



# **An Australia US Free Trade Agreement**

## **Improving US- Australia capital flows**

### **NPC**

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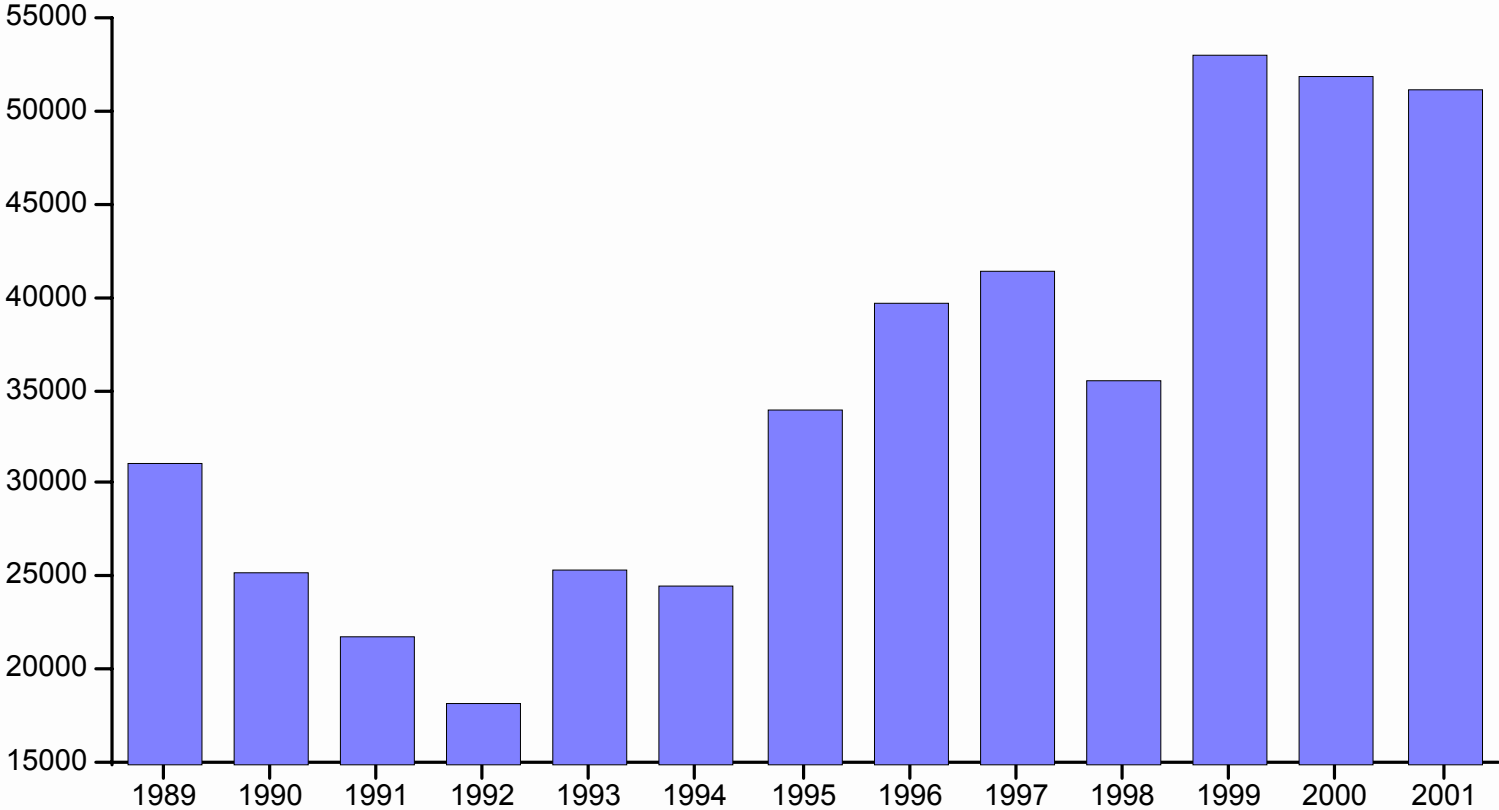


