach, in some cases supplemented by a content threshold component called the regional value content (RVC) requirement, i.e. domestically sourced materials and processes must represent an agreed proportion of the final value of the product. This approach tends to be more liberal than the value added rule of origin approach currently underlying Australia's FTAs with New Zealand and Singapore, and so creates some additional scope for imported materials and components from third countries, including Japan.

Table 3.3.1 Australia's Principal Imports from the United States with Non-zero Tariffs, 2003 (HS 4 Digit Level)

(Imports valued at over \$US100 million attracting a non-zero MFN tariff¹)

HS Code	Broad Description	MFN tariff rate, 2005 (per cent) ²	Imports from US 2003 (\$USm)	Imports from Japan 2003 (\$USm)	Treatment under FTA
8708	Parts and accessories of motor vehicles	10 (58%) 5 (40%)	337	429	0% upon EIF 0% upon EIF
8703	Motor vehicles principally designed for transport of persons	5 (91%) 10 (9%)	274	4015	0% upon EIF Reductions in equal annual stages to 0% by 2010
8409	Motor vehicle engine parts	10 (60%) 0 (24%) 5 (16%)	245	61	0% upon EIF 0% upon EIF
8701	Tractors	0 (65%) 5 (35%)	224	19	0% upon EIF 0% upon EIF
8429	Earth moving equipment	0 (55%) 5 (45%)	180	313	0% upon EIF 0% upon EIF
8704	Motor vehicles for the transport of goods	5 (100%)	173	844	0% upon EIF
8433	Harvesters, threshers, sorters, mowers	0 (60%) 5 (40%)	143	2	0% upon EIF 0% upon EIF
8483	Transmission shafts and gears	10 (66%) 5 (33%)	133	39	0% upon EIF 0% upon EIF
8481	Taps, cocks, valves	5 (89%) 10 (11%)	128	31	0% upon EIF 0% upon EIF
8408	Diesel engines	5 (50%) 0 (48%)	119	22	0% upon EIF 0% upon EIF
8421	Centrifuges, filtering or purifying machinery	5 (50%) 10 (50%)	104	25	0% upon EIF 0% upon EIF
8431	Misc. machinery parts	5 (96%) 0 (4%)	103	31	0% upon EIF

¹ The 26 import items valued at over \$US100 million in 2003 accounted for 50 per cent of total imports from the United States. Fourteen of these enter duty free.

² Figures in parentheses are percentages of imports from the United States in 2001 attracting the specified duty.

Source: DFAT STARS database and DFAT Trade Negotiations and Analysis (TNAS) system

Services and Investment

The Cross-Border Trade in Services Chapter, the Financial Services Chapter and the Investment Chapter of the FTA all require each Party to accord to services and service suppliers of the other Party national

treatment and MFN treatment. The Chapters also prohibit the Parties from placing limits on the number of service suppliers; the value of service transactions or assets; the number of service operations or the quantity of services output. Service suppliers are also not required to establish or maintain a representative office in the other Party or be resident in its territory in order to carry out business.

The only restrictions placed on US services suppliers or investors are detailed in the two annexes which spell out non-conforming measures. Annex I measures are subject to a “ratchet” mechanism, which means that if a Party liberalises a measure, then it cannot subsequently make it more restrictive. The measures include Australia’s current Foreign Investment Policy, comprising the *Foreign Acquisitions and Takeovers Act 1975* and related Regulations and Ministerial Statements.

In the case of financial services, very few restrictions currently apply, but the Agreement serves to confirm current access arrangements and so provides increased certainty for services providers. A Financial Services Committee also is to be established, charged with considering ways to further integrate the countries’ financial services sectors.

The Chapter on Investment provides for fair and equitable treatment of investments; the free transfer of capital; no performance requirements; and compensation for expropriation. It does not include an investor-state dispute settlement mechanism.

Except in certain sensitive sectors, US investment proposals for acquisitions are now only subject to screening where they involve an investment in an Australian business with total assets of \$A800 million or more, or where the purchase price is \$A800 million or more, while greenfields investments are not screened at all. Current policy, bound as part of Australia’s Uruguay Round commitments in the General Agreement on Trade in Services, is for foreign investments in existing Australian businesses with total assets of \$A50 million or more, or where the purchase price is \$A50 million or more and greenfields investments of more than \$A10 million, to be screened. Insurance companies are now permitted to provide life insurance in the territory of the other Party through a branch office structure. US companies previously had to establish a subsidiary to provide life insurance.

