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new instruments to advance new interests  
the case of Australia**

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## **Free Trade Agreements in the era of globalization - new instruments to advance new interests – the case of Australia**

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### **Introduction**

The impact of globalization on international public policy is wider than is generally appreciated. Hints of its significance arise in debate about whether or not the system of economic interdependence which has developed in the last half of the twentieth century is supplanting the system of the military balance of power which has been the traditional way of understanding how states relate to each other. Suggestions, mostly from the civil society, that the Westphalian concepts of national sovereignty are now obsolete, also reflect an appreciation that something fundamental has changed.

The impact of globalization on international public policy is well demonstrated by the new popularity of bilateral and regional economic integration agreements. They have proliferated dramatically in the last decade. Australia has sought bilateral agreements with Singapore, Thailand and the United States, after a long period of disinterest in bilateral agreements following completion of the Australia New Zealand Closer Economic Relations and Trade Agreement (ANZCERTA) in 1988. This has led some Australian free trade economists to associate themselves with a wider apprehension among fellow economic neoliberals elsewhere that emergence of bilateral and regional agreements risks undermining the effectiveness of the multilateral trading system and diminishing global economic welfare.

Free Trade Agreements have always had the political significance of signifying a desire to demonstrate a closer relationship. Globalization has increased both their economic and political significance.

The economic advantage of integration of free market economies has always been understood. Securing this benefit through the occasional negotiations conducted under the auspices of the General Agreement on Tariffs and Trade (GATT) and now the World Trade Organization (WTO) has always been a lengthy process requiring uncommon appreciation of the importance of long term benefits by politicians in national governments. Now that the WTO is so large (there are now over 140 members)<sup>1</sup> and that the range of issues covered is so wide, the process of liberalization in the WTO is even more difficult and slow. In the Uruguay Round, it was not until about a decade after the negotiations began countries started to enjoy the economic benefit of the agreements reached. Gains can be secured more swiftly through bilateral or regional agreements.

It has now become obsolete to measure the economic impact of these agreements principally by their effect on the flow of goods. With global barriers to trade in goods substantially reduced, the gains from economic integration can now be secured by a

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<sup>1</sup> 144 countries (as of 1 January 2002), [www.wto.org](http://www.wto.org).

wider range of instruments aimed at freeing movement of capital and labor and promoting greater competitiveness. The overall effect can be described as “deep integration”, a term now adopted by the World Bank. (World Bank, 2001: 13). The traditional description of these agreements as either customs unions or free trade agreements (FTAs) (deriving from the method of reducing and aligning tariffs) is a misnomer in a world of lower tariffs. The World Bank prefers to describe them as “Regional Integration Agreements”. Free Market Arrangements would be an even more appropriate term.

The political significance of greater economic integration has enhanced the political importance of these agreements. The economic integration achieved in Europe and North America has clearly enhanced the national security of the countries concerned. Enhanced security is traditionally the primary goal of close relations among states and traditionally it has been secured by closer political and military relations. In the era of globalization, a new instrument for enhancing security has been developed: integrated economies.

If Australia seeks to maintain competitiveness in the global economy (this being a fundamental objective of national policy for any Australian Governments wishing to deliver prosperity to Australians) and to maintain a strong relationship with the United States, there is a strong case for negotiating a comprehensive economic integration agreement (called for the sake of convenience a Free Trade Agreement - FTA) with the USA. The strategic and political benefits of strengthening the relationship with the US are not discussed in this paper. They are taken as given.

This paper argues that a deeper economic integration serves both economic and non-economic goals. It considers the economic benefits to be achieved, and argues that a Free Trade Agreement with the United States can be negotiated without imperiling Australia’s fundamental interests in preserving a strong multilateral trading system or developing close economic and political relations with countries in the East Asian region. In the process it considers some of the arguments being advanced to the contrary.

### **The political impact of globalization**

Until the Second World War, the analysis of what shaped relations among states was relatively straightforward. Nations needed military power to exert influence and security was achieved through military alliances. In the second half of the twentieth century another system of relationships with rules governing international relationships has emerged. These are economic commonwealths - free communities where governments align their economic interests on neoliberal principles to advance the common good.<sup>2</sup>

These economic systems sat alongside and sometimes overlapped with systems based on military and political power. The creation of economic commonwealths is one of the great developments of international public policy in the twentieth century.<sup>3</sup>

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<sup>2</sup>An earlier account of this perspective and its relevance to Australia is found in Oxley, Alan, “Seize the Future: How Australia can prosper in the new century, 2000, Allen and Unwin.

