

## **Australia's FTA Policy: From Defensive Response to Competitive Liberalization?**

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### **Introduction**

At the annual Asia-Pacific Economic Cooperation (APEC) Leaders Meeting in Brunei in November 2000, the Australian Prime Minister John Howard and his Singaporean counterpart, Goh Chok Tong, jointly announced that the two countries would start negotiations for a bilateral free trade agreement (FTA). The negotiation was concluded in October 2002 and the Singapore-Australia Free Trade Agreement (SAFTA) was signed by Trade Ministers in February 2003. It is the second bilateral FTA for Australia after the one with New Zealand (Australia New Zealand Closer Economic Relations Trade Agreement, CER) that entered into force two decades ago.

Since the decision to negotiate bilateral FTA with Singapore, the Australian government has been seeking opportunities for similar bilateral deals with its major trade partners. The government has approached countries like China, Japan, Korea, Thailand and the United States for talks on how closer economic relations could be achieved and, among them, Thailand and the United States were interested in an FTA with Australia in near future. In fact, after the completion of the joint "scoping study" (Commonwealth of Australia 2002a), Prime Ministers Howard and Thaksin announced in May 2002 that Australia and Thailand would begin negotiations for a bilateral FTA. Three rounds of negotiations between Australia and Thailand have so far been held in August and September 2002 and January 2003.

In Australia, anticipation of negotiating an FTA with the United States has been around almost for two years. Support in the Australian government and parts of private sector for an FTA with the United States, which is the

largest economy in the world, one of the biggest trade partners and the most important political/security ally for Australia, has been high. The government commissioned two separate studies on issues, impacts and implications of an FTA with the United States from domestic research institutions concurrently, and the reports were published in June and August 2001 (CIE 2001; Australian APEC Study Centre 2001). Until mid 2002, however, the commencement of the negotiation was unfeasible because the US administration had not been granted the Trade Promotion Authority (TPA) from the Congress. As the US administration acquired TPA in August 2002, the expectations rose in the Australian government and business for the bilateral FTA. At last, in November 2002, the two countries agreed to commence FTA negotiations in early 2003.

This chapter first tries to explore why the Australian government decided to seek bilateral FTAs. To do that, it is necessary to look back the development of Australia's trade policy since the 1980s, paying attention to changes in the international and regional environment and domestic responses. It will be pointed out that there was a three-year "time lag" between the government's decisions on getting ready for bilateral FTAs and starting concrete negotiations with a particular country. The analysis of the time lag will indicate the initially passive, but increasingly responsive nature of Australia's FTA policy. By early 2003, the government had shifted its stance on FTAs to the point that it explicitly declared it would aim for "competitive liberalization" through bilateral initiatives. Second, what the Australian government is trying to achieve from bilateral FTAs needs to be clarified. For the purpose of identifying objectives, the negotiations with Singapore and the pre-negotiation initiative for an FTA with the United States will be examined. By comparing the Singaporean and the US cases, it will be pointed out that the government's main objectives towards each are, naturally, different, as has been the public reception of these initiatives. Also, it will be argued that, in the case of both initiatives, the government has additional motives to general economic gains. Third, along with the consideration of the nature and objectives of FTA negotiations, and the examination of the negotiation processes, the chapter will explore whether Australia may accept the multilateralization of its FTAs in the future.

### **Why FTAs Now?: The Development of Australia's Trade Policy since the 1980s**

Contrary to the active search for bilateral FTAs in recent years, Australia was

seen as one of the strongest advocates of multilateral liberalization, especially during the Uruguay Round period. Successful activity of the Cairns Group,<sup>1</sup> of which Australia was—and still is—a universally recognized leader, for freer multilateral trade in agricultural products was a typical example. Until this period, the Australian government certainly prioritized multilateralism over bilateral deals. Though the negotiation agenda for the General Agreement on Tariffs and Trade (GATT) has had a tendency to be dominated by economic powers, particularly the United States and Europe, the multilateral trade system has also provided benefits to small countries like Australia. The rules set by the GATT equally constrain behavior of small countries and powers. In other words, once the multilateral rules, such as the dispute settlement mechanism, are set, the United States is obliged to comply with them just as Australia is. Thus, Australia has been supporting a “rule-based system” of multilateral trade since the end of World War II (Capling 2001: 8–9).

In recent years, however, the Australian government has started to pursue an “integrated” trade strategy comprised of bilateral, regional and multilateral efforts to secure market access for Australia’s exports: the strategy adopted by the United States, Mexico, Chile and others since the 1980s. As Australia had not sought FTAs other than the CER in early 1980s, bilateral efforts tend to be emphasized in this “integrated” strategy. How did Australia come to change its trade policy posture?

### ***Economic Reform since the 1980s and Commitments to Unilateral and Multilateral Liberalization***

After World War II, Australia mostly enjoyed strong trade growth based on traditional exports of primary products such as wool, foodstuffs, iron ore, coal, bauxite and other commodities. Nevertheless, by early 1970s, the long boom of primary exports had ended. Declining commodity prices caused the deterioration of Australia’s terms of trade, culminating in massive current account and budget deficits and burgeoning foreign debt. These developments clearly showed the vulnerability of the Australian economy to changes in the international economic environment.

In the face of another massive deterioration of the terms of trade in the first half of the 1980s, the Australian government initiated domestic economic reforms. In 1983, the year the Labor Party was elected to office, the government surrendered official control of the exchange rate, deregulated interest rates and allowed the entry of foreign banks. The float of the exchange rate and the liberalization of the financial sector caused the

depreciation of the Australian dollar, which was expected to result in an increase in exports and a decrease in the current account deficit and foreign debt. In fact, however, it did not have this effect immediately. Among other reasons, the lack of competitiveness in manufacturing industries was perceived to be a major obstacle.

To increase competitiveness in manufacturing, the government finally decided to expose industries to competition in domestic and world markets, and to phase out the protection they had long enjoyed. The Economic Statement of May 1988 announced a general program of phased reductions in protection for all manufacturing industries, including "sensitive products" meaning passenger motor vehicles and parts, and textile, clothing and footwear (TCF); but still providing these products with different treatment. The Industry Policy Statement in March 1991 declared the continuation of the program (Stanford 1992; Corden 1995: 12). The Australian government tried to transform the economy from one which was inward-looking, inflexible and specialized in the export of primary products, to an open, market-responsive one with a more diverse pattern of exports (Garnaut 1994: 51).

Since embarking on domestic economic reforms, Australia's external policy behavior regarding trade changed significantly. The continued success of those policies in adjusting the domestic economic structure depended in part on the maintenance of the multilateral trade system, namely the GATT and its successor the World Trade Organization (WTO). It was critical for Australia that its newly competitive goods and services, as well as its traditional exports, were guaranteed to be traded as freely as possible across the borders. Thus, the Uruguay Round became a key priority of Australia's foreign economic policy (DFAT 1988: 24). The prospects of maintaining the multilateral trade system, however, seemed to be declining in this period. The Uruguay Round was deadlocked, the United States and Canada, then Mexico, formed an FTA (North American Free Trade Agreement, NAFTA) and the European Community (EC) created a single market to become the European Union (EU). Economic groupings including economic powers like the United States and the EU made outsiders very cautious. The worst scenario for Australia was that North America and East Asia would form separate trade blocs excluding Australia.

Australia needed to find the most effective way to secure a favorable international economic environment to underpin its domestic economic reforms. It had learned when it failed to add agriculture to the GATT agenda at the GATT Ministerial Conference in 1982, that a small country like Australia cannot achieve its goals alone (Cooper and Higgott 1990: 18).

Therefore, Australia sought to form coalitions to achieve its objective of securing and promoting a free and open trade system. The establishment of the Cairns Group in 1986 was one successful attempt. It was successful not only in finally having agriculture placed on the Uruguay Round agenda, but also in exerting effective pressure on this issue until the Round was concluded.

Another success of coalition building was the APEC initiative in 1989. The GATT aside, there were two primary reasons why APEC was an important framework for Australia. First, Australia, even if it wanted, had no prospect of joining any regional economic grouping. Second, East Asian economies were increasingly important as trade partners for Australia. Until the 1960s, Australia's main trade partners were the United Kingdom followed by the United States and other European countries. However, Japan emerged as the largest export destination in the latter half of the 1960s and has remained so ever since. Following Japan's example, Hong Kong, Korea, Singapore and Taiwan started their rapid industrialization and economic growth, absorbing imports from Australia. More recently, members of the Association of Southeast Asian Nations (ASEAN) and China followed a similar path.

Thus, by the end of the 1980s, it became essential for Australia's foreign policy to fulfill three aspects concurrently: (1) to maintain an amicable relationship with the United States, its most powerful ally and important economic partner, (2) to build and maintain friendly relations with the countries in East Asia that include many of its most important economic partners, and (3) to maintain the US commitment to East Asia and to prevent political and economic conflicts between them. Being an "Asia Pacific" organization that covered the United States and East Asian members and a forum that pursued trade and investment liberalization under the principle of open regionalism, APEC was an ideal vehicle for Australia to secure its economic and political interests.