The reduced compliance costs for investors, in addition to the dynamic productivity improvements resulting from the movement towards free trade, can be expected to boost investment.

Government procurement

The non-discrimination provision of the Government Procurement Chapter requires each government to afford the goods and services of the other country’s suppliers the same treatment that applies to domestic suppliers of goods and services. This will serve to greatly enhance opportunities for Australian suppliers as access to US procurement markets is currently effectively closed to non-WTO Government Procurement Agreement (GPA) members. Access to the Australian procurement market was already open to foreign suppliers, including those from Japan. The FTA is expected to lead to more tenders being subject to open tendering procedures in Australia.

Sub-federal procurement is also covered by the chapter, subject to exceptions such as preferences for small and medium enterprises and the specified thresholds, which are higher than those applying to central government procurement.

Intellectual Property Protection

In accordance with the AUSFTA, Australia has extended its term of copyright protection for works (eg. books, artworks and sheet music), films and sound recordings. Copyright has been extended by an extra

20 years (i.e. to 70 years beyond the life of the author, generally speaking, or date of publication), through amendment of the Copyright Act and hence to the benefit of all trading partners.

Australia expects to finalise its accession to the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT) by the end of 2005. The FTA text on industrial property (patents, trademarks and designs) reinforces Australia's world-class regime and required little domestic change. The Parties have also agreed to work to reduce differences in industrial property laws and practices between the two countries.

3.3.2.2 Australia-Thailand FTA

The Australia-Thailand FTA (ATFTA) negotiations were concluded in October 2003. The agreement was signed in July 2004 and entered into force on 1 January 2005. The FTA is Thailand's first comprehensive free trade agreement and its first trade agreement with a developed country.

Thailand is becoming an increasingly important trading partner for Australia. Total merchandise trade has more than doubled in US dollar terms between 1999 and 2004. Thailand is Australia's twelfth largest merchandise trade partner and twelfth largest services trade partner. Total merchandise trade was valued at \$US5.0 billion in 2004, with Australian exports valued at \$US2.2 billion and imports valued at \$US2.8 billion. Total services trade was valued at \$US1.0 billion in 2004. FDI flows remain modest. Trade is in many respects complementary. Australia's principal exports to Thailand are resource-based, with aluminium, gold, cotton, copper, crude petroleum and dairy products accounting for over 40 per cent of merchandise exports. Imports from Thailand on the other hand are largely of manufactures, with the largest manufactures exports being light commercial vehicles and small cars, heating and cooling equipment, computers and telecommunications equipment.

The joint scoping study undertaken pointed to clear benefits to both countries from an FTA, and only limited effects on third countries.⁶ Before the FTA came into force, Australia faced significant tariff barriers in Thailand in the motor vehicles sector and on a range of agricultural and other manufactured products. It was also constrained in the provision of services in Thailand. Thailand faced significant tariff barriers in passenger motor vehicles as well as textiles, clothing and footwear. Modelling carried out by the CIE, using the APG-Cubed model indicates that the FTA could conservatively be expected to increase Australian GDP by some \$US4.6 billion and Thai GDP by \$US6.8 billion in net present value terms over 20 years.⁷

Merchandise Trade

For Australia, the ATFTA will deliver free trade in most areas without lengthy phase-ins.

- Tariffs on goods of Australian origin accounting for 78 per cent of current imports from Australia were eliminated upon entry into force.
- Tariffs on goods accounting for a further 17 per cent of current trade will be phased to zero over the period to 1 January 2010. Virtually all remaining tariffs, including tariff rate quotas, will phase to zero in 2015 or 2020.

⁶ "Australia-Thailand Free Trade Agreement Joint Scoping Study", a joint report coordinated by officials in the Australian Department of Foreign Affairs and Trade and the Thai Ministry of Commerce, May 2002

⁷ "The Australia-Thailand Free Trade Agreement: Economic Effects", report prepared by Centre for International Economics and commissioned by the Australian Department of Foreign Affairs and Trade, March 2004

- Thailand immediately reduced tariffs on any industrial goods not subject to immediate elimination to a ceiling of no more than 20 per cent (with the exception of small and medium passenger motor vehicles), before phasing to zero.
- Where not eliminated immediately, tariffs on a range of industrial goods identified by Australia as of specific interest will be halved immediately before phasing to zero.