<sup>3</sup> The extent to which globalization in the late twentieth century is a new economic phenomenon compared to economic integration among European and Atlantic economies in the late nineteenth

The largest economic commonwealth is that created by the agreements of the World Trade Organization (WTO). The Organisation is not well understood. Unique among international organisations, it administers several international agreements, foremost among them the General Agreement on Tariffs and Trade (GATT). When members apply the rules of the GATT, they create global markets for trade and give every member an opportunity to increase economic growth. This opportunity is greater than the opportunity each would have acting on their own. The economic benefits are secured when all members apply the same rules. The rules contain obligations to apply them and rights to enforce compliance with them. It is an enforceable system of global international law. Members have a powerful interest in maintaining the system.

Economic commonwealths based on regions have emerged as well. The European Union is the best known. It began in 1958 with a treaty among six European countries, of which France and Germany were the most important, to create a Common Market by removing trade barriers among members. The next most important is North American Free Trade Agreement between the United States, Canada and Mexico. Among many others, Australia and New Zealand have made an economic commonwealth through the Australia New Zealand Closer Economic Relations and Trade Agreement (ANZCERTA), and the ASEAN countries have created an economic commonwealth through a free trade area. In South America, Brazil, Argentina, Uruguay and Paraguay have negotiated a customs union called Mercosur.

The impact of the formation of these economic commonwealths is clear today from the unprecedented increases in economic growth and rises in the standards of living in the latter half of the twentieth century. While the growth was evident, the role of the economic commonwealths in fostering it, particularly the GATT/WTO system, was not. The politics of the "Cold War" between the USA and the Soviet Union (and the ever-attendant fear of nuclear war) dominated perceptions of what mattered in international relations. When the Soviet Communist Party unexpectedly surrendered power in 1991 and the screen of the Cold War was suddenly lifted, people saw clearly that economic relationships had emerged as a new vehicle for nations to manage international relations. The phenomenon was dubbed globalization and apprehension that it was becoming a dominant organizing principle spawned the anti-globalization movement.

The way in which economic commonwealths can contribute to military security is most clearly shown by the effect of the economic interdependence of France and Germany created by the European Union. It is now so great that the idea of their going to war against each other is unimaginable. Leadership of an economic commonwealth is now also an effective source of political power. Germany has no nuclear weapons, but is now the leader of Europe. The United States has emerged as the world's leading economy and is effectively leader of the global economic commonwealth based on multilateral trade rules. It may be tempting to conclude that with the end of the Cold War globalization has created a new system which will determine the strategic environment of the twenty-first century.

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century has become a recent subject of debate. This writer considers that there are significant qualitative differences between the globalizations of these two eras. More importantly, late twentieth century globalization entails a level of international legal and supranational constitution institutionalization which is entirely new in international relations.

This view is premature, as the terrorist attacks on September 11, 2001 demonstrate. While profound, the emergence of a system of international laws and rules for economic interdependence will not for a long time, if ever, replace the system of military power and politics. And our experience with economic commonwealths to date is that they work only for some states, apparently those whose economies are advanced and or geographically contiguous. Nevertheless, they have emerged as a parallel system for governing relations among states and this development is not only new, it was not anticipated.

At the end of both the twentieth century World Wars the world's leaders set up new international institutions of government to manage global affairs and enhance international security - the League of Nations after the First World War and the United Nations and after the Second World War. Very little power was handed to either of the new bodies. The most important power was that granted to the UN Security Council to act against governments which threatened the security of others, such as when the "Desert Storm" invasion was launched to force Iraq to withdraw from Kuwait. The long-term hope for the UN system was that it would ultimately evolve into some form of world government, to which governments would progressively surrender political power.

In retrospect, the more significant handover of power in that immediate, postwar period was economic and to an unlikely recipient – a technical set of rules to regulate trade, the General Agreement on Tariffs and Trade (GATT). In parallel with establishment in 1945 of the new UN institutions to enforce peace, institutions to create a new global system for trade, payments and finance were also negotiated at Bretton Woods. The IMF and the World Bank were established. The ambition to create an International Trade Organization (ITO) failed. Instead the sub-set of rules on tariffs and trade for the ITO were implemented.

