

# 7. The bilateral relationship and an FTA

An FTA would significantly strengthen Australia's bilateral relationship with the United States. Australia's economic relationship with the United States has become more diverse than with any other major trading partner. This is an historic trend deriving from economic reform in Australia. An FTA would consolidate that trend and expand the core of the bilateral relationship beyond security and defence cooperation. It would create new infrastructure to maintain a close relationship with the United States at a time when there are new, historic pulls on the United States to pay greater attention to other regions and issues.

## Stronger economic links

In the previous chapters, the assessment was made that an FTA is likely to strengthen the trade and investment relationship with the United States. There is an historic dimension to this.

Until the early 1960s, Australian policy hindered rather than facilitated trade and investment with the United States. Membership of the Commonwealth System of Imperial Preferences and the sterling block skewed Australia's flow of trade and investment towards Britain. In 1950, Britain was Australia's leading source of imports and investment and the largest export market. These linkages also skewed Australia's trade away from Japan.

The scrapping of Imperial preferences, the move to convertibility of the Australian currency, the development of Australia's mineral resources, as well as Britain's entry to the EEC, led to a steady growth of trade and investment with the United States and Japan. Until the 1980s a new pattern became fixed. Japan became Australia's largest market (accounting for about 20 per cent of Australia's total exports) and the United States became the biggest supplier of imports. Its share of foreign investment also steadily rose.

Patterns of trade and investment between Australia and its major trading partners were dominated by Australia's agricultural and resources base. Japan invested heavily in resources and became a leading export market. The pattern was similar with the United States, except that Australia became a major supplier of beef as well as a recipient of US investment as US businesses expanded globally in the post-war period. Australia

heavily protected its manufacturing. As such, patterns of exports were shaped by trade barriers and subsidies.

Unilateral liberalisation of trade barriers on manufactures and the deregulation of the services sector of the economy that began in the 1980s in Australia initiated a new phase in trade and investment patterns. Australia's manufacturing sector became globally competitive and started exporting. The United States became the biggest foreign investor in Australia, Australia's largest market for elaborately transformed manufactures and Australia's largest single market for services exports. It also became the largest destination for Australian foreign investment.

Japanese trade and investment expanded into agriculture following the opening of some of its agricultural markets in the late 1980s. However, Australia's trade with Japan has not witnessed anything like the growth in manufactured exports to and investment in the United States and, to a lesser extent, Europe that has occurred since then. The basic reason is that Japan's markets for manufactures and inward investment in services have not been as easy to access as those in the United States and Europe.

There are signs that this may change. The issues are closely related to the need for economic reform that is widely accepted as necessary in Japan if economic growth is to be restored. However, if Japan does not open its economy up in this way, then the patterns of trade and investment between Australia and Japan are not likely to change. The degree of integration between the two economies could remain restricted to an economic relationship where Australia is a predominantly supplier of resources and agricultural commodities.

The opening of the Australian economy has resulted in increased flows of trade and investment between Australia and the United States. By removing remaining barriers, an FTA will consolidate that trend and enable Australia to secure the full benefits of a fully liberalised economy.

If the long-term projections made in the previous chapter about growth in North America are correct, an FTA will generate very important opportunities for Australian business to participate in that growth. It may be, however, that the ultimate bonus from an FTA for Australia will be integration with the economy at the heart of Information Age and the attendant improvement of business culture that will follow from being able to draw on the world's best.

## Collaboration over international economic policy

An FTA will build upon the institutional dimensions of the relationship and create a more formal basis for joint consideration of trade and economic linkages. Australia will acquire trade rights under an FTA and enjoy a closer relationship on trade issues. In the past trade has been a matter of as much contention as cooperation in the bilateral relationship. Disputes over bilateral agricultural trade issues have been a regular source

of disagreement. At the same time, there has also been close cooperation between the US and Australia to pursue global liberalisation of agricultural trade since the Uruguay Round began. Collaboration in this vein continues in the WTO over efforts to open world markets for agricultural trade.

The open nature of the economy in each country predisposes both governments to approach questions of market economics and regulation with similar perspectives. Collaboration between Canada and the United States over international economic issues intensified following creation of the North American Free Trade Area. A logical consequence of an Australian US FTA would also be closer collaboration in international fora on such issues.