**Has Peter Costello noticed this particular train coming down the track?**

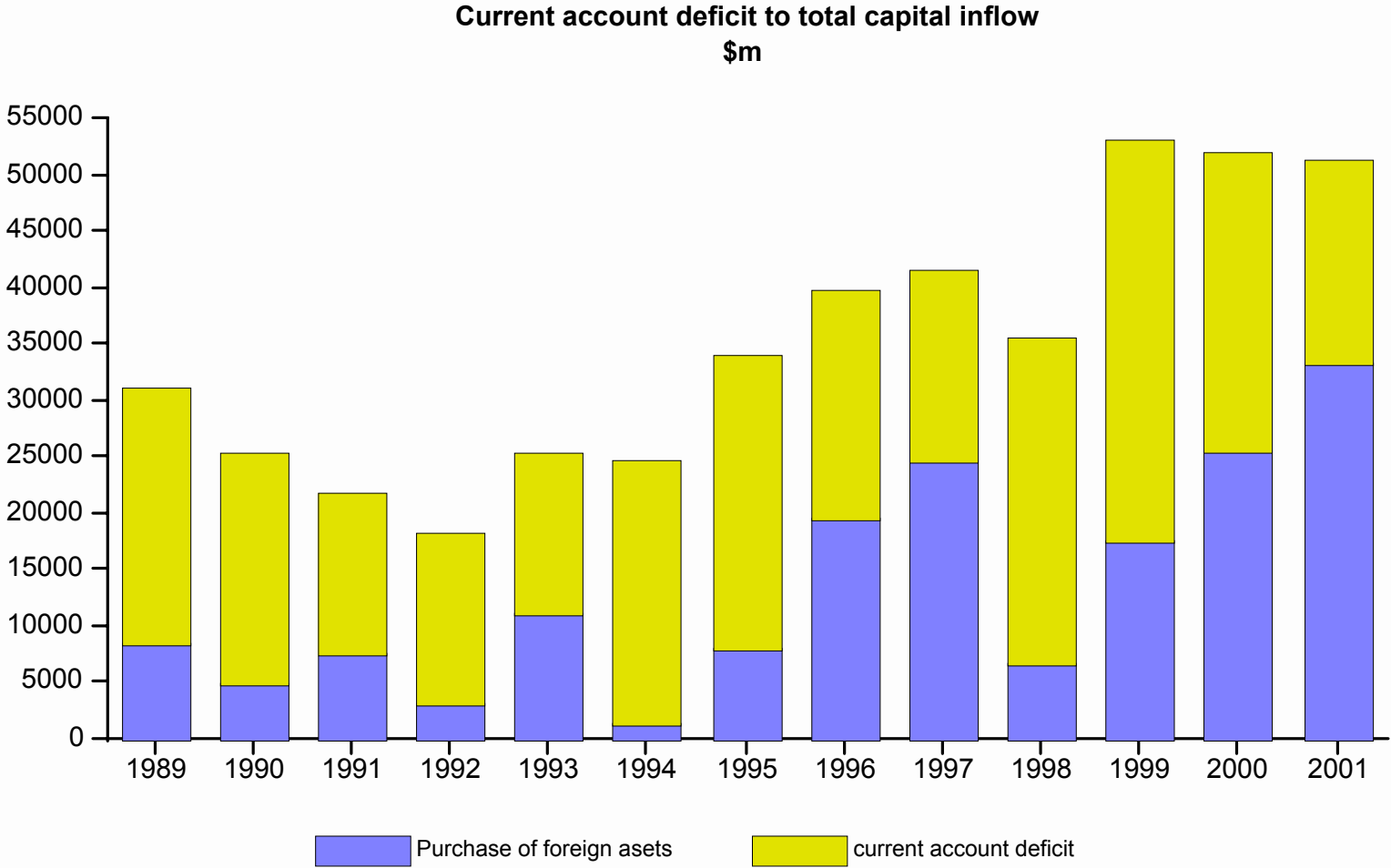
**Australia US FTA negotiation will either (1) force major changes in Australian foreign investment policy, or (2) the agreement will leave us worse off than we are today**