For Thailand, the ATFTA means:

- Duty free access upon entry into force on items accounting for 83 per cent of current Australian imports from Thailand (up from just over one-third before the FTA); and
- Phasing to zero by 2010 of Australian tariffs in the plastics and chemicals, textiles, clothing and footwear, automotive parts and canned tuna sectors (2015 in the case of clothing and certain finished textiles).

ATFTA is likely to benefit Australia across a wide range of areas, including dairy and other agricultural products, pharmaceutical goods, aluminium, and large passenger motor vehicles and components. Thailand stands to gain in areas such as small motor vehicles, plastic products, iron and steel products, pulp and paper products, and agricultural products. These gains are unlikely to impinge significantly on Japanese interests, while Australian car plants might be expected to gain some additional export sales into Thailand. Japanese interests stand to be affected most in the motor vehicles sector (refer Table 3.3.2 and Box 3.3.1). It should be noted that, as in the case of the AUSFTA, the rules of origin are based on a change in tariff classification approach.

Table 3.3.2 Australia's Principal Imports from Thailand with Non-zero Tariffs, 2003 (HS 4 Digit Level)
(Imports valued at over \$US30 million attracting a non-zero MFN tariff¹)

HS Code	Broad Description	MFN duty (per cent) ²	Imports from Thailand 2003 (\$USm)	Imports from Japan 2003 (\$USm)	Treatment under FTA
8704	Motor vehicles for the transport of goods	5 (100%)	489	844	0% upon EIF
8415	Air conditioners	5 (69%) 10 (31%)	182	83	0% upon EIF 5% upon EIF, 0% in 2010
8703	PMVs	10 (100%)	91	4015	0% upon EIF
1604	Prepared or preserved fish	5 (78%) 0 (22%)	84	2	canned tuna - 2.5% upon EIF, 0% in 2007
8708	Parts and access. of motor vehicles	10 (84%) 5 (16%)	46	429	5% upon EIF, %0 in 2010 0% upon EIF

1 The 10 import items valued at over \$US30 million in 2003 accounted for 54 per cent of total imports from Thailand. Five of these enter duty free.

2 Figures in parentheses are percentages of imports from Thailand in 2001 attracting the specified duty.

Source: DFAT STARS database and DFAT Trade Negotiations and Analysis (TNAS) system

Box 3.1: Automotive Trade and the Australia-Thailand FTA

Automotive tariffs stand to be significantly reduced by both countries. Under the FTA, Thailand immediately eliminated tariffs on large passenger motor vehicles (engine capacity of over 3000cc) and goods vehicles, currently at 80 per cent and 60 per cent respectively. For other passenger motor vehicles, Thailand immediately reduced the current 80 per cent tariff to 30 per cent, before phasing this down by 6 per cent each year to zero in 2010.

Tariffs on all automotive parts, components and accessories, currently up to 42 per cent, were immediately reduced to a ceiling of 20 per cent, and will be phased to zero by 2010. Tariffs on engines have been immediately reduced from 30 per cent to 15 per cent. Other tariffs at or below 20 per cent also have been immediately reduced and will be phased down accordingly.

For its part, Australia has eliminated upon entry into force of the Agreement the tariffs on all passenger vehicles, 4WD vehicles, goods vehicles and other commercial vehicles of Thai origin. These tariffs are 10 per cent for passenger motor vehicles and 5 per cent for other vehicles.

Imports from Thailand of light commercial vehicles have grown from negligible levels a few years ago to reach almost \$US500 million in 2003. Thailand was second to Japan as a source of motor vehicles for the transport of goods (HS8704) in 2003, accounting for over one quarter of imports from all sources. Much light commercial vehicle production in Thailand is by Japanese car makers so gains from increased bilateral trade would also accrue to Japan. Imports of passenger motor vehicles (HS8703) were worth close to another \$US100 million. Together, these imports accounted for around one quarter of Australia's total merchandise imports from Thailand.