### ***The "Asian Engagement"***

Though the United States and the EC (EU) remained important trade partners as well as political/security allies, East Asian countries emerged as a new geographical focus of Australia's trade policy, assisting the reform of Australia's domestic economic structure, and therefore its trade structure. It was argued that Australia needed to involve itself deeply with East Asia to help restructure its domestic economy (Garnaut 1989).

When the government decided to reduce tariff rates unilaterally in 1988 to

competitively diversify the range of export products, the government saw East Asian markets as primary export targets (Hawke 1988: 9). However, the intention to build closer economic relations with East Asia was not exactly matched by existing trade between Australia and East Asia. While the total value of Australia's exports to most East Asian economies had rapidly increased during the 1980s, the share of imports from Australia to the total imports of these economies had decreased over the same period (Drysdale and Lu 1996). In short, the growth of Australian exports did not match the pace of the expansion of other countries' access to East Asian markets. Towards the end of the 1980s, the government realized that the Australian economy had not been adapting to the ongoing structural adjustment in East Asia, caused mainly by the drastic realignment of exchange rates since the mid 1980s. The import demands of the East Asian economies had been shifting towards processed raw materials, manufactures and services, and away from traditional primary products.

Trade statistics during the first half of the 1990s confirmed the importance of East Asian markets, in particular economies such as Hong Kong, Korea, Taiwan and the ASEAN countries. Though the pace of Australian exports' growth to these markets did not quite catch up with that of others, which was still a concern for the government, the value of exports continued to grow rapidly. As important was the composition of exports that began to show some changes. The ratio of the exports of traditional primary commodities to these markets gradually decreased and, instead, the ratio of manufactured products increased. Moreover, among these exports of manufactured products, more value-added products—called elaborately transformed manufactures (ETMs) in Australia's classification—grew to become the majority portion (Ravenhill 1997: 108–9; Okamoto 1998: 126–32). As the Australian government emphasized the need to diversify exports and develop manufacturing industries that produce and export ETMs, East Asian markets were seen promising.

Backed by this economic environment, along with other factors such as the end of the Cold War, the Australian government embarked on closer relations with East Asia, which were relatively remote compared with those with its other important partner, the United States. In this period, Australia's efforts to engage with East Asia economically were focused on ASEAN (Cotton and Ravenhill 1997a: 3).<sup>2</sup> First, the leadership role played by Australia in establishing and promoting APEC was, again, a good example. For the purpose of cementing the forum, Australia accepted and accommodated ASEAN's insistence on injecting the principles of ASEAN practice, including consensus, equal partnership and voluntarism, into

APEC. Australia also agreed with ASEAN's assertion that APEC was not to become an FTA, even though the United States insisted otherwise during the early stages of the process.

Second, while Australia tended to be excluded from regional initiatives by ASEAN in this period, it sought an alternative way to link its economy with them. The East Asia Economic Group (EAEG) initiative proposed by Malaysian Prime Minister Mahathir in 1990 was primarily a reaction to the establishment of NAFTA, but it did not include Australia, or New Zealand as potential members. The EAEG—later renamed the East Asia Economic Caucus to ease its exclusive impression—idea did not develop very far at this time, rather ASEAN members decided in 1992 to launch intra-regional tariff reductions and establish the ASEAN Free Trade Area (AFTA) in fifteen years. The actual start of the AFTA tariff reduction process in 1993 caused concern in Australia. The Australian government published a report in 1994 that analyzed potential effects of AFTA on Australian trade and investment (DFAT 1994). The report concluded that the negative effects of AFTA on Australian industries through its trade diversion effects would be minimal, but argued that the government should encourage ASEAN to regard AFTA as a "building block" that should contribute to increased liberalization in trade in the Asia Pacific region.

Just when Australia became worried about the effects of AFTA, the Deputy Prime Minister of Thailand, Supachai—now the Secretary General of the WTO—suggested in December 1993 the building of closer economic linkages between ASEAN and the CER countries (Australia and New Zealand). Paul Keating, Prime Minister of Australia, responded very positively. He saw Supachai's proposal as a significant opportunity to start building a formal linkage between ASEAN and the CER. Keating was quick in pursuing the proposal: he visited Bangkok in April and Jakarta in June 1994 to talk further on the issue with his counterparts (Smith 1998: 242). The ASEAN Economic Ministers Meeting (AEM) in September 1994 agreed to examine possible linkages between ASEAN and CER members. Finally, the Australian and New Zealand Trade Ministers were invited to the annual AEM in September 1995 for consultations on the issue.

At the inaugural Ministerial Consultations, the objective of this initiative was set as: finding practical ways of assisting businesses and expanding inter-regional trade and investment, rather than seeking to merge two FTAs—AFTA and the CER—in any formal way (Lloyd 1995: 10). A multi-layered structure for consultation involving ministers, government officials and businesses of ASEAN and CER members also emerged and the whole process came to be called the "AFTA-CER Linkage" dialogue.

### ***“Rebalancing” the Trade Policy: Getting Ready for Bilateral FTAs***

At the general election held in March 1996, the Liberal/National Coalition regained office for the first time since 1983. For a new government that came to power after thirteen years in opposition, it was natural to review all policies implemented by the previous governments and the review, of course, included trade policy.

The Coalition government’s first *Trade Outcomes and Objectives Statement* (TOOS)<sup>3</sup> was released in February 1997, but it did not much alter trade policy from that of the previous government (Commonwealth of Australia 1997a). Regarding the importance of multilateralism for Australia, it stated: “[t]he WTO provides Australia with an invaluable means to defend and advance our commercial interests” (Commonwealth of Australia 1997a: 51). The new government also remained rather cautious on promoting bilateral and regional trade agreements. In the TOOS 1997 it stated:

[D]iscriminatory regional arrangements may enable faster liberalisation because they will usually involve fewer countries. But they can also distort trade and investment flows and often confront business with competing rules. They can also take time to negotiate, as with the bilateral free-trade agreement between Australia and New Zealand (p. 38).

Some countries seek to liberalise their trade within a smaller group of countries through the formation of preferential regional trading arrangements (RTAs), such as free-trade areas or customs unions . . . . All such arrangements discriminate against non-members . . . . RTAs can lead to friction in the trading system, its progressive fragmentation, and they may also lead to a costly misallocation of resources (p. 55).

(Commonwealth of Australia 1997a)

The Coalition government’s stance on bilateral and regional FTAs at this point was far from favorable.<sup>4</sup> After the completion of prolonged Uruguay Round in 1994, it seems that the new government did not want the results, in agriculture in particular, to be negated by any bilateral or regional FTAs.

Furthermore, trade liberalization under the APEC framework, which was not supposed to become discriminatory under the principle of “open regionalism,” looked to be going well at the time. After setting the Bogor goals—free and open trade and investment by 2010 for developed members and by 2020 for developing members—in 1994, the modality for liberalization was established in the Osaka Action Agenda in 1995. In 1996, the first Individual Action Plans (IAPs) and Collective Action Plans were

presented by all members and compiled as the Manila Action Plan for APEC. Liberalization under APEC, whose members covered approximately 70 per cent of Australia's total trade, was expected to fill the gap of multilateral liberalization negotiations in the "inter-Round" period.

An indication of a clearer emphasis on bilateral relations in trade (and foreign) policy came later in 1997. The Coalition government completed a review of foreign and trade policy by the middle of the year and, in August, published Australia's first ever "white paper" on foreign and trade policy (Commonwealth of Australia 1997b). The essence of the White Paper was the declaration by the government that it would pursue every possible measure, including using bilateral approaches, to advance Australia's national interest defined as the security of the Australian nation and jobs and standard of living of the Australian people. Based on the recognition that the Australian economy's ability to export and the openness of foreign markets are the key to promoting Australia's national interest—more and better paid jobs and higher living standards—and that the multilateral system's capacity to deliver depends inevitably on the will of member countries (that is not always uniform), the White Paper stated: "a central feature of the Government's approach . . . is the importance it attaches to strengthening bilateral relationships. Bilateral relationships are not an alternative to regional and multilateral efforts" (Commonwealth of Australia 1997b: 53). Regarding FTAs, the White Paper argued:

Australia will keep an open mind about new approaches, including preferential free trade arrangements. . . . The Government recognises that regional trade arrangements offer potential advantages for their participants. . . . Compared with global negotiations, they are perceived as being able to go further faster, and are more likely to include "new issues" arising from the globalisation of economic activity.

(Commonwealth of Australia 1997b: 42)

While the Coalition government resolved to continue most trade (and foreign) policy objectives of the previous government, including according the highest priority to the Asia Pacific region, APEC as the most significant international forum it participated and the importance placed on the WTO, the new favorable stance towards bilateralism and FTAs can be seen as a "shift." Considering that the TOOS 1997 was generally skeptical about FTAs and did not clearly argue whether Australia itself should join them just six months before, the new stance surely marked a contrast. Prime Minister

Howard and Foreign Affairs Minister Alexander Downer have often explained this shift from, or contrast to, the previous government's policy as a "rebalancing" of foreign and trade policy. They argued that the previous Keating government tended to over-emphasize the importance of "multilateralism" and "Asia" in Australia's foreign relations and lost policy balance. Thus, they asserted the Coalition government must pursue both multilateral and bilateral interests and "get away from an Asia-only focus to an Asia-first focus" (Downer 2002).