# Total capital inflow

Australia: Capital inflow  
\$m

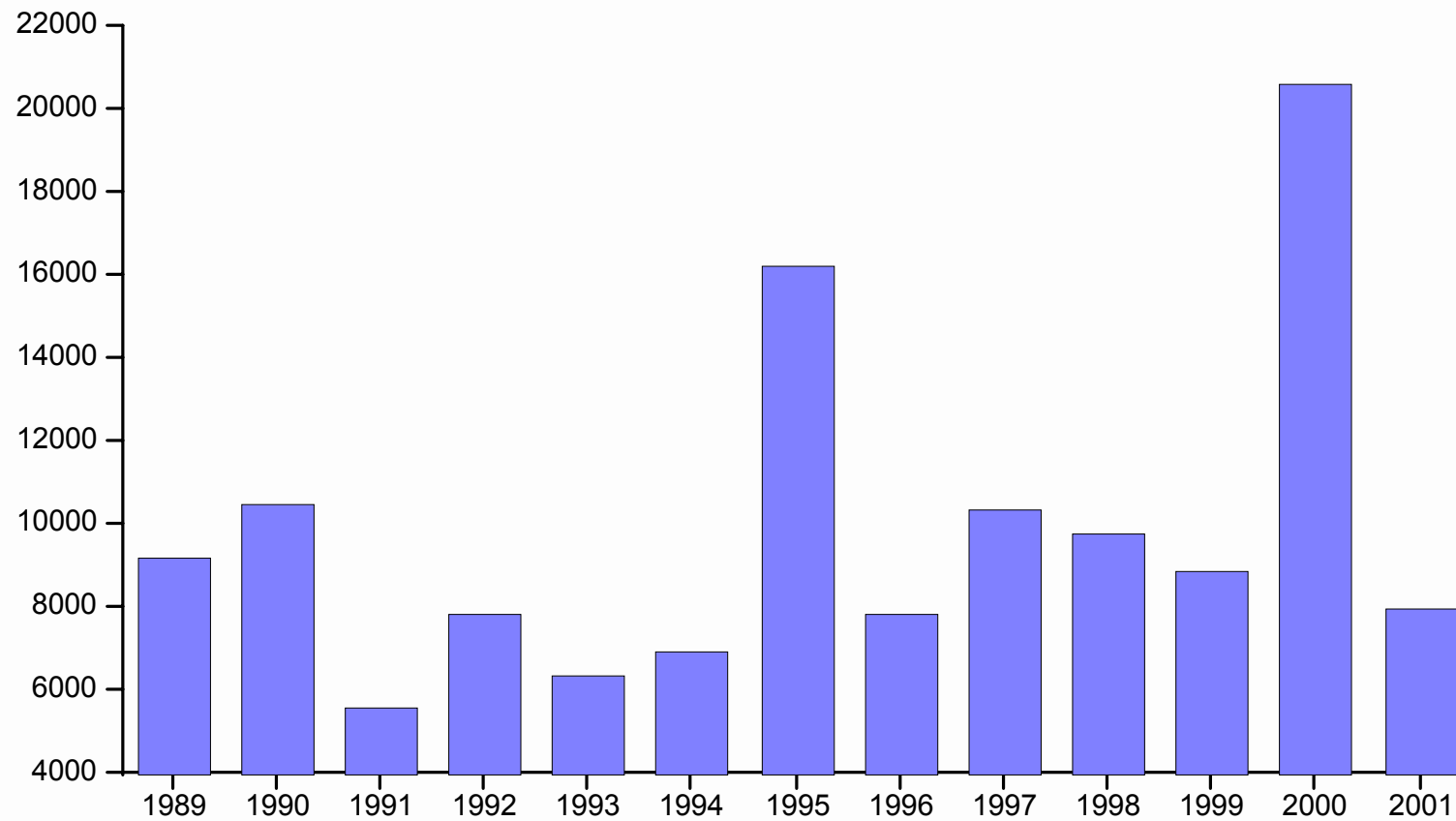


# Current account deficit as a share of inflow



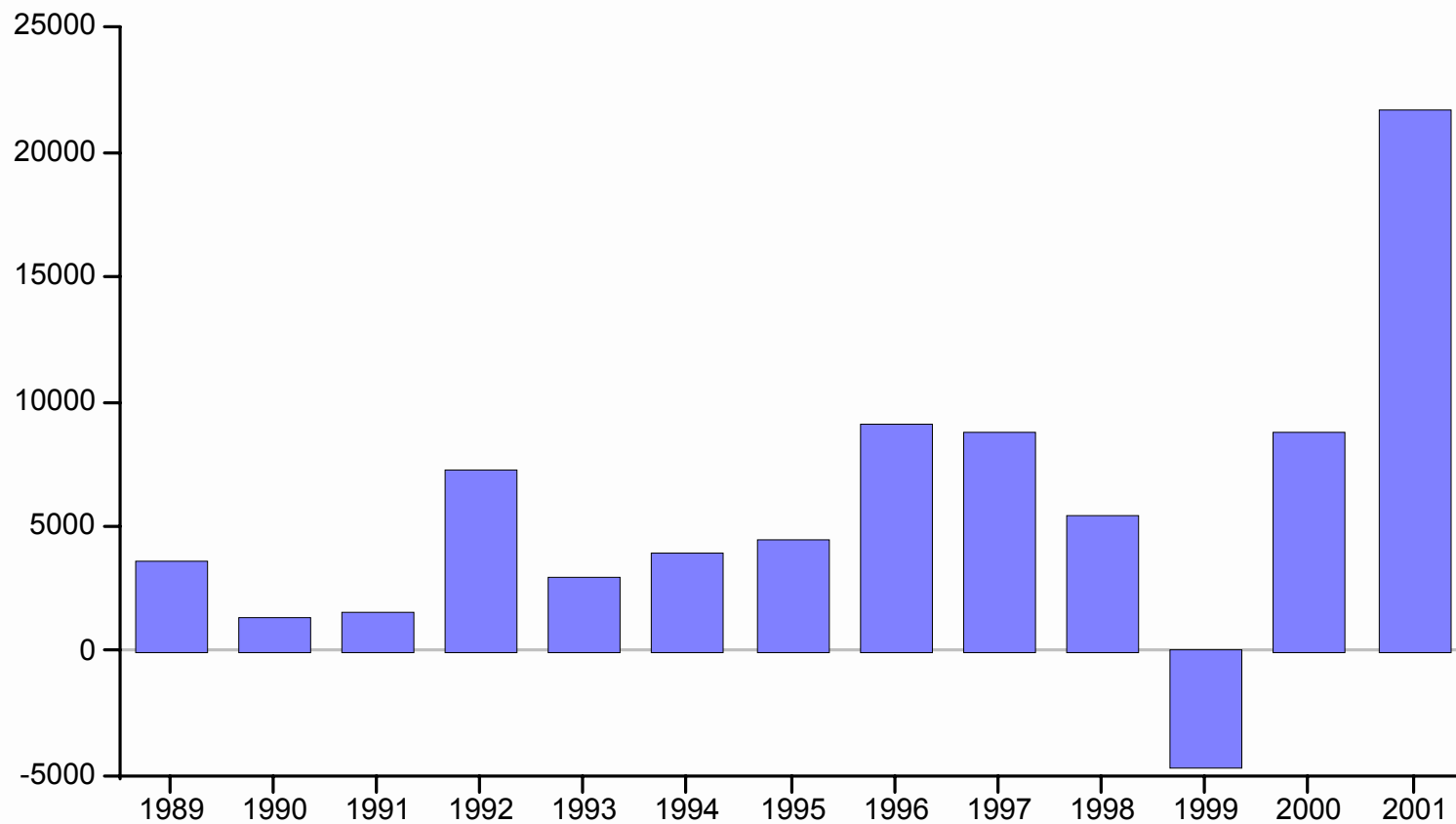