Currently, Australian automotive exports to Thailand are at modest levels. The integration of the two markets under an FTA can be expected to inject a new dynamism into the industry by encouraging the vehicle manufacturers to develop strategies to integrate their Thai and Australian operations to take advantage of improved economies of scale and product specialisation possibilities. The process of integration will be facilitated by the complementary nature of the Thai and Australian vehicle industries – small cars and light commercials produced in Thailand and large cars produced in Australia – and the fact that, in most cases, the same car makers, many of them Japanese, operate in both countries. Both countries are right hand drive, which also works in favour of market integration.

Services and Investment

ATFTA also includes initiatives to liberalise and facilitate trade in services and two-way investment. Thailand has now permitted majority Australian ownership (up to 60 per cent) of companies involved in mining operations as well as a number of services sectors (previous limit was 49.9 per cent). The agreement incorporates provisions on investment protection which guarantee a range of rights to Australian direct investors in Thailand, including the right to transfer their funds out of Thailand at any time. Thailand is also to free up temporary entry conditions for business people. These gains for Australia, while significant, are unlikely to result in any competitive disadvantage of great import for Japan.

Australia has undertaken to guarantee Thai service providers and investors access to the Australian market in a range of sectors. It has also undertaken to minimise discrimination that Thai service providers and investors may face in the Australian market compared with Australian service providers and investors. The sectors in which Australia has made these undertakings largely mirror those sectors in which

Australia has indicated a willingness to make commitments to other Members in the current WTO negotiations.

Further negotiations will be held in future to achieve further liberalisation of two-way services trade. This is aimed at capturing developments in Thailand's financial and telecommunications industries where regulatory reforms have not yet been completed. Also included are rules to promote cooperation and best practice in areas such as competition policy, e-commerce, industrial standards and quarantine procedures.

3.3.2.3 Singapore-Australia FTA

The Singapore-Australia Free Trade Agreement (SAFTA) became operational in July 2003. The agreement will lead to a further strengthening of the already strong trade and investment links between Australia and Singapore.

Singapore is Australia's eighth largest merchandise trade partner. Australian exports in 2003 were valued at \$US2.3 billion, while imports were valued at \$US2.9 billion. Singapore is also Australia's fourth largest services trade partner, with total services trade valued at \$US2.5 billion in 2002. FDI is modest, apart from Singtel's recent acquisition of Cable & Wireless Optus.

Singapore has a very open goods market. While relatively open, significant restrictions do continue to apply in services and foreign investment, including in banking, legal and other professional services. From Singapore's perspective, over 80 per cent of Singapore's merchandise exports to Australia already entered duty free. This reflects the existence of significant tariff barriers in automotive and textiles, clothing and footwear only, each of which are not significant exports for Singapore. Nor do Japanese interests stand to be affected greatly (refer Table 3.3.3).

Table 3.3.3 Australia's Principal Imports from Singapore with Non-zero MFN Tariffs, 2003 (HS 4 Digit Level)

(Imports valued at over \$US20 million previously attracting a non-zero tariff¹)

HS Code	Broad Description	MFN duty (per cent) ²	Imports from Singapore 2003 (\$USm)	Imports from Japan 2003 (\$USm)	Treatment under FTA
8525	Transmission apparatus	5 (68%) 0 (32%)	21	339	0% upon EIF
4811	Paper, paperboard, cellulose wadding	5	21	26	0% upon EIF

¹ The 15 import items valued at over \$US20 million in 2003 accounted for 70 per cent of total imports from Singapore. Thirteen of these entered duty free previously.

² For these items this is also the duty previously applicable to imports from Singapore. Figures in parentheses are percentages of imports from Singapore in 2001 attracting the specified duty.

Source: DFAT STARS database and DFAT Trade Negotiations and Analysis (TNAS) system

SAFTA provided for complete tariff elimination upon entry into force. The Agreement also delivered substantial gains for services providers. As with the AUSFTA, the Agreement involves a 'negative list' approach to services commitments. That is, national treatment is afforded in all areas other than the small number of exceptions listed. For Australia, significant gains have been secured in the areas of financial, education, environmental, telecommunications, and professional services. In the case of financial services, Singapore has bound recent liberalisation initiatives in areas including banking licences, insurance and

securities markets. These bindings will give Australian financial services providers and investors a more certain business environment, and to that extent an advantage over providers from other countries including Japan. In addition, restrictions on the number of wholesale banking licences available to Australian banks will be eased over time. Residency requirements for Australian professionals are also to be eased/removed.