The second TOOS released in February 1998 confirmed the government's stance on bilateralism and FTAs (Commonwealth of Australia 1998: 140). Nevertheless, the government did not argue that it should establish FTAs with any particular partners. At the same time as indicating the possibility of negotiating its own FTAs, the government set for itself a rather strict set of guidelines for doing so:

*Australia would need to consider if the arrangement would bring benefits that we could not obtain otherwise, or if it might be a way to obtain benefits more quickly. Pressure to resolve trade-related issues by entering an RTA decline if problems are resolvable bilaterally, regionally through APEC, or multilaterally.*

RTAs offer the greatest benefits when significant trading partners are involved. . . . Accordingly, *Australia would take into account whether a major market or export interest is involved.*

[RTAs] should cover primary products, manufactures and services. Australia still experiences major market access problems for agricultural products, and free-trade agreements' track record in liberalizing agricultural trade is not strong. Most contain large carve-outs or exemptions from the disciplines of an agreement, as well as extended phase-in or interim agreements. Clearly, *Australia would find limited benefit in a restrictive arrangement.*

(Commonwealth of Australia 1998: 140. Italics by the author)

To put it simply, the government declared that Australia would pursue FTAs if the government resolved that the significant and particular benefits could not be achieved either quickly or at all by any other means. Also, Australia's FTAs must be comprehensive, in other words, consistent with the GATT/WTO provisions.

In sum, a stronger emphasis on bilateralism by the Coalition government came in 1997 as an attempt to restore "balance" to foreign policy. In trade

policy, an emphasis on bilateralism meant that Australia got ready to negotiate bilateral FTAs though it did not have immediate intention to start negotiations. At the same time, the government was aware of the potential deficiencies of FTAs. Thus, the government insisted that the WTO rules must be observed in every FTA to minimize their adverse effects and the role of the WTO to examine FTAs should be strengthened.<sup>5</sup> For itself, the government set strict principles in starting negotiations for FTAs.

### ***Explaining the Time Lag (1): The Legacy of Successful Uruguay Round in Delivering a Period of Decent Export Performance***

The government declared that Australia was open to negotiate FTAs in 1997, but it took more than three years, until the end of 2000, to inaugurate a concrete negotiation. Considering the government's intensive efforts in seeking bilateral deals with other countries since then, this three-year time lag looks peculiar. Why did the government wait until 2000? Answers to this question have direct implications for the nature of Australia's FTA policy.

There seem to be three underlying reasons for the time lag. First, Australia's export performance in this period was good compared with other countries. The nominal growth rates of exports in goods and services in 1997, 1998, 1999 and 2000 were 6.2 per cent, 8.4 per cent, minus 0.4 per cent and 25 per cent respectively (Commonwealth of Australia 1998, 1999, 2000, 2001). Considering that most Asian economies, which usually absorb more than half of Australia's exports, were facing extreme economic hardship following the Asian financial crisis in 1997, and Japan was—and still is—struggling to overcome the long recession, these figures, other than that for 1999, are outstanding. From the trade policy point of view, the government did not have to rely on bilateral FTAs to promote the “national interest” in this difficult regional economic environment.<sup>6</sup>

Second, during this period of strong export growth, there were some good reasons for the government to prefer multilateral approaches to reducing trade barriers. As mentioned earlier, Australia actively involved itself in the Uruguay Round to success, particularly in agricultural trade. The government wanted to secure the steady implementation of the results by its trade partners and did not want FTAs to interrupt the process. At the same time, officials in the Department of Foreign Affairs and Trade (DFAT) directly involved in the Round were sensing the onset of “negotiation fatigue.”<sup>7</sup> These “legacies” of the Uruguay Round and its success did not change just because of the change of governments.<sup>8</sup> In addition, there was a

series of multilateral developments from which Australia could expect significant trade benefits: the Early Voluntary Sectoral Liberalization (EVSL) initiative of APEC (1997–99) and the anticipated launch of a new WTO round in 1999. The government concentrated its efforts on these initiatives.

Though trade liberalization under the APEC framework looked to be going well in mid 1990s, the first IAPs—voluntary liberalization plans by each member—submitted in 1996 to the Ministerial Meeting were, in fact, disappointing for the pro-liberalization members. What most members offered were not much more than they had already committed to in the Uruguay Round (Okamoto 2001a). The EVSL initiative starting in 1997 was an ambitious attempt to dispel this frustration and stimulate APEC liberalization as a whole by accelerating liberalization in selected sectors. The Australian government enthusiastically involved itself in the initiative and was successful in putting food and energy, two of its most important export sectors, into the targets for early liberalization (Wesley 2001a). It is not hard to believe that the Australian government had expectations of the EVSL initiative derived from memories of the Uruguay Round's success and, more recently and vividly, the successful initiative of the Information Technology Agreement in the WTO.<sup>9</sup>

However, the results of EVSL, which became clear by November 1998, were much less than Australia had expected. Though liberalization schedules for some sectors were consolidated, participants in the EVSL consultations could not agree on tariff reductions under the APEC framework because of their different understandings of the concept of “voluntary liberalization.” The Ministerial Meeting in November 1998 decided to leave them in the hands of the WTO as the “Accelerated Tariff Liberalization” (ATL) initiative (Okamoto 2001a). The Australian government, along with others like New Zealand, promoted ATL as a serious agenda item in a new WTO round, but could not gain uniform support from other APEC members. Worse still, while the APEC Leaders and Ministerial Meetings in September 1999 managed to support the launch of a new round, the WTO Ministerial Conference in Seattle two months later turned out to be a mess and failed to launch a new round.

### ***Explaining the Time Lag (2): Expectations and Setback of the AFTA-CER FTA Initiative***

In 1998, as the EVSL initiative was heading towards failure, some countries in the Asia Pacific region began to move towards bilateral FTAs. In

September, New Zealand, which had already declared that it would pursue a bilateral approach to trade liberalization in 1993, commenced formal FTA negotiations with Singapore (see Chapter 12). In December, Japan and Korea, the countries that traditionally favored multilateralism in trade liberalization and had not been involved in any FTAs before, agreed to start a study on a bilateral FTA at the semi-governmental level. Japan also began similar studies with Mexico and Singapore in early 1999 and early 2000 respectively (see Chapter 8). The United States' intention to create the Free Trade Area of the Americas (FTAA) was clearly stated at the inaugural Summit of the Americas in December 1994. The US drive for the FTAA intensified after the second Summit in Santiago in April 1998 and a draft text for the FTAA was released after the third Summit in Quebec in April 2001. Its negotiation deadline was set for the end of 2004 (see Chapter 5).

Watching its important trade partners' drive for FTAs with other countries, the Australian government must have felt frustrated. The government saw these moves as "seeking to gain maximum short-term trading advantages in advance of launching a new round or to capture strategic advantages from establishing closer links between particular countries" (Commonwealth of Australia 2000). What came at this very time in October 1999 was an ASEAN proposal to study the feasibility of an FTA between ASEAN and CER members. This can be seen as the third reason why Australia did not start to seek bilateral FTAs until 2000.

At the AFTA-CER Ministerial Consultations in Singapore in October 1999, ASEAN proposed to set up a task force to study the feasibility of establishing an AFTA-CER FTA by 2010. Considering that both sides agreed at the initial stage of the AFTA-CER dialogue that they would not aim for merging AFTA and the CER or establishing another FTA between them, and the fact that this agreement was strongly insisted on by the ASEAN side, the proposal was quite a turnaround.<sup>10</sup>

Since the outbreak of the financial crisis in July 1997, most ASEAN members were experiencing serious economic downturns (and political instability in some cases). To bring back foreign investment that had been a basis of their rapid economic development and was now hastily flowing out from the region, they decided to accelerate the intra-regional tariff reduction schedule to finalize AFTA by 2002 and agreed on the promotion of the "ASEAN Investment Area" initiative at the Summit meeting held in Hanoi in December 1998 (ASEAN Summit 1998). The proposal to establish a task force to study the feasibility of the AFTA-CER FTA in 1999 can be understood in this context.

The Australian government welcomed the ASEAN proposal, as it

considered this FTA would help maintain momentum for trade liberalization in the Asia Pacific region after the failure of EVSL (Commonwealth of Australia 2000). Moreover, the AFTA-CER FTA, if created, was useful for Australia for other reasons as well. First, the negotiations for the AFTA-CER FTA could be expected to lift the Linkage dialogue process, which was not progressing at a pace that Australia had hoped for (Okamoto 1999), to a much higher level and, as a result, bring about a much closer relationship with ASEAN members that were important both politically and economically. Second, there would be no need to study, negotiate and sign FTAs with ten individual ASEAN members. This was important not only because Australia could minimize negotiation costs, but also because Australia could avoid discrimination, which FTAs inevitably bring, within ASEAN. In other words, Australia did not have to worry about disrupting ASEAN through the FTAs in which it was involved, and this sent an important political message.