# Foreign direct invest. in Australia (flows)

Foreign direct investment into Australia  
transactions basis \$m



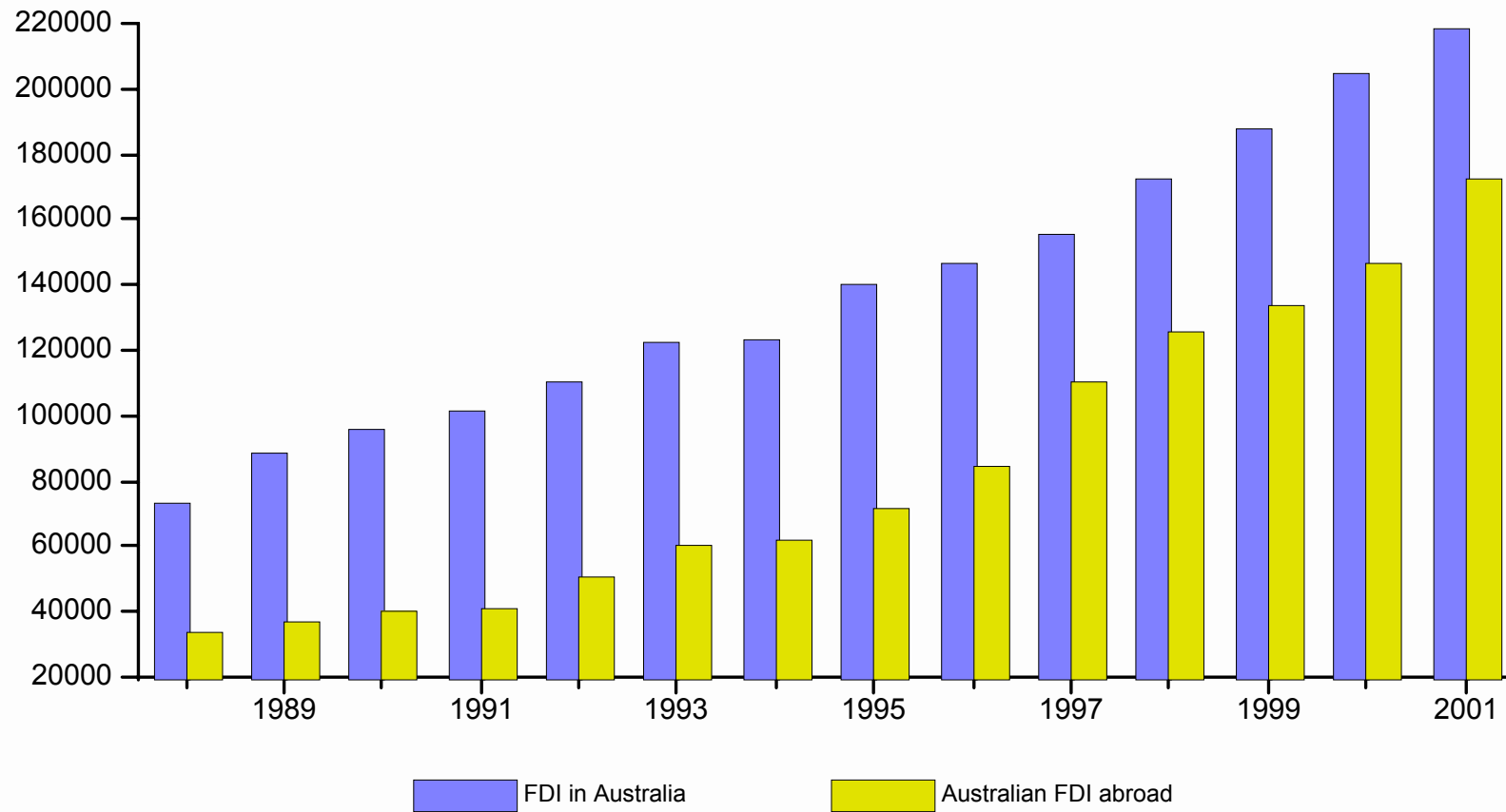
# Australian direct investment abroad (flows)