The Agreement also provides a more open and predictable business environment across a range of other areas, including competition policy, government procurement, intellectual property, e-commerce, customs procedures and business travel. Non-discriminatory national treatment is guaranteed in tendering for government business with a specified list of agencies in each country. Japanese suppliers would already enjoy the advantages Australian suppliers have secured in Singapore, as both countries are members of the WTO Government Procurement Agreement. Australian State and Territory Governments are not at present listed as entities under the Agreement.

3.3.2.4 Closer Economic Relations Agreement with New Zealand

New Zealand is Australia's fifth largest merchandise trade partner. Total bilateral merchandise trade was valued at \$US10.3 billion in 2004 (5.4 per cent of Australia's trade with all countries), with total trade including services valued at over \$US13 billion. Australian FDI in New Zealand stood at \$US12 billion in June 2003 (third largest destination for FDI), while New Zealand FDI in Australia was valued at \$US3 billion.

The Australia New Zealand Closer Economic Relations Trade Agreement (commonly known as CER) came into effect in 1983. It provided for free trade in goods, which was fully realised in 1990. A Protocol signed in 1988 extended it to trade in services.

CER is one of the most comprehensive bilateral free trade agreements in existence, and the first to include free trade in services. The two economies are closely integrated, and there exists close regulatory cooperation:

- A joint authority to set food standards exists and agreement has been reached for the establishment of a joint therapeutic regulatory agency.
- Business law regimes are closely harmonised.
- A trans-Tasman mutual recognition agreement relating to the sale of goods and the registration of occupations came into force in 1998, and options for further harmonisation and improvements are currently under consideration.
- There is a single Australia-New Zealand government procurement market.

CER is resulting in increased competitiveness, including scale economies, of businesses in the two economies. The combined economies have a population of 24 million. Over the past ten years trans-Tasman trade has increased on average by 9 per cent per year, compared with 8 per cent growth in total Australian trade.

With CER in place for many years now, the market has come to terms with the duty free entry afforded to New Zealand companies. New Zealand's competitive strengths are for the most part in different areas than those of Japan. In 2003, there were only two major import items from New Zealand subject to non-zero MFN duties which are of any significance for Japanese suppliers (refer Table 3.3.4).

Table 3.3.4 Australia's Principal Imports from New Zealand with Non-zero MFN Tariffs (HS 4 Digit Level)

(Imports valued at over \$US30 million for which imports from Japan are valued at over \$US10 million¹)

HS Code	Broad Description	MFN duty (per cent) ²	Imports from New Zealand 2003 (\$USm)	Imports from Japan 2003 (\$USm)
8708	Parts and access of motor vehicles	10 (74%) 5 (25%)	46	429
4011	New pneumatic tyres, of rubber	15	31	273

¹ The 22 import items valued at over \$US30 million in 2003 accounted for 39 per cent of total imports from New Zealand. Five of these are subject to zero MFN duties.

² Figures in parentheses are percentages of imports from New Zealand in 2001 relating to import categories with the specified MFN duty

Source: DFAT STARS database and DFAT Trade Negotiations and Analysis (TNAS) system.

3.3.3 Impact of economic partnership arrangements to which Japan is a party

This section provides an explanation of Japan's current bilateral trade activities. Japan is currently party to two free trade agreements and economic partnership agreements (FTA/EPAs). Japan believes that these agreements will also serve as a building block to greater trade liberalization at the multilateral level. Japan's bilateral initiatives cover areas such as investment, competition, and intellectual property rights.

3.3.3.1 Japan-Mexico EPA

The "Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership" was signed by Prime Minister Koizumi of Japan and President Fox of Mexico on 17 September 2004.

This Agreement contributes to making the most of the economic complementarities between the two parties and to further strengthening their economic relationship. The essence of this Agreement is summarized as follows; (i) to strengthen an economic partnership between two countries by enhancing free cross-border trade of goods, services, capital and business persons, and investment liberalization, (ii) to promote a comprehensive economic partnership including such areas as competition policy, improvement of the business environment, human resources development and support for small and medium enterprises. With this Agreement, custom duties on goods representing 96% of total bilateral trade will be eliminated.

Significance of the Agreement for Japan

Expanded access to the Mexican market

Through the conclusion of the Agreement, Japan will gain expanded access to the Mexican market, which is growing dynamically, with a population of approximately 100 million and an economic scale that places it in tenth position in the world (equivalent to the combined economic scale of ten ASEAN countries).