The "High-Level Task Force" that was established was chaired by the former Prime Minister of the Philippines, Cesar Virata, and the members appointed by each government included former trade ministers, senior officials and economists who were close to their governments. The Australian government appointed the former Trade Minister, Tim Fischer, for the job. As the Task Force consisted of high profile members, it was natural, at least for Australia, to expect the result of the study and its recommendations to have a strong influence on the ministerial decisions. The Task Force met three times during 2000 and produced a report named *The Angkor Agenda* (High-Level Task Force 2000). The report started with an analysis of the global and regional economic environment. Then, it went on to describe the economic and political costs and benefits of the AFTA-CER FTA and the desirable framework and modalities of the FTA in detail. It also included comprehensive product coverage and stated the necessity of flexibility in applying tariff reductions for the least developed members of ASEAN and the provision of economic and technical cooperation measures from CER to ASEAN. Ultimately, the report resolved, "establishing a free trade area between AFTA and CER is *not only feasible but also advisable*." Thus, "[the Task Force members] strongly suggest . . . undertak[ing] the necessary steps toward the establishment of the proposed AFTA-CER FTA *at the earliest possible time*," because "[i]n a world of constant flux, to stand still is to fall back. *ASEAN and CER must take this decisive step*. They must seize this unique opportunity to move forward" (High-Level Task Force 2000, italics by the author).

Despite the Task Force's strong recommendation to start negotiations for

the FTA immediately, the Ministerial Consultations in Chiang Mai in October 2000 were indecisive. They just agreed to continue analysis of the Task Force study at the working-level and submit the results to the next Ministerial Consultations in 2001.<sup>11</sup> The working-level analysis was set to focus on a "Closer Economic Partnership" (CEP) between ASEAN and CER. The concept of CEP was unclear. The Joint Press Statement after the Consultations stated that analysis would be of "relevant recommendations of the [Task Force] Report and other issues relevant to the closer economic integration of ASEAN-CER countries" (AFTA-CER Ministerial Consultations 2000), but failed to specify what were the relevant recommendations in the Task Force report. In reality, the Ministerial Consultations in 2000 effectively shelved the AFTA-CER FTA indefinitely.

In sum, though the Australian government was prepared to negotiate bilateral FTAs by 1997, it did not really need to pursue them until 2000 because, during this period, its exports were growing strongly in spite of the economic depression of its trade partners in East Asia and there were multilateral trade liberalization and regional (AFTA-CER) FTA initiatives in which the government saw more benefits than bilateral FTAs if they were realized.<sup>12</sup> Nevertheless by October 2000, all these initiatives ended in failure and there were not many other short-term prospects.

At this stage, the Australian government finally decided to take the first step towards bilateral FTAs. The government felt it was already late in taking part in this FTA "race" and needed to catch up.<sup>13</sup> Just one month after the AFTA-CER Ministerial Consultations that put off an AFTA-CER FTA indefinitely, Prime Minister Howard announced an agreement to start bilateral FTA negotiations with Singapore. The timing was not a coincidence. After taking the first step, Australia has been actively pursuing bilateral FTAs, or "closer economic partnerships" that focus mainly on trade facilitation and promotion (Commonwealth of Australia 2001: 28).

This analysis of the "time lag" explains the circumstances in which Australia started to pursue bilateral FTAs in recent years. Furthermore, it can be stated that Australia started to move towards bilateral FTAs as a defensive response to potential and actualized changes in its trade and investment environment. Australia's FTA policy was based on the need to avoid the disadvantageous conditions that its exporters might face in the markets of its major trade partners. If major trade partners gave preferential access to their markets through FTAs to other countries whose exports compete with Australia's, Australian exporters would be placed in a disadvantageous position. The Australian government saw this had been happening since

1998.<sup>14</sup> To protect the “national interest” defined as better jobs and living standards for Australians, considered to be mainly achieved through exports, the government had to do something to prevent or eliminate their disadvantages and, after the failure of multilateral and regional attempts, the creation of its own FTAs with those major trade partners was perceived to be the only option left. Looking at this from another angle, it can be seen that an emphasis of Australia’s FTA policy was placed more on the equal treatment of its exporters with other countries in its major markets, than seeking better, preferential treatment to their competitors.<sup>15</sup>

### **Australia’s Bilateral FTA Initiatives: What Are the Objectives?**

Australia started bilateral FTA negotiations in 2000. What concrete results, then, is the government trying to achieve from these negotiations? The government affirmed in 1997 that Australia’s FTAs must observe various principles: significant and particular benefits, fast conclusion and comprehensive coverage. How are these principles preserved in negotiations? Also, it is assumed that Australia’s FTA policy basically aims for equal treatment with other countries in its major trade partners’ markets, not actively searching for better treatment. Does this assumption still hold in concrete negotiations? To examine these questions, the negotiations with Singapore and the pre-negotiation debate on an FTA with the United States will be studied next.

#### ***The Negotiation with Singapore: Searching for a “Benchmark” FTA and Its Demonstration Effect***

Australia chose Singapore as its first FTA partner of recent years. TABLE 11-1 shows Australia’s top ten partners for trade and investment in 2000. It indicates that, along with countries such as China/Hong Kong, Japan, New Zealand, the United Kingdom and the United States, Singapore was one of the most important partners of the Australian economy, appearing in every column. From this simple observation, it seems reasonable for Australia to have chosen Singapore as its first FTA partner after New Zealand twenty years ago. However, the decisive reason why it was Singapore was even simpler: there was no other candidate at the time.

The possibility of starting AFTA-CER FTA negotiations, in fact, became more remote even in the short period between the release of the Task Force

TABLE 11-1  
 AUSTRALIA'S MAJOR TRADE AND INVESTMENT PARTNERS (2000)

Rank	Goods Exports	Goods Imports	Services Exports	Services Imports	Investment Abroad*	Inward Investment*
1	Japan 20	United States 20	United States 18	United States 21	United States 42	United States 30
2	United States 10	Japan 13	United Kingdom 11.5	United Kingdom 12	United Kingdom 17	United Kingdom 25
3	Korea 8	China 7.5	Japan 11	Singapore 6.7	Japan 6	Japan 7
4	New Zealand 6	United Kingdom 6	New Zealand 7	Japan 6.5	New Zealand 5.5	Hong Kong 3.5
5	China 5.5	Germany 5	Singapore 6	New Zealand 5	Singapore 2.6	Singapore 2.8
6	Singapore 5.3	Korea 4	Hong Kong 3.5	Hong Kong 4	Hong Kong 2.2	Netherlands 2.2
7	Taiwan 5	New Zealand 3.8	Indonesia 2.8	Germany 3.5	Germany 2	Germany 1.8
8	United Kingdom 3.4	Malaysia 3.6	Malaysia 2.7	Malaysia 2.7	France 1.6	New Zealand 1.8
9	Hong Kong 3.2	Singapore 3.2	Germany 2.7	Switzerland 2.5	Netherlands 1.2	Belgium/Luxemburg 1.3
10	Indonesia 2.6	Taiwan 3	China 2.2	China 2.3	Canada 1	France 1.2

Source: Commonwealth of Australia (2001, 2002b).

Notes: Percentages are approximate ratios occupied in respective total.

\* Stock as at June 30, 2000.

 FTA with New Zealand (CER) entered into force in 1983. FTA with Singapore (SAFTA) was signed in February 2003.

 Agreed to commence FTA negotiations with the United States from early 2003.

report and the AFTA-CER Ministerial Consultations in October 2000. Thus, the Australian government had become serious in searching for FTA partners before the Ministerial Consultations formally shelved the AFTA-CER FTA plan. At this time, Singapore, which was very supportive of the AFTA-CER FTA initiative, unofficially proposed a bilateral FTA with Australia. No other ASEAN country was ready to do so. For the Australian government and the private sector, what was most important then was to start FTA negotiations with one of the ASEAN members.<sup>16</sup> Thus, Singapore's proposal provided a very convenient response.<sup>17</sup> In addition, Singapore was thought to be the easiest country with which to negotiate and conclude an FTA because its trade barriers were already negligible and it was experienced in FTA negotiations, having just negotiated an FTA with New Zealand.<sup>18</sup>

The first round of negotiations took place in February 2001. The Australian government was willing to make the FTA with Singapore a "benchmark" for its subsequent bilateral FTAs by adhering to all principles set by itself prior to entering concrete negotiations. However, it soon became evident that the negotiation was not as easy as first anticipated. If Australia was to gain "significant and particular" benefits from the FTA with Singapore, it had to achieve them from "WTO plus" areas, in particular trade in services and investment, because Singapore had already realized virtual free trade in goods on an MFN basis. As the negotiations proceeded, these areas turned out to be the most difficult on which to reach an agreement.