Australian direct investment abroad  
\$ m transactions basis



# FDI stocks

Australian FDI abroad v foreign FDI in Australia  
\$m



# Trends in Australian cross border flows

- **Total inflow has sharply increased**
- **Australians borrow to buy equity assets**
- **Borrowing by Aust.banks a big component**

## Trends in FDI

- **Why FDI (both ways) matters**
- **Australian FDI abroad increasing faster than foreign FDI in Australia**

**1990 FDI assets 40% of FDI liabilities; today 80%**

- **US now both largest source of FDI and the most important destination**

**1995 FDI in US 26% of Aust total; in 2000 51%**

**1995 FDI in Aust 31% of total in Aust.; in 2000 35%**

**Abt 120 Aust. companies in US,**

**Aust corporates own 1.7% US foreign owned assets**

- **US also the biggest destination for equity portfolio investment (35%)**
- **US is biggest single source of debt funding (25% gross external debt)**

# **Impediments to FDI**

**US places few impediments**

**We create impediments to US investment in Aust**

**Limits on media, banks, airlines, miners, telecoms, uranium**

**Arbitrary, secretive discretion to reject foreign investment**

**Some performance rules**

**Do not offer national treatment or non-discrimination**

**Do not want reciprocity**

**Do not have any substantive investment agreements**

**Complications under Nara and CER**

**Very badly set up for an FTA negotiation with the US**

# **What rationalises our foreign investment restrictions?**

**Banks**

**Media**

**Qantas**

**Telstra**

**Woodside**

**Opposition attitude?**

- **The US objective will be to minimise Australian restrictions**
- **It will not allow a second order agreement to set a difficult precedent**

- **Australian FDI policy designed for period of rapidly increasing FDI in Australia**
- **Total FDI ownership in Australia has not much changed in two decades**
- **Australian ownership of foreign assets has rapidly increased**
- **Policy has not recognised the change**

# **Types of possible investment agreement with US**

- **Full on Chapter 11**

**national treatment, non discrimination, MFN**

**disputes appeal to arbitral tribunals**

**no performance rules (with exceptions)**

**reservations**

## **Reservation strategy**

- **Could certainly include all current Australian limits**
- **Could also include discretion to review and reject**
- **Problem of tit for tat**
- **US objective to remove limits, arbitrary review**
- **Reciprocity would be worse outcome than current**

## **Issue of appeal to arbitral tribunal**

- **Early problems**
- **Second generation agreement could handle**
- **US not interested in wide appeal**

- **Issue of Nara, CER, WTO 2003**
- **In practice, whatever is agreed with US is for everyone**

## Alternatives

### **Rhetorical agreement (US Jordan FTA)**

no value

misses opportunity to assist Australian globalisation

### **Major review of Australian foreign investment policy**