An FTA will enhance an affinity between Australia and the US (and Canada) for collaboration over international resource issues. All three economies are global suppliers of mineral resources. It is common for the three to find themselves at odds with members of the European Union in fora where international economic and resource issues are considered. The Europeans tend to see global resources issues from the standpoint of consumer and processor, whereas Australia, United States and Canada are producers and exporters as well.

## Geo-strategic significance

Finally the geo-strategic significance for Australia of strengthening its relationship with the United States through an FTA is great. This has two dimensions: one strictly bilateral, the other regional.

### *Modernising the relationship*

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. It 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. Both countries derive significant benefits from cooperation on a range of security, economic and multilateral issues. Box 7.1 sets out the main features of the relationship in greater detail

Both Governments have sought to modernise and revitalise the relationship in recent years. The 1996 Australia-United States Ministerial Consultations (AUSMIN) in Sydney set the stage for this process. The two countries released a Joint Security Declaration reaffirming their intention to work together, and with others in the region, to promote common security interests and a regional security environment that promotes democracy, stability and prosperity.

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 links. It would reinforce public awareness in both countries, and particularly amongst younger generations, of the enduring relevance of the Australia-US relationship.

It is worth recalling that the relationship has been bolstered by a rather novel feature - the contacts among citizens of both countries that formed during the Second World War. Members of that generation who served in the Pacific have provided a reserve of goodwill towards Australia within American society that exists for few other nations. Australians who have experienced this first-hand understand the importance of it, those who have not do not. The number of members of Congress and senior figures in Administrations, including the Presidency, who have brought that interest to bear in attitudes towards Australia has been surprising over the years.

That Pacific generation has all but passed on. If the linkages which it provided are not replaced, Australia's capacity to draw the attention of the most powerful country in the world will be diminished. An FTA is an effective means of creating new institutional linkages with the United States. This will continue to ensure there is more to the relationship with the United States than just defence and security, as important as that is.

Moreover, later generations - particularly in Australia - associate the relationship with the bipolar alignments of the Cold War period. As the apparent 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 is also effective for this purpose because it happens to reflect an innovation in the way in which states manage relations with each other in the international system. Chapter 1 and Annex 1 describe the emergence of economic relationships between states as a powerful new means to build relationships between each other and to enhance global security through creation of economic interdependence. Economic interdependence has provided powerful glue for the achievement of stability and security in Western Europe.

FTAs are another means of promoting that economic interdependence. In situations where FTAs result in economic integration of economic activity, they have themselves become touchstones of special and close relationships with other countries.

### Box 7.1 The Australia – United States bilateral relationship

Australia and the US have a long history of close defence and security cooperation. Australian and American forces have served alongside one another in every major war of the past century: in both World Wars, in Korea, in Vietnam, in the Gulf War, as well as in peacekeeping operations such as Somalia.

The ANZUS Treaty symbolises and formalises a close alignment of strategic interests with the US. It also provides a framework for practical cooperation in areas such as intelligence, defence technologies, and logistics and support arrangements. The cessation of the traditional trilateral ANZUS relationship involving New Zealand has not diminished the very close defence and security ties between Australia and the US. The 50<sup>th</sup> anniversary of the signature of ANZUS is being celebrated over the course of 2001.

In addition to these established security ties, Australia has actively encouraged a continuing constructive US role in the development of multilateral consultations and exchanges on security issues within the region, including the ASEAN Regional Forum.

The Asia Pacific's economic, political and strategic landscape has undergone profound change. Australia's strong regional credentials, coupled with traditional US influence and policy of regional engagement, provide a sound platform for a mutually beneficial maintenance of stability in the Asia Pacific.

The Asia-Pacific region accounts for around two-thirds of the global trade of both countries. Reflecting these shared economic interests, Australia and the US have played important roles in the formation and development of the Asia-Pacific Economic Cooperation (APEC) process. Both countries have worked closely together to ensure successful outcomes which have helped chart the future development of APEC as a forum for enhanced regional cooperation. More recently, Australia and the US deepened their cooperation in responding to the Asian economic crisis.

Australian and American sporting associations, artistic institutions, and academics interact continuously, reinforcing the shared cultural understanding and complementary perspectives which physical distance might otherwise diminish. The network of Australian/American Studies centres and associations in Australia and North America, and bodies such as the Fulbright Australian American Educational Foundation in Australia, help facilitate and expand educational ties.