Australia aimed for more comprehensive and deep commitments in services trade than those of the General Agreement on Trade in Services. However, Singapore was hesitant to offer more commitments than it had at the WTO. Singapore was also reluctant to accept Australia's proposal to adopt the "negative listing" system in this area.<sup>19</sup> For the Australian government, Singapore's unenthusiastic response in services and investment was unexpected, but unacceptable, if the FTA were to achieve the benchmark status. It took more than a year after the start of the negotiations for Singapore to finally accept Australia's argument for negative listing in April 2002.

The negotiation proceeded at a faster pace after that. However, several "hard issues" still remained. Though it accepted negative listing, Singapore was still cautious about liberalizing trade in services such as financial services, telecommunications, education and professional services like legal services, accountancy and architecture. Other hard issues included competition policy, intellectual property rights, government procurement and rules of origin (ROO) in trade in goods.<sup>20</sup>

After ten rounds of negotiations, both governments announced the

conclusion of the negotiations on November 1, 2002. The agreement—now called SAFTA—was signed on February 17, 2003 (DFAT 2003a). According to the summary of SAFTA, Australia seems to have secured what it wanted in terms of contents. When SAFTA entered into force, it pointed out, Australia would gain benefits from the following measures among others:

- Elimination of all tariffs.<sup>21</sup>
- Restrictions on the number of wholesale banking licenses to be eased over time.
- More certain, and enhanced operating environments for financial services suppliers.
- Conditions eased on the establishment of joint ventures involving Australian law firms.
- Removing/easing residency requirements for Australian professionals.
- Mutual recognition agreements between architects and engineers under way.
- National treatment and market access commitments for Australian education providers.
- Transparency of investment restrictions on Singapore's government-linked companies.
- Telecom interconnection provided on non-discriminatory, timely, cost-oriented terms.
- Australia firms get national treatment in procurement by 47 Singapore agencies.
- Short-term entry for Australian business people extended from 1 month to 3 months.
- Long-term business residents in Singapore granted a total stay of up to at least 14 years.
- Cooperation on eliminating trade in goods infringing intellectual property rights.
- Measures to prevent the export of goods infringing copyright or trade marks.
- Promotion of confidence in bilateral e-commerce, e.g. in electronic signatures.

(DFAT 2003b)

In addition, the 50 per cent value-added ROO was adopted for most trade in goods as the Australian government requested. On the other hand, Singapore's demand for lower ROO was agreed for a limited number of electrical and electronic items at 30 per cent.

Though the both governments were willing to conclude the negotiation by the end of 2001 (Commonwealth of Australia 2001: 29), it took twice as long in reality. On this point, SAFTA contrasts with the other FTAs that

Singapore negotiated in recent years: with New Zealand, it took only twelve months from the formal start of the negotiations to the signing of the agreement (see Chapter 12), and with Japan, where domestic farmers opposed an FTA even with Singapore, which took thirteen months (see Chapter 8). Even considering that the negotiations between Australia and Singapore had to be paused for a while in late 2001 because of general elections held in both countries, their negotiation took a relatively long time. As seen above, and as one of the members of the Singapore FTA negotiation team within DFAT indicated, the main reason for the delay was the existence of “hard issues.”<sup>22</sup> Once the negotiations started, the Australian government prioritized the “significant and particular benefits” principle over the “quick conclusion” one. Nevertheless, this government’s attitude was supported by the private sector. The Director of Trade and International Affairs at the Australian Chamber of Commerce and Industry (ACCI), stated that, while he wanted to see the negotiations quickly concluded, there was no point in giving up important issues for the Australian business just for the sake of preserving the principle.<sup>23</sup> In other words, spending two years in negotiations with Singapore was within acceptable limits for both the government and private sector, provided that the negotiations achieved what they wanted. Yet, as the new WTO round has already been launched and is set to be concluded by the end of 2004, it can be expected that the Australian government would aim to finish its subsequent FTA negotiations with Thailand and the United States before then, if it is to respect the principles it established.

The government’s purpose of making SAFTA a benchmark for Australia’s FTAs seems to have been reasonably well-served. In fact, for the government, there was a further purpose—or hope—for SAFTA: to get other ASEAN members maintain the liberalization momentum stimulated by SAFTA.<sup>24</sup> It was expected that, if SAFTA could demonstrate notable benefits to Singapore by increased access to the Australian market, other ASEAN members would want to follow Singapore and negotiate FTAs with Australia.<sup>25</sup> The expectation of this “demonstration effect” seems to be widely shared by the private sector, too.<sup>26</sup> These attitudes may have come from the government’s and private sector’s confidence in Australia’s economic management—during the Asian financial crisis, the Australian economy was virtually unaffected and grew strongly—and a self-image that Australia could be a good example of economic reforms to crisis-hit countries (Wesley 2001b: 310–11). However, whether SAFTA has the effect that Australia expects is uncertain in many ways.

First of all, as mentioned earlier, if SAFTA is to have demonstration effect on other ASEAN members, they must come in WTO plus areas like trade in services, investment, government procurement and trade facilitation measures. However, because countries like Indonesia, Malaysia, the Philippines and Thailand are not as competitive as Singapore and have protectionist tendencies in these areas, it is questionable that these countries would be inclined to negotiate FTAs with Australia because of the establishment of SAFTA. Second, even if trade in goods between Australia and Singapore grew notably because of SAFTA, the Australian market might not be so attractive for other ASEAN members compared with those of the United States, the EU, Japan and China. If other ASEAN members decided seriously that they should pursue bilateral FTAs in addition to their own AFTA, it is unlikely that Australia would be given priority over China, Japan or the United States. Third, even if other ASEAN members considered an FTA with Australia might be beneficial, it is more likely than not that for Australia the negotiations would be harder than those it had with Singapore. Considering that Singapore was the most open economy in ASEAN, Australia may well face tougher demands for more flexibility when dealing with other ASEAN members.<sup>27</sup> Thus, it may be difficult for Australia to maintain the benchmark quality of SAFTA in FTAs with other ASEAN members. Fourth, even if the benchmark quality could be maintained somehow in FTA negotiations with other ASEAN members by preserving principles of "significant and particular benefits" and "comprehensiveness," it is likely to take time. Whether it can be done before the conclusion of the WTO new round scheduled by the end of 2004 is uncertain. In sum, whether SAFTA will have demonstration effects for other ASEAN members is questionable at best and, even if it had those effects, it would be hard for Australia to realize both the maintenance of the benchmark quality and the preservation of all of its FTA principles at the same time.

### ***The Debate on an FTA with the United States: Shifting towards Competitive Liberalization?***

The interest in an FTA with the United States in Australia, especially in parts of the private sector, has grown rapidly in recent years. The formation of a single-issue lobbying group called the "Australia United States Free Trade Agreement Business Group" in September 2001 illustrates the mood. The government responded to the enthusiasm of the business by pressing the case with the US administration, Congress and the private sector of the United States. In September 2001, Prime Minister Howard and President

George W. Bush agreed that an FTA between the two countries could benefit the bilateral economic and trade relationship. Trade Minister Mark Vaile discussed the issue with his counterpart, the US Trade Representative Robert Zoellick, in January 2002 (Commonwealth of Australia 2002b: 36–37). Howard visited the United States again in June 2002 and met with Bush, Zoellick, Secretary of State Colin Powell and influential Congresspersons, as well as some private sector representatives, to promote the idea.<sup>28</sup> After the US administration finally acquired the TPA from Congress on August 1, 2002, the two countries agreed in November to commence the FTA negotiations in early 2003 and conclude within eighteen months.<sup>29</sup>

As shown in TABLE 11-1, for Australia, the United States is a more important trade and investment partner than Singapore. In addition, the fact that the United States is the most dominant economic and political/military power means it can be expected that the impact of an FTA with the United States would be much greater than that of most other FTAs. Therefore, the public debate on the FTA with the United States has been intense even before the commencement of the formal negotiations.

The government's stance on the issue was clearly stated in the speech of Foreign Affairs Minister Downer at a conference organized by the Australian APEC Study Centre in August 2002. Downer pointed out that the benefits for Australia from an FTA should be looked at in the long-term as well as in the short-term, and in strategic as well as in economic terms. He pointed out the merits of the FTA as follows:

1. There would be straightforward economic gains. ... a possible \$4 billion net gain per annum to Australia's GDP ...<sup>30</sup>
2. There would be a very significant "head turning" effect ... in attracting investment, with subsequent gains in employment and productivity.
3. [The] FTA would result in greater business integration, as Australian and US companies realise synergies in innovation, research and development, material sourcing, product development marketing and ... information technology.
4. [The] FTA could be an important factor in ... "competitive liberalisation," whereby what we do bilaterally has an important "demonstration effect," ratcheting up other trade negotiations, in particular at the WTO, but also regionally.
5. [The] FTA would help engender a broader appreciation ... of the bilateral security alliance and the manner in which ANZUS [Australia-New Zealand-United States Security Treaty] ... helps to underpin the stability and prosperity of East Asia and the Pacific.