Securing a gateway to the South and North American markets

The Agreement will enable entry in to the North and South American markets via Mexico (Mexico has already concluded free trade agreements with 42 countries, including the United States (US), Canada, 25 countries in the European Union (EU) and countries in Latin America).

Eliminating competitive disadvantages for Japan

The Agreement will allow Japanese companies to enjoy equal treatment with companies of the US, Canada and EU, in areas such as custom duties, services, investment and government procurement.

Main points of the agreement

Trade in goods

As for trade between the two countries, customs duties will be comprehensively eliminated or reduced, including agricultural and industrial products. An overview of the elimination or reduction in customs duties of major products for trade follows:

I. Agricultural Products

1. Overview

Both countries agreed to eliminate or reduce customs duties on products in the area of agriculture, forestry and fisheries, which cover almost all imports from Mexico in such areas.

2. Five Agricultural Products

(1) Pork

Establishment of a preferential tariff rate quota reducing the *ad valorem* rate of customs duties by half. First year quota: 38,000 tons -- Fifth year quota: 80,000 tons

(2) Orange juice

Establishment of a preferential tariff rate quota reducing the rate of customs duties by half. First year quota: 4,000 tons -- Fifth year quota: 6,500 tons (Calculated in terms of orange concentrate)

(3) Beef

Establishment of a tariff rate quota for promotion in the first two years (10 tons - non-taxable). From the third year onwards: Third year quota: 3,000 tons -- Fifth year quota: 6,000 tons. Tariff rates will be consulted on in the second year after the entry into force of the Agreement.

(4) Chicken

Establishment of a tariff rate quota for promotion in the first year (10 tons - non-taxable). From the second year onwards: Second year quota: 2,500 tons -- Fifth year quota: 8,500 tons. Tariff rates will be consulted on in the first year after the entry into force of the Agreement.

(5) Oranges

Establishment of a tariff rate quota in the first two years (10 tons - non-taxable). From the third year onwards: Third year quota: 2,000 tons -- Fifth year quota: 4,000 tons. Tariff rates will be consulted on in the second year after the entry into force of the Agreement.

3. Other products

Classified according to the treatment of customs duties in such groups as: Immediate elimination of customs duties; Gradual elimination of customs duties from 3 to 10 years; Establishment of a non-taxable quota; Reduction of customs duties; Consultation, or Exclusion from the regulation of the Agreement

II. Products in the mining and manufacturing industry

1. Overview

Both countries agreed to realize liberalization (elimination of custom duties) in compliance with the international standards in a manner responsive to the interests of both sides. It was also agreed that customs duties will be eliminated on almost all products within ten years.

2. Commitment by Mexican side to liberalize the steel sector

Without exception, customs duties will be eliminated on all steel products within ten years. Among them, the customs duties on products used in specified industries (see note 1) will be immediately eliminated.

3. Commitment by Mexican side to liberalize the automobile sector

With the entry into force of the Agreement, a new non-customs-duties quota, which is equivalent to 5 per cent of the number of units sold in Mexico in the previous year, and will be established for automobiles and buses and trucks, excluding large buses and trucks. Complete liberalization will be achieved in the seventh year after the entry into force of the Agreement (see note 2).

(note 1) Four sectors: electronics, home appliances, capital goods, automobiles.

(note 2) The existing non-customs-duties quota for companies having a production base in Mexico will be maintained.

Investment

With some exceptions, both countries committed to provide national treatment and most-favoured-nation treatment. Performance requirements such as requirement for local content as a condition for investment shall be prohibited.

Cross-border trade in services

With some exceptions, both countries committed to provide national treatment and most-favoured nation treatment.

Government procurement

For the procurement of services and goods by government organizations or government-related companies, both countries committed to provide national treatment.

Competition policy

Both countries shall, in accordance with their respective laws and regulations, cooperate in the field of controlling anticompetitive activities.

Improvement of the business environment

A Committee for the Improvement of the Business Environment shall be established, allowing the participation of representatives from the private sector of both countries.

Bilateral cooperation

Both countries shall cooperate in nine areas: trade and investment promotion, supporting industries, small and medium enterprises, science and technology, technical and vocational education and training, intellectual property, agriculture, tourism, and the environment.