The extent to which leading Western economies were prepared to apply the rules of the GATT was striking. Successive US Administrations and Governments in Western Europe, led by the UK, regularly negotiated collectively to reduce trade barriers under the rules of the GATT so that by the 1970's the average tariff applied by industrialized economies had fallen from 40 percent to 7 percent.<sup>4</sup> The body of international law was steadily expanded and ultimately institutionalized as the World Trade Organization in 1994.

The establishment of this multilateral trading system was one of the great developments in international affairs of the twentieth century. It is widely agreed that the protectionist policies of the United States and of the other major economies precipitated the Great Depression. This is one case where the international community appears to have learnt the lessons of history. The multilateral trading system was created to prevent a recurrence of this and it laid the basis for the greatest

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<sup>4</sup> One must at this point note that some areas of trade where protection was highest in industrialized economies, particularly agriculture, clothing and textiles, and to a lesser extent, iron, steel and chemicals, were set aside from this general process of trade liberalization. While protection in these sectors remains to be reduced, overall the process of trade liberalization undertaken through the multilateral trading system has opened the world economy.

improvements in the shortest time in the material condition of people in human history.

There is a strong case to be made that the contribution made by the GATT to increases in prosperity and to stability in the global order in the second half of the twentieth century exceeds that of the United Nations. On reflection, one can understand why governments were willing to cede authority to an international system to regulate economic activity but not to a system regulating international political activity. When economic authority is shared it is easier for governments to demonstrate the benefits of such cooperation. Australia and New Zealand have enjoyed the benefits of an FTA since 1988, yet any proposition for fundamental political integration between the two countries, for example, merging nationalities in a new state named "Tasman," would not be supported in either country.

The world of the twenty-first century will be increasingly complex. International relations will still be governed by traditional notions of military and political power. Economic commonwealths (multilateral, regional and bilateral) will play an increasingly important role. Regional and bilateral arrangements will increasingly be used to denote close political relationships and, where appropriate, to enhance security, the latter being secured by the deeper economic interdependence created by the arrangement. They will only be feasible for this purpose in certain circumstances because to succeed, they require sophisticated systems of governance, the rule of law and functioning free market economies.

The political and security dimension available from the effective application of the systems of economic commonwealths is no better illustrated than the case prospectively created by the membership of China, Taiwan and Hong Kong of the World Trade Organization. Tension between China and Taiwan is one of the largest potential sources of instability in East Asia. Through membership of the WTO, China, Taiwan and Hong Kong all now accept a common set of rules that govern a substantial part of their economic relationship and are enforceable through WTO arbitration processes. Under WTO rules, economic interdependence between China and Taiwan will deepen, over time building a vested interest in cooperation which will counterbalance inclinations to conflict. Note that because China and Taiwan do not officially recognize each other and Taiwan is not a member of the UN, they cannot use UN mechanisms to resolve differences. However, where disputes over trade arise, they can use the arbitral processes of the WTO to resolve them. This demonstrates that while they cannot establish formal political relationships, they can establish formal economic relationships. One of the more interesting manifestations of this is contemplation of the idea of a regional free trade agreement among China, Taiwan and Hong Kong. It is the subject of active reflection among trade officials.

In an era where economic systems of relations among states now sit along side systems which are based on military and political interests, and will grow in importance, a new measure of the closeness of one country with another is the formation of an economic integration agreement. This is the political argument for Australia to negotiate an FTA with the United States.

## **The economic significance of globalization**

The economic benefit of agreements to promote economic integration can no longer be measured by the economic impact of the removal of barriers to trade in goods alone. This is one consequence of the success of progressive liberalization of global barriers to trade and globalization which it fostered. The focus of what were previously agreements to reduce barriers to trade (WTO multilateral agreements as well as regional or bilateral customs unions or free trade agreements) is now routinely expanded to include measures to facilitate free movement of the factors of production.

In the Uruguay Round, WTO rules were expanded to include removal of barriers to services and to reduce subsidies. Major regional agreements (such as NAFTA and the EU Single Market Agreement) embraced removal of barriers to investment, freer movement of personnel, improved rules on competition policy and cross recognition or harmonization of standards. In the Doha Round of WTO multilateral trade negotiations, addition of investment and competition policy to WTO rules is under consideration.