(Downer 2002)

Focuses of the debate have been centered mainly on the issues of agriculture, investment and security. First, how to deal with agriculture is a major concern for this FTA. For a long time, US protectionism and export subsidies on agriculture have been perceived to be a major obstacle to Australia's exports not only to the US market but also elsewhere. On the other hand, the United States sees Australia's strict quarantine regime as a non-tariff barrier to its exports (see note 27) and the export monopoly by the Australian Wheat Board and others as unfair trade practices.

The National Farmers Federation (NFF), the agricultural sector's strongest domestic interest group, was initially against an FTA with the United States. This was because the NFF saw it as unlikely that the United States would lift protection completely on its domestic agriculture, in particular tariff quotas on products like beef, sugar, dairy and grains, through an FTA with one of its main competitors.<sup>31</sup> In addition, the NFF believed that issues like domestic subsidies could not be tackled effectively through bilateral negotiations, but through multilateral negotiations. However, the NFF changed its position on an FTA around mid 2002: it would not oppose the government's starting negotiations any more. In August 2002 at the same conference, the President of the NFF, Peter Corish, stated that if the government were to negotiate an FTA with the United States, the NFF would actively involve itself in the process because Australian farmers would benefit greatly from the FTA if agriculture were fully included (Corish 2002). He also argued that agriculture must be "at the heart of negotiations" and the NFF would never compromise on this point. In other words, the NFF would not accept differential treatment of agriculture from other sectors.<sup>32</sup> On the other hand, the NFF, like the government, does not consider quarantine as a trade issue on which to negotiate.<sup>33</sup>

The NFF's strong stance seems to be influenced by its international activities, too. The NFF has been playing a leading role in a transnational organization called the "Cairns Group Farmers." The organization consists of agricultural groups from the Cairns Group members. It organizes an annual conference and provides policy recommendations for the Cairns Group. The ultimate purpose of the Cairns Group Farmers is to achieve complete multilateral free trade in agricultural products, so its main activities are directed towards the WTO through the Cairns Group. Thus, even if a new liberalization framework—bilateral FTAs—were created, the NFF would not accept any provisions that were contradictory to its commitments to the Cairns Group Farmers.<sup>34</sup> In fact, the government would face similar circumstances. If the government signed an FTA with the United States that was short of what it asserts through the Cairns Group, its credibility as the

leader of the Group would be seriously undermined. Even if it could conclude an FTA that was completely in line with the Group's objectives, other members of the Group, especially those with which the United States does not intend to negotiate FTAs in the near future, may well feel betrayed. In this case, too, Australia's leadership role would be weakened, and so would the coherence of the Group.

In any case, agriculture is a very difficult issue to settle in an FTA between Australia and the United States. Garnaut (2002: 133–34) argues that most of the estimated "\$4 billion" net gains a year for Australia are expected to come from increased access of agricultural exports to the US market. Craig Emerson, Shadow Minister for Trade for the opposition Labor Party, expressed skepticism in August 2002 on whether agriculture could be completely included in the negotiations. He pointed out that, despite the TPA, the US administration was still required to consult Congressional committees on tariff reduction on "sensitive agricultural products," including sugar, beef and dairy, under the *Trade Act of 2002* (Emerson 2002). As the NFF asserts, if there will not be substantial liberalization in agriculture, the FTA would not satisfy the government's principle of "significant and particular" economic gains.

Second, some restrictions on foreign investment remain in Australia. The government can block foreign investment if it resolved that it would be against the national interest.<sup>35</sup> In relation to the FTA with the United States, which has a very competitive services sector and related investment, Australia's deregulation of the media, civil aviation, banking, telecommunications and some mining industries would become an issue. An economist in a private firm argued that Australia still maintained a restrictive investment regime, and that this was problematic because the background of these regulations relied not so much on the control of competition, but on nationalism including cultural identity.<sup>36</sup> Thus, it will not be easy for Australia to negotiate FTAs with competitive economies like the United States without the intention to amend its current investment regime.

Third, because it is an FTA with the United States, the security aspect has added another divisive factor to the debate. The fact that President Bush's statement in September 2002 explained the US FTA policy in the context of global security strategy (President of the United States 2002) seems to have pushed this aspect to the front. Zoellick's speech in November, when the two governments agreed on the commencement of FTA negotiations, confirmed that the United States considered the FTA as a tool to strengthen the security alliance.<sup>37</sup> In short, the government argues that the economic integration with the United States would strengthen the already established security ties

between Australia and United States because of deepened interdependence. Conversely, some academics argue that the security objective should be pursued by other means than an FTA. They warn that the Australian economy would lose significantly through an FTA if security was prioritized over other important issues like agriculture.<sup>38</sup> Even some who are for the FTA recognize that an FTA should not be pursued for non-economic reasons and it is naïve to believe that Australia can “buy” an FTA with the United States through its stance on international issues, or that it can influence US security policy through the FTA (Wood 2002).

The debate on the FTA with the United States has inevitably been revolving around the very essence of Australia's foreign and trade policy: to maintain good relations with the United States and East Asia at the same time, and to maintain US engagement in East Asia and prevent conflicts between the United States and East Asian countries. It is quite contrary to the FTA negotiation with Singapore, an already free trading city-state, which involved much less debate from a relatively small number of domestic stakeholders.

Since embarking on foreign and trade policy “rebalancing” in 1997, the government's policy towards Asia has been more assertive than the previous government's, but with mixed results. Australia's contribution to the IMF packages and other activities to rescue Thailand, Indonesia and Korea, which were severely hit by financial crisis, were appreciated by them, but did not culminate in the acceptance of Australia's membership in the Asia Europe Meeting process and the ASEAN+3 (China, Japan and Korea) framework (Wesley 2001b: 305–6, 317). Australia's active involvement in East Timor's independence process in 1999, particularly the central role it played in the United Nations' (UN) peace keeping operation, was praised domestically and by the UN, but it provoked resentment in Southeast Asia. A journal interview with Prime Minister Howard on the so-called “Howard Doctrine,” featuring the catch phrase of Australia playing the role of “deputy sheriff” to the United States in the region, increased Asian anger further, not only in Southeast Asia but also in Japan and Korea (Milner 2001: 41–45). After the September 11, 2001 terrorist attacks in the United States, the government has been working closely with ASEAN countries to contain terrorism in the region (Commonwealth of Australia 2003: 38–40). However, Howard's recent statement, after the Bali bombings on October 12, 2002 that killed or injured more than two hundred people, including eighty-eight Australians, of the possibility that Australia could launch “preemptive military strikes” against terrorists operating in neighboring countries caused yet another wave

of anger in the region, and ASEAN effectively rejected Australia's proposal to hold a yearly ASEAN-Australia summit.<sup>39</sup> Garnaut (2002: 135) asserts that "[t]he main cost ... of seeking to negotiate a free trade agreement with the United States, is that it enhances perception in Asia that Australia sees its interests mainly outside the region." The government's recent foreign policy record does not seem to be trying to convince East Asian countries otherwise. It seems that the "rebalancing" has gone too far and the government may have lost the foreign policy balance in the other direction now. The government's strong intention to align itself with the United States and its policy/strategy has been more clearly manifested in the process of preparing the war against Iraq since mid 2002, and justified in its second foreign and trade policy white paper recently published (Commonwealth of Australia 2003: 38, 42, 44–46), even without popular support.<sup>40</sup>

Another aspect that became evident in the debate over an FTA with United States is that the government is now trying to promote "competitive liberalization" through FTAs. While Downer stated that an FTA with the United States had the aim of avoiding disadvantages in the US market that Australia's exporters would face when the FTAA was established,<sup>41</sup> he also confirmed, as quoted earlier, that one of the objectives of the FTA was to induce other countries to compete in trade liberalization on multiple levels (bilateral, regional and multilateral). When negotiating an FTA with Singapore, it was explained that the government expected SAFTA to have "demonstration effects" on other ASEAN countries: persuading them to start FTA negotiations with Australia. It seems that the government has since promoted this stance and is expecting its FTAs to put pressure on other countries to liberalize. Trade Minister Vaile emphasized at the launch of the second foreign and trade policy white paper in February 2003 that "competitive liberalization" was a departure from Australia's traditional approach to trade negotiations (Vaile 2003). He further stated that a competitive liberalization approach would maintain the momentum of global liberalization and Australia's FTA agenda would not stop at current negotiations with the United States and Thailand (and trade and economic agreements, which exclude trade liberalization, with China, Japan and Korea), mentioning Mexico, Egypt and other Middle East countries as potential candidates (Vaile 2003). All these indicate the changing nature of Australia's FTA policy: from a defensive response to its major trade partners entering into FTAs with other countries, to a proactive pursuit trying to induce others to liberalize.

Nevertheless, one question remains: can FTAs by countries like Australia induce competitive liberalization? The logic of competitive liberalization (or

competition in liberalization) has often been used by the US administration to justify its FTA policy (see Chapter 5). FTAs by economic/political powers like the United States may have the effect on others to want to be included in its FTA network out of fear of trade diversion effects, or to build an FTA network of their own to counter, or to speed up the multilateral liberalization process in order to minimize adverse effects they may face. On the other hand, small countries' FTAs would not have such impacts. Rather, if not careful, the proactive pursuit of FTAs by small countries in the name of competitive liberalization might lead them ending up with having a number of trivial FTAs. In the case of Australia, proactive pursuit of FTAs with extra-regional countries might run the risk of further exclusion from East Asian frameworks such as ASEAN+3: exclusions that the government needs to avoid.