3.3.3.2 Japan-Singapore EPA

The Japan-Singapore Agreement for a New Age Economic Partnership (JSEPA), which entered into force on November 30, 2002, aims not only at further liberalizing and stimulating bilateral trade and investment, but also further strengthening bilateral economic ties between Japan and Singapore in a variety of fields. After the JSEPA came into effect, the value of trade in several goods for which tariff barriers have been removed under the agreement, i.e. beer from Japan to Singapore and medicines and plastics from Singapore to Japan, have also increased substantially.

Outline of the Agreement

More than 98 per cent of total merchandise trade has become tariff free. Specifically, all merchandise exported from Japan to Singapore is tariff free. The newly tariff free items are beer, Samusu (a clear liquor). 94 per cent of the merchandise imported from Singapore to Japan has become tariff free. Some newly tariff free products are petrochemicals, textiles, apparel, etc.

The economic effects

Table 3.3.5 Change in total trade between Japan and Singapore, 2002-2004, \$US million

	2002 (\$US=¥125.39)	2003 (\$US=¥115.93)	2004 (\$US=¥108.19)
Export from Japan to Singapore	14,152 (-4%)	14,800 (-3%)	17,976 (+13%)
Import from Singapore to Japan	4,999 (-4%)	5,424 (0%)	6,287 (+8%)
Total trade amount	19,151 (-2%)	20,224 (-2%)	11,539 (+12%)

Investment

Singapore has been positioned as a business control and cutting-edge high value-added merchandise production centre by many Japanese companies. Large-sized investments in the petrochemical field by Japanese companies are prominent. On the other hand, Singapore is the biggest investor among Asian countries in Japan. Investment in the real estate sector has been the prominent investment sector by Singapore companies since the JSEPA come into force.

Table 3.3.6 Change in investment flows between Japan and Singapore, JFY2002-2003, \$US million

	JFY2002 (\$US=¥125.39)	JFY2003 (\$US=¥115.93)
Investment from Japan to Singapore	731.3 (-36%)	313.9 (-60%)
Investment from Singapore to Japan	181.8 (-26%)	1,281.8 (+552%)
Total	920.3 (-34%)	1,595.8 (+62%)

Source: Ministry of Finance "Foreign Direct Investment"

Co-operation fields

In addition, the Joint Committees under the JSEPA were held in 12 fields to date covering customs procedures, mutual recognition, financial services, information and communication technology (ICT), trade and investment promotion, etc. The following outlines some of those areas of co-operation.

Financial Services

Japan and Singapore financial services authorities have signed a Memorandum of Understanding on the sharing of information on securities and securities derivatives markets. In addition, the Tokyo Stock Exchange and the Singapore Exchange have started consideration towards building a strategic alliance that aims at broadening the distribution and enhancing the liquidity of products traded on both markets. Japan and Singapore concluded a bilateral swap arrangement of up to \$US1 billion in November 2003 under the Chiang Mai Initiative. In addition, under the Asian Bond Markets Initiative, Japan and Singapore are cooperating in serving as co-chairs in a working group relating to the local and regional rating agencies and disseminating information.

Information and Communication Technology (ICT)

Japan is enhancing ICT co-operation in the Asian region under the Asia IT Initiative and the Asia Broadband Program in order to accelerate information flows. The two countries will also continue to promote dialogue in ICT policy and regulation as well as co-operation in the field of inter-operability of Public Key Infrastructure, protection of personal data, advanced telecommunications networks, interactive broadband multimedia services and developing IT skill standards, on the basis of achievements attained under the implementation of the JSEPA.

Trade and Investment Promotion

Both countries have established mechanisms to promote trade and investment, and cooperation between companies of both countries. International Enterprise Singapore (IE Singapore) set up a Business Support Office (BSO) in Tokyo in August to assist Singaporean companies to enter the Japanese market. The Japan External Trade Organization (JETRO) and IE Singapore have also organised numerous joint seminars, business matching and networking meetings. These include Seminars on Investment to Japan, Osaka workshop, Kumamoto Seminar, in Singapore, and Singapore economic seminar, IT Seminar, IP Seminar, Seminar on Electrical, Electronic and Precision Technology, in Japan and business matching for business alliances in the third countries such as China. The two countries have also established data linkage for online databases of Japanese and Singapore companies keen to establish ties. Both countries will continue to promote trade and investment co-operation under the JSEPA.