It is clear that significant benefits are to be secured from removal of barriers to services. The value of removal of barriers to services is difficult to measure (WTO, 2002b).<sup>5</sup> Nevertheless, the WTO estimates that in 1999, the value of global cross-border trade in services amounted to US\$1350 billion, or about 20% of total cross-border trade (WTO, 2001a: 3).

While restrictions on global trade in services are significant, removal of barriers to investment is likely to produce greater benefits. Most restrictions on investment are qualitative and the economic impact is difficult to measure. However, statistics emerging since the 1980s (UNCTAD, 1998) indicate that in the US economy it has been common in recent years for the value of outward foreign investment and sales by foreign-based subsidiaries of US companies to be greater than exports from companies based in the US. The patterns of Australia's investment and trade in the latter half of the nineties also reflect these trends (ABS 2001, 2002). The value of Australia's outward foreign investment to the US was about equal to the annual level of exports over that period (ABS, 2001).

Strategic planning by business reinforces the point. The modes used to develop business in foreign markets (the simple extremes range from exporting via an agent – with no control over marketing and distribution – to investing in the foreign market to supply from a domestic production facility) are today primarily decisions about cost. With global outsourcing and systems which enable global processes of production, the nationality of the location of a business unit is much less important. If the purpose of a free trade agreement is to allow investment to move to sectors and industries where it will secure the highest return it must secure removal of impediments to investment as well as to trade in goods and services.

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<sup>5</sup> This is not merely a matter of trying to measure the economic impact of restriction on a foreign provider of service. All major statistical agencies warn that there are significant definitional difficulties in measuring trade in services. There appears to be consensus that trade in services is likely to be larger than current statistics suggest (WTO, 2001a; WTO, 2002a; WTO, 2002b; World Bank, 2001).

Since it is easier to innovate in bilateral and regional agreements than multilateral agreements, the trend to widen the use of instruments to enhance “deeper integration” as Robert Lawrence styled it as early as 1994 (Lawrence 1994) occurs in them before the WTO.<sup>6</sup> Such agreements are the contemporary instruments for deep economic integration based on neoliberal economic principles. In a comprehensive review of these agreements and their economic impact, a World Bank report (2000: 3) describes them as “Regional Integration Agreements”. They could equally be described as “Free Market Agreements”. The report, drawing on earlier work by Schiff and Winters, commends such agreements for achieving “deep integration.” provided they are properly framed. (World Bank, 2000: 13; Schiff and Winters, 1998a, 1998b).

The case of a Free Trade Agreement between Australia and the United States clearly demonstrates the point. If business can operate freely in each economy, the economic benefit will be great. Since tariffs are on average very low, except in some areas of agricultural trade, which now accounts for about 20 percent of Australian exports (APEC Centre 2001) and with capital movements between the two countries now matching trade flows, deeper integration is secured by removing restrictions on investment and movement of personnel as well as cross recognition or harmonization of standards and facilitating greater competition. The rules of the WTO do not permit such deep integration today and will not do so for a long time, if ever. It is in the self interest of Australia and the US to achieve deeper economic integration.

### **Concern about trade diversion**

Free market economists (Bhagwati, Greenaway and Pangariya 1998) fret when they see threats to the multilateral trading system, given its fundamental importance to global prosperity. They have their Australian counterparts, traditionally Rattigan and Carmichael<sup>7</sup>, and most recently, Garnaut (Garnaut 2000). There has been an upsurge in development of regional agreements over the last decade. 200 have been notified to the WTO, one hundred since 1995 (World Bank, 2000: 2). Sixty percent of them

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<sup>6</sup> The Australia New Zealand Free Trade Agreement (1988) removed barriers to trade in services and provided for harmonization of standards. The EC Single Market Agreement (1989) removed barriers to investment, provided for mutual recognition of standards and qualifications and freedom of movement of personnel. The North American Free Trade Agreement created a legal right to invest (Scollay, 1996). The WTO established multilateral rules to liberalize services in 1994, but does not facilitate the “deeper integration” that the aforementioned agreements facilitate among their members.