### **Can Australia's FTAs Be Multilateralized?**

From the analysis on Australia's FTA policy, the basic objectives (incentives) of Australia's FTAs can be seen as protecting and promoting its (relative) economic gains abroad. The government considers that is directly linked with the realization of its national interest. In this sense, along with the importance of the security aspect that the government places on an FTA with the United States, Australia's behavior looks strongly in line with neorealist perspectives. However, what seems unique is that, at least officially, the government and private sector assert that Australia is ready for competition in overseas markets if equal conditions with competitors are assured. This was the case under its initial approach to FTAs—as defensive responses to major trade partners' policy—and the government argues that recent proactive pursuit of FTAs for competitive liberalization, an idea that must have been borrowed from the United States, is still to realize freer trade in the world in which Australia participates on an equal footing with other countries. These attitudes cannot be explained fully by neorealism.

Australia has not abandoned the importance it placed on multilateral liberalization and regional FTAs. The government's commitment to the WTO new round so far is unchanged from its approach to the Uruguay Round (Commonwealth of Australia 2003: 53). It still aims to make SAFTA a building block for a region-wide FTA with ASEAN in the future as Downer made clear in October 2002.<sup>42</sup> It was in this context that Australia proposed a bilateral FTA to Thailand.<sup>43</sup>

For Australia, the FTA with Thailand, if concluded, will be the first one

with a developing country. Whether the FTA will have similar contents to SAFTA and be concluded relatively quickly will be a vital test for the Australian government. It will be a test not only for preserving its FTA principles and maintaining the benchmark but also for examining the possibility of multilateralization of Australia's FTAs. So far, three rounds of negotiations have been held by the end of January 2003. According to the joint statement by Trade Minister Vaile and Thai Minister of Commerce Adisai in November 2002, they agreed to conclude the negotiations by June 2004 (DFAT 2002). The negotiations so far have just focused on modalities for the elimination of tariffs and non-tariff barriers to trade in goods and for liberalization of trade in services, and an "early harvest" package that would include cooperative trade-related activities such as consultation on sanitary and phytosanitary issues, investment promotion, capacity-building in competition policy and so on. They can be seen as the signs of comprehensiveness, but it is too early to tell what the final outcome will look like.

What would drive Australia towards a regional FTA and the multilateralization of its existing and future FTAs is the development in East Asia of initiatives such as the ASEAN+China, ASEAN+Japan and ASEAN+3 FTAs. The government sees these developments have arisen from: a desire to establish a stronger international identity and profile for East Asia; a desire by the ASEAN countries to compensate for their relative economic weakness by associating more closely with the bigger economies of North Asia, and; the aspiration of Japan and China to establish stronger claims for regional leadership (Commonwealth of Australia 2003: 84–85). As mentioned earlier, being totally excluded from these developments would harm the very basis of Australia's foreign and trade policy. Australia needs to be involved somehow. Thus, while registering its interest in joining regional groupings, the government is continuing to seek a regional FTA on an AFTA-CER dialogue basis. Though the liberalization elements are still not covered, the AFTA-CER CEP has been developing steadily in recent years. In September 2001, ASEAN Economic Ministers and Trade Ministers from Australia and New Zealand endorsed a framework for the CEP and, a year later, they set a target of doubling trade and investment by 2010 (AFTA-CER Ministerial Consultations 2002a) and signed a Ministerial Declaration that included the initial work program for trade and investment facilitation (AFTA-CER Ministerial Consultations 2002b). The Australian government understands that the AFTA-CER dialogue was finally "formalized" through the CEP (Commonwealth of Australia 2002b: 37). For Australia, the AFTA-CER CEP initiative, SAFTA and the FTA negotiation with Thailand together

present an opportunity for the multilateralization of its FTAs leading to the establishment of an AFTA-CER FTA in the future, though this will not be easy, as mentioned earlier. In turn, the AFTA-CER FTA would open the door to the East Asian community for Australia.

## **Conclusion**

Since the economic reforms of the 1980s, Australia has been a strong supporter of multilateral trade liberalization. At the same time, Australia sought to engage itself with East Asia politically and economically. The new Coalition government in 1997 shifted foreign and trade policy emphasis towards an integrated approach of bilateralism, regionalism and multilateralism, urging for the need for policy "rebalancing." In terms of trade policy, the shift meant getting ready for bilateral FTAs but the concrete move towards bilateral FTAs did not come until 2000. The reason for the three-year "time lag" was decent export growth during the period, a legacy of the success of the Uruguay Round and the prospect of establishing a regional FTA, the AFTA-CER FTA. When the latter two petered out, the Australian government seriously started to seek FTA partners.

The initial goal of Australia's FTA policy was to prevent disadvantages that domestic firms would face in major trade and investment partners' markets. Thus, the potential FTA partners for Australia basically are major economic partners such as Singapore, the United States, Japan, China and Korea that have, or intend to have, FTAs with other countries. The government also set as its principles in pursuing FTAs: the achievement of significant and particular benefits, gaining quicker results than multilateral liberalization and comprehensiveness. The FTA with Singapore seems to have fulfilled these self-constituted requirements. The pre-negotiation debate on an FTA with United States has been intense because it is an FTA with the world's strongest country both politically and economically. Whether the government can satisfy its FTA principles remains to be seen. In addition, through the argument for an FTA with the United States, the government has raised the concept of "competitive liberalization." It can be seen as a departure from Australia's original attitude towards its own FTAs, but it is uncertain whether its FTAs will induce other countries' liberalization.

In any case, the uniqueness of Australia's stance towards FTAs seems to lie in the government's and private sector's readiness to compete with others in foreign markets, if equal conditions are assured. If this still holds, Australia has a potential to initiate the multilateralization of its FTAs. In

addition, external factors are likely to drive Australia's FTA multilateralization. Australia cannot afford to be left out of recent initiatives in East Asia that might well lead to the creation of an East Asian community, and FTA, in the future. To be involved in it, Australia needs to establish formal and closer economic ties with East Asia. Australia can use SAFTA, the currently negotiated FTA with Thailand and the AFTA-CER CEP as a springboard to realize an AFTA-CER FTA, for the purpose of gradually multilateralizing its FTAs and getting into the East Asian community.

## Notes

- 1 The Cairns Group was formed in 1986 by fourteen countries that claimed not to have government subsidies on agricultural exports, for the purpose of including agriculture in the Uruguay Round agenda. The original members included Argentina, Australia, Brazil, Canada, Hungary, Indonesia, Malaysia, New Zealand, the Philippines and Thailand, and their aggregate value of agricultural exports occupied about 30 per cent of the world total.
- 2 It is necessary to restate here that Australia's "Asian Engagement" was not confined to economic relations. For instance, the government's efforts, led by Foreign Minister Gareth Evans, were instrumental in the Cambodian peace process and the creation of ASEAN Regional Forum. Furthermore, Australia's intention to improve relations with Indonesia culminated in a security agreement—the Australia-Indonesia Agreement on Maintaining Security—in December 1995 (Cotton and Ravenhill 1997a). The Agreement, however, was abandoned by Indonesia in 1999 (see note 11).
- 3 The Coalition government decided to publish the TOOS at the start of every year from 1997 to explain to the Parliament and general public what were achieved in the previous year and what would be the policy targets of the year. Since the TOOS has clearly described the government's trade policy intentions in each issue, it has become an adequate first reference to see the changes (and/or consistency) in Australia's trade policy directions.
- 4 While bilateral efforts did not take the form of FTAs in 1996, the government was willing to explore other means: trade promotion and market development. An inter-departmental Market Development Task Force was created under the jurisdiction of the Secretary of DFAT to focus and link more closely market access and promotional efforts across the government (Commonwealth of Australia 1997a: 19). With help from market facilitation teams within DFAT and the private sector, the Task Force aimed at concentrating government's efforts on specific sectors in a targeted country to newly establish or increase Australia's exports. These efforts are continuing to date. For instance, a recent achievement is a massive and long-term export deal of liquefied natural gas to China in August 2002 (*The Australian*, August 9, 2002).