Globalisation has enhanced people-to-people links between the two countries, and the strong Australian and American economies have underpinned substantial tourism growth. The US is Australia's fourth-largest source of tourists - over 400,000 Americans visited Australia in 1999–2000.

### *The Pacific Century and the rise of the Western Hemisphere*

There is a wider, regional significance in Australia's forming an FTA with the United States. It was presumed over the last two decades that the twenty-first century would be the Pacific Century, the result of the confluence of the power and influence of the United States and the economies of East Asia, in particular Japan and China. This is a region of vital interest to Australia. Its interest is strong in seeing the US continuously engaged in East Asia, not only in the security equation, but also as a source of influence to encourage emerging economies to adopt open economic models. As mentioned above, there is a security dividend of greater stability from economic interdependence and the prosperity it can deliver. From this standpoint, an FTA with the United States has the twin advantages of keeping the United States engaged in the region and fostering a special relationship with the US.

That confluence of factors to generate the "Pacific century" will be major feature in coming decades. However, in the last two decades the idea of a confluence of interests between North and South America in the Western Hemisphere has also emerged as a powerful phenomenon. The clearest international expression is the idea of a Free Trade Area of the Americas, promoted first by George Bush senior, then Bill Clinton and now George W Bush. With the formation of NAFTA in North America and Mercosur in South America, as well as greater preparedness by South American governments to open their economies, the logic for an open economy in the Western hemisphere is strong, even if the ambitions to create it seem far ahead of the preparedness today of governments to liberalise.

A combined North and South American market would number more than 800 million people. Removal of all barriers to trade and investment in the Western hemisphere is an impressive ambition. We have already postulated in Chapter 5 that the North American Free Trade Area has better prospects of securing economies of scale by removing barriers to trade and investment in North America than the European Union has in achieving the same in Western and Central Europe. Add the dynamism of the North American economy to a commitment in South America to remove barriers, and the idea of a Western hemisphere trade area becomes a commanding one.

It too has a certain historical momentum. This is not the first time the United States has sought to secure influence in the Western hemisphere. It has a long tradition under the Monroe doctrine of active intervention to secure interests. It is one reason relations between the United States and many Latin American countries were difficult in the late nineteenth century and for most of the twentieth century. The democratisation of Latin America and opening of national economies that began in the 1980s, including particularly the negotiation of a common market in Mercosur which make Argentina and Brazil trading partners instead of military rivals, has dramatically changed the equation. The US interest endures, but influence the US would secure through a pan-

hemispheric free trade area is quite different from previous engagements. Trade and investment would replace the threat of military intervention.

The idea of the FTAA and the negotiation of NAFTA – the first-ever free trade area negotiated between developed and developing economies – also resonates with the increasing latinisation in US society. The cultural and economic pull of Latin America is now strong. It is the largest source of immigration to the United States. Spanish is emerging as a competitor to English in some parts of the United States. Miami has emerged as one of the great US metropolises to join New York, Chicago and Los Angeles. In US international policy the trans-Atlantic interest was significant in US policy since the First World War. In the post World War Two period, a distinct Asian Pacific interest emerged in US public policy. Since the negotiation of NAFTA, there is a strong Western hemispheric interest. All these interests have deep roots in US international public policy.

Nations in the Asia Pacific region like Australia have always been concerned to ensure US Administrations give appropriate priority to developments in the Asian Pacific area. They were always aware there was a competition for attention in Washington with trans-Atlantic interests. The Western hemisphere is a new contender for attention in Washington. History suggests there is inevitability about economic integration in North and South America. This will not be a quick process. But already there is competition for US interest, for example between APEC and the FTAA concept. In 2001, the conclusion must be that there is more interest in pursuing trade liberalisation and economic integration in Latin America than there is in East Asia. Little concrete action is being taken to implement the Bogor Declaration to remove barriers to trade and investment in the APEC area whereas the Heads of Government of the Western Hemisphere are strongly endorsing the idea of an FTAA.

It is in Australia's long-term interests to keep US interest in engagement in East Asia. The interests are economic, strategic and geo-political. Negotiation of an FTA with the United States is an additional means of reinforcing interests in US international public policy that maintain a long-term focus on developments in the East Asian region. Moreover, as noted in Chapter 5, an FTAA would pose serious competitive challenges in trade for Australia. An AUSFTA would also help position Australia to address those challenges.