<sup>7</sup> Although in Australia the GATT/WTO has not been universally supported. Bill Carmichael and Alf Rattigan, doyens of the free trade community in Australia, were part of the school of economists who harboured suspicions of the GATT for fostering mercantilism. The GATT was based on the principle of reciprocity. They read this to mean countries would not liberalize unless others did. Australian officials certainly invoked the principle for a long time to justify retention of high levels of protection of Australian manufacturing on the grounds the EC and the US were not reducing protection of their agricultural sectors. It is this writer's view that this mercantilist critique of the GATT failed to appreciate the liberalizing effect of the commitment in the rules to apply whatever reductions in protection were agreed to by other members of the GATT. This negated the consequences of any effort by members of the WTO to secure mercantilist advantage from the GATT. If Governments wanted to be protectionist, they would be. The GATT did not give them new opportunities to do so. To the contrary, it exerted consistent pressure on those countries which provided protection, as the record of Australia's participation in the WTO reveals. Ann Capling's history (2001) of Australian involvement in the WTO makes this clear.

entail regional and bilateral agreements with the European Union (EU) and flow on from the completion of the Single Market Program in 1992 (World Bank, 2000).

Not all arrangements promoting the expansion of trade among countries have the desired effect. For example, if countries reduce barriers to trade among themselves and retain high trade barriers with other countries, the impact on economic welfare can be negative. The theoretical case for the potential negative economic impact of bilateral and regional agreements when trade diversion exceeds trade creation is well established (Viner, 1950).

This is why free market economists are inclined as a matter of principle to advise against bilateral or regional free trade agreements. There is apprehension that interest in negotiating regional and bilateral free trade agreements and customs unions in the last dozen years or so threatens the authority and effectiveness of the WTO system. The way in which the European Community protects its agricultural markets clearly illustrates the case.

The European Community is a Customs Union. Members agree to remove barriers to trade among themselves and apply a common tariff on imports from outside. It is similar to a Free Trade Agreement in which members agree to remove barriers to trade among themselves, and continue to apply higher, but not common, tariffs on trade with other countries. The use of these rules is positive for the economic welfare of the countries of the EU and its trading partners where they apply to industrial products, but negative in the case of agricultural products (ERS, 2002: 6).

Under the Common Agricultural Policy, the EU fosters freedom of movement of agricultural products within the European Community (although this freedom is only partial). The EU maintains very high barriers against imports from outside the EU. This makes EU farmers prosperous and attracts investment into the EU farm and agricultural industry. The economic cost to the EU is high. Consumers pay much more for food than they would otherwise need to (ERS, 2002: 6). Investment is diverted into food industries which, if directed instead to more globally competitive industries, would produce an economic gain to the EU. The economic cost is greater than the benefit. The Common Agricultural Policy diminishes wealth in the EU rather than increasing it.

The Vinerian analysis allows simple policy prescriptions to ensure that trade diversion is obviated in an FTA or Customs Union. The policy tools to guard against the risk of trade diversion have been well known for some time, but little recognized in Australia, despite the fact that Australia participated in one of the most successful demonstrations of them. It was a New Zealand scholar (Scollay 1996, and 2001: 1141-2) who pointed out that, as in the case of Australia and New Zealand, a bilateral FTA can work without creating trade diversion, provided members also progressively reduce trade barriers with countries outside the agreement. Among Australian academics, this was only really recognised by Peter Lloyd (1999). Another relatively obvious point is that diversion is only a risk if the trade barriers to be reduced in an agreement are high.

Since the rise of regional and bilateral agreements, new concerns have been aired. One is concern that with so many overlapping obligations and systems of regulation

(Snape, (1994) called it the “hub and spoke” effect when referring to NAFTA, and Bhagwati (1998) calls it the “spaghetti bowl” effect, referring to the myriad set of relationships among European economies) there are anti-liberal effects. These reduce to two: one, adoption of different rules of origin when free trade agreements are negotiated, creating regulations and paperwork, the administration of which itself impedes trade; and two, facilitation of the emergence of contingent protection (anti-dumping, countervailing and safeguards). (Bhagwati).

Some rules of origin, such as those for textiles and automobile parts in NAFTA have protectionist effects which are deliberate. This is a different issue to the argument that administration of several sets of rules of origin create administrative bottlenecks. The empirical effect of administration of rules of origin appears not to have been assessed. One would have to suspect however that with the introduction of paperless customs administration, the transaction cost of processing must be falling. Bhagwati may have a point if bilateral and regional agreements permit differential standards of treatment when contingent protection is applied. However, the economic effect is minor compared to the problem of the increase in protection through the global rise in the use of contingent protection. This is the cause at root where this problem must be tackled.