- 5 Though the government declared that it would act for stricter application of WTO rules on FTAs, it was pessimistic on how much impact it could assert on this issue at multilateral negotiations (Commonwealth of Australia 1997b: 42).
- 6 Neither had the private sector asked the government to pursue specific bilateral FTAs until 2000. Interview with the Director of Trade and International Affairs, ACCI (August 29, 2002) and the Executive Director of the Australian Industry Group (AIG) (September 5, 2002).
- 7 Interview with a Uruguay Round related official in DFAT. August 30, 2002.
- 8 One of the DFAT officials who was involved in the FTA negotiations with Singapore stated that, though the Coalition government officially announced that it had open mind towards FTAs in 1997, some parts of DFAT still remained cautious on bilateral deals. Interview, August 28, 2002.
- 9 The Information Technology Agreement (ITA) was initially proposed by the United States in 1995 for the elimination of trade barriers on computer hard and software, semiconductors, telecommunication equipment and other information and communication related products and services. At the inaugural Ministerial Conference of the WTO held in Singapore in 1996, the ITA was successful in collecting enough signatories that could form a critical mass and the Agreement came into force in July 1997. For more details, see Okamoto (2001a: 47–52).
- 10 On the record, the proposal was made by ASEAN as a whole, but the actual circumstances within ASEAN were not that simple. As the chair of the AEM, the agenda setting for the dialogue in 1999 was conducted mainly by Singapore. Singapore was very actively in favor of the task force and the feasibility study. Members like Indonesia did not oppose the study itself, but not necessarily supportive of such a move. The ASEAN “consensus” on this issue was fragile even before the task force was formed (Okamoto 2001b: 6).
- 11 Singapore and Thailand were said to be in favor of the AFTA-CER FTA, but the opposition was raised mainly by Indonesia and Malaysia. ASEAN could not reach consensus on this issue. The reasons for rejection by Indonesia and Malaysia were said to be more political than economic. The relationship between Australia and Indonesia had soured in this period. Australia’s policy change towards East Timor’s independence in 1999 and its active involvement and commanding role played in the peace-keeping operation in East Timor appeared to have caused an “anti-Australia” sentiment in Indonesia. Malaysian Prime Minister’s assertion of “Asian values” and “Asian way” of doing things was well known and, for more than a decade, Australia had been a target of his criticism. Indonesia and Malaysia were, at least at that time, not prepared to take part in any FTAs that included Australia (Okamoto 2001b).
- 12 Thus, it may be suggested that the government’s greater emphasis on bilateralism in trade relations in 1997 was not based on concrete economic needs, but on the need to be “different” from the previous governments.
- 13 Interview with officials of the Trade Development Division (August 30, 2002) and the Economic Analytical Unit (September 2, 2002) in DFAT.
- 14 Interview with a DFAT official who was a member of the Singapore FTA negotiation team. August 27, 2002.
- 15 The Executive Director of the AIG supported this point by saying that Australian business was not seeking preferential treatment, but increased market access from FTAs. This statement sounds somewhat contradictory, but his emphasis was placed

- on the point that the Australian business was ready to compete with other countries in overseas markets under equal conditions. Interview, September 5, 2002.
- 16 It seems that it was a shared view in the government (especially DFAT) then that the first FTA negotiation partner would come from ASEAN (Interview with a DFAT official who were a member of Singapore FTA negotiation team, August 28, 2002). Business groups, especially the AIG that had been deeply involved in the AFTA-CER Linkage dialogue as the representative from the private sector, began lobbying for bilateral FTAs with ASEAN members when it became likely that the Ministerial Consultations would not endorse the AFTA-CER FTA (Interview with a Senior Policy Adviser of the AIG, November 9, 2000).
  - 17 How the Australian government hurried to start negotiation with Singapore then may be seen by examining the procedures adopted. Before the formal agreement to start FTA negotiations, countries usually conduct a feasibility study (cost and benefit analysis) first to show the public how much benefit they could achieve from the FTA in question. However, in the case of SAFTA, a study by a private research institution was completed in September 2001 (Access Economics 2001), six months after the first round of negotiation took place. On the contrary, the government followed the normal path in the cases of FTA negotiations with Thailand and the United States.
  - 18 Interview with officials of the Trade Development Division, DFAT (August 30, 2002) and the Director of Trade and International Affairs, ACCI (August 29, 2002).
  - 19 In "negative listing," products (and/or commitments) listed are excluded from the coverage, but all those not listed are covered. In "positive listing," on the other hand, products listed are covered but all those not listed are excluded. The level of comprehensiveness depends on how many products are listed in both systems, but generally, the negative listing tends to be more comprehensive in nature.
  - 20 Australia demanded the 50 per cent value-added ROO to be applied for all products—the same rules under the CER—to prevent the flood of imports, especially TCF, using cheap materials from other ASEAN countries. On the other hand, Singapore preferred 40 per cent rules in some products that included TCF. Interview with a DFAT official who was a member of Singapore FTA negotiation team, August 28, 2002.
  - 21 By SAFTA, Singapore abolishes remaining tariffs on two products from Australia: beer and stout.
  - 22 Interview, August 28, 2002.
  - 23 Interview, August 29, 2002.
  - 24 Interview with a DFAT official who was a member of Singapore FTA negotiation team, August 28, 2002.
  - 25 Interview with the Executive Director of the Economic Analytical Unit, DFAT. September 2, 2002.
  - 26 Interview with the Director of Trade and International Affairs, ACCI (August 29, 2002) and the Executive Director of the AIG (September 5, 2002). The hope of the government and private sector for the demonstration effect may justify some academics' assertion that the economic gains achievable for Australia from SAFTA are "trivial." Interview with professors in economics, the Australian National University, September 2 and 5, 2002.
  - 27 It should be noted that Singapore was exceptional in ASEAN also in terms due to

its lack of an agricultural sector of meaningful size. Thus, the SAFTA negotiations did not need to touch upon the issue of Australia's rigorous quarantine regime as a non-tariff barrier. However, agricultural products are important export commodities for most other ASEAN members. In fact, Indonesia, Malaysia, the Philippines and Thailand are the members of the Cairns Group. When Australia negotiates FTAs with these countries, it is most likely that they will raise the quarantine issue, as they already have on general bilateral trade relation basis, on the products such as chicken meat and tropical fruits like mangoes and bananas. The Australian government has been arguing that its quarantine regime is scientifically based and its assertion was accepted as legitimate by the WTO (Commonwealth of Australia 2001: 12). Therefore, the government sees no need to alter it for the sake of concluding FTAs. For details of Australia's quarantine procedure, see AQIS (1998).

- 28 *The Australian*. June 14, 2002. *The Weekend Australian*. June 15–16, 2002.
- 29 *The Australian*. November 15, 2002.
- 30 The "\$4 billion net gain per annum" was estimated by the study conducted by the Centre for International Economics (CIE 2001). Since the study was released, the figure has often been quoted in arguments for the FTA with the United States.
- 31 It has been reported many times in Australia that the US farm lobbies were arguing that they would not accept significant opening of the domestic agricultural market by an FTA with Australia. See, for instance, *The Weekend Australian*. August 3–4, 2002. *The Australian*. September 9, October 1 and December 27, 2002. Considering that the US administration had to endorse the Farm Bill in 2002, which promised to provide vast amount of subsidies to domestic farmers, to acquire the TPA from Congress, it is not hard to imagine that the negotiation on agriculture would be tough.
- 32 For instance, Corish mentioned that NAFTA treated agricultural products differently from others, using different schedule for tariff reduction and tariff quotas for many products (Corish 2002).
- 33 *The Australian*. November 15, 2002.
- 34 Interview with the Policy Manager for Trade at the NFF, August 30, 2002.
- 35 For instance, in recent years, the government did not allow foreign firms to acquire majority of equity of Woodside Petroleum, Telstra (former Australian Telecom) and Qantas. *The Australian*. August 14, 2002. It also restricted foreign ownership of North West Shelf that operates liquefied natural gas mining. These restrictions are based on the *Foreign Acquisitions and Takeovers Act 1975*, *Telstra Corporation Act 1991* and other related domestic laws. In fact, the government reserved these restrictions in SAFTA, too. See DFAT (2003a: Annex 4-I(A), 4-II(A)).
- 36 Presentation by John Edwards, the Chief Economist of HSBC, at the Australian APEC Study Centre conference on "The Impact of an Australia-United States Free Trade Agreement: Foreign Policy Challenges and Economic Opportunities," August 29, 2002. For example, the Screen Producers Association of Australia argues that, without current protection and promotion, Australia's film industry will be severely damaged by the flood of US movies and that will cause harm to a part of Australia's culture. *The Australian*, December 27, 2002.
- 37 *The Australian*, November 15, 2002.
- 38 Interview with professors in economics at the Australian National University, September 2 and 5, 2002.

- 39 *The Australian*. December 2 and 6, 2002.
- 40 An opinion poll conducted in early February 2003 showed 76 per cent of respondents opposed Australia's participation in the war against Iraq without support from the UN. Even with the UN's support, 39 per cent expressed opposition. *The Australian*, February 4, 2003.
- 41 Downer pointed out that agricultural exports would meet "unfair" competition in the US market with Latin American countries like Brazil, Argentina and Chile. DFAT officials also confirmed this point. Interview with a member of the Singapore FTA negotiation team (August 27, 2002) and the Director of Economic Analytical Unit, DFAT (September 2, 2002).
- 42 *Nihon Keizai Shimbun*. October 8, 2002.
- 43 In fact, Australia did not have options other than Thailand. Indonesia, Malaysia and the Philippines were not enthusiastic about the AFTA-CER FTA and new members of ASEAN—Cambodia, Laos, Myanmar and Vietnam—were not considered because the Australian government thought they were not ready. Interview with DFAT officials who are members of the Thai FTA negotiation team, August 30, 2002.

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