Various efforts have been made to assess empirically the overall economic effects of regional and bilateral agreements. In a comprehensive study in 1994, the OECD concluded that there was no concrete evidence that these agreements caused trade diversion (OECD 1994). It noted, also, that FTAs often serve the purpose of stepping-stones to global liberalization in the multilateral system. Writing for the WTO, Heydon (2002: 19) concluded that there is in fact a “symbiotic relationship” between the multilateral and bilateral processes, “with Regional Trade Agreements drawing on agreed provisions from the multilateral system and the multilateral system picking up regional initiatives.”

As noted above, a major study of the impact of regional agreements was also undertaken by the World Bank (2000). It assessed key regional agreements to see if they diminished or enhanced economic welfare, this being the key measure of whether or not regional agreements undermine the multilateral trading system. The results were inconclusive: in some cases weak evidence of trade diversion was found, in other cases no evidence was found. The ultimate conclusion was that “it is not possible to conclude that trade diversion has been a major problem” (World Bank, 2000: 48). Although some of the empirical findings on FTAs were inconclusive, the report unambiguously affirmed positive effects for countries forming FTAs which facilitated “deep integration”.

### **An Australian/US Free Trade Agreement – impacts on third countries**

In Australia the debate about the economic effects of Free Trade Agreements has crystallized over the Government's desire to negotiate a free trade agreement with the United States.<sup>8</sup> Garnaut (2002) has made the most detailed critique. The argument is political, but is supported by economic assessment. The economic conclusion is that trade and investment in Asia will be diverted and that the economic benefit to

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<sup>8</sup> This in itself is interesting. Previous Government interest in negotiating Free Trade Agreements with ASEAN, New Zealand, Singapore and Thailand have not drawn the same criticism.

Australia is small. The political argument is that Asian nations will retaliate against what they will perceive to be systematic discrimination in trade, and that Australia's interests in increasing trade and economic integration with Asia will be damaged.

Garnaut's conclusion that the agreement will damage Asia's trade and investment interests is based on an analysis showing that it will divert trade and investment away from Asian economies. Garnaut relies on the results of two econometric analyses of the impact of removal barriers to trade in goods by an FTA, both found in a report by the Centre for International Economics, commissioned by the Department of Foreign Affairs and Trade (Garnaut, 2002: 129, CIE, 2001). Garnaut (2002: 135) draws out three points. First, the analyses show some trade diversion (which Garnaut describes as "noticeable") in the areas of automobiles and clothing and textiles; second, total exports from Asia to Australia would fall, and third, the expected rate of return on investment in most Asian economies would fall due to trade diversion.

Garnaut leaves an impression that Asian economies will be worse off, presuming an impact sufficient for them to be stimulated to retaliate against Australia in some way. However, the analyses do not conclude that Asian economies will be worse off. One of them concludes that the overall effect of an FTA on other countries will be expansion of total trade (CIE, 2001: 26). The second analysis concludes that there would be no negative impact on the real GDP of the trading partners of Australia and the US (CIE, 2001: 41).

Garnaut also treats the results of the econometric modeling as if they are real. The analyses set out the standard warnings about the limitations of the data (CIE, 2001: 19, 30, 32, 37). Such modeling is also indicative. The smaller the results, the less indicative they are. The data shows how small the effects on third countries are. One model (CIE, 2001: 42) suggests one effect on Asian economies is a reduction in the rate of return on capital among our Asian trading parties of between 0.01 percent to 0.03 percent.

The smallness of the results is also shown on the trade effects. For argument's sake we will accept the numbers in the studies as real rather than indicative. According to the analyses, Japan would lose nearly A\$297 million in auto exports each year to Australia, but would gain \$100m per annum in auto exports to the US. China would lose \$104 million a year in exports to Australia, but would gain \$24 million in exports to the US. The data predicts the six older core ASEAN economies, between them, would lose \$70 million in exports (CIE, 2001: 43).

Garnaut's assertion that these results would stimulate all Asian Governments to point to systemic discrimination against Asian economies is difficult to sustain. Japan has some reason for complaint in the case of trade in automobiles and auto components. It has already made its case in Canberra and it would be in Australia's interests to address this issue. There are several options to do so.<sup>9</sup> Would China regard the loss

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<sup>9</sup> The obvious solution is to make any tariff reductions on automobile tariffs MFN reductions so that they apply to all auto imports. One should also not presume that the outcome on automobiles in an FTA will be early removal of all tariffs in trade with the US. The Productivity Commission has recommended an attenuated program of tariff reduction for the industry. Since US owned auto companies are beneficiaries of existing arrangements, it is unlikely that they would push for early removal of all tariffs.

of US\$80 million from annual exports worth US\$ 4.5 billion , and the six ASEAN core economies the loss of US\$ 70 million from annual exports of US \$ 7 billion, as systemic discrimination? This seems unlikely.

The responses of these Asian Governments if they did conclude an FTA caused systematic discrimination<sup>10</sup>, need to be assessed within the context of their own trade policies and bilateral relations with Australia. If morality counts for anything in trade (and indeed it counts for very little), ASEAN is in no position to complain about systematic discrimination in trade. The ASEAN Free Trade Area (AFTA) systematically discriminates against traders and investors outside ASEAN, such as Australia, as was noted when the Arrangement was first analyzed by the Australian Department of Foreign Affairs and Trade (DFAT, 1994). China itself has proposed a Free Trade Agreement with ASEAN, putting itself in no position to complain about Australia entering FTA's.

If there is anything new in Asian trade policy in relation to Australia, it is not hostility but interest in enhancing economic integration with Australia through bilateral agreements. Australia and Singapore are completing a free trade agreement and negotiations on an agreement between Thailand and Australia have begun. Japan, the country at least with something prospectively to complain about, has proposed a bilateral agreement to strengthen the economic relationship. There is no reasonable basis for a supposition that an FTA with the US would generate antagonism towards Australia. There is an implication by Garnaut that an FTA with the US may stimulate an intensification of a trend towards development of regional agreements among East Asian economies which exclude Australia. This issue is canvassed in a later section.

### **The benefits of a US/Australian FTA are significant**

Garnaut's other criticism is that the real economic benefits to Australia are lower than claimed by the economic analyses commissioned by the government. They predicted an annual increase over time of US\$2 billion in additional Australian exports to the US (CIE, 2001: 22). Garnaut's observation is that it is unlikely that all US barriers to Australian agricultural exports will be removed, negating a large part of that gain, and most of the benefit to Australia will be from removal of Australia's own trade barriers. While impossible to quantify, it would not be unreasonable to postulate that the prospective economic benefits to Australia of an FTA will be at least double the US\$2 billion forecast by the DFAT modeling. The reasoning behind this follows.

#### *Agriculture*

It is unlikely that full liberalization of agricultural trade will be achieved in an agreement. Nevertheless, substantial additional access for agricultural products can be secured. The US will have to make some concessions, having agreed to negotiate an FTA. It is reasonable to expect increases in access for meat. If the quota were removed, the additional export value to Australia would be several hundred million Australian dollars.<sup>11</sup> The Australian meat industry favors an FTA for that reason. The

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<sup>10</sup> and this presumes their officials would find it necessary or important to comb through the minutiae of the two econometric studies.

<sup>11</sup> Industry assessments rate the increase at between A\$200 and A\$800 million, depending on world price and market demand.

dairy industry which also supports an FTA, can reasonably expect to secure some new access. The US dairy market is virtually closed. The US accepted in the WTO Uruguay Round that it has to begin allowing small increases in access. The market is very large. A small amount of access would mean significant exports for Australian dairy exporters. It should also be noted that in the NAFTA Agreement, Mexico was able to negotiate valuable commitments for increased access over the long term (i.e. 10 or 15 years) (NAFTA, 1993). This would be a sensible strategy for Australia's sugar industry to pursue.

### *Increased competitiveness*

Given Garnaut's own history,<sup>12</sup> it is surprising he would dismiss the benefits to Australia of committing to reduce its own trade barriers in an FTA. Garnaut contends that Australia can secure such benefits unilaterally. In reality, this hasn't occurred. The Australian Government is yet to indicate how it will fulfill the APEC Bogor commitment to remove all barriers to trade and investment by 2010. It agreed to a pause in the process of tariff reductions for automobiles and clothing and textiles and has remained silent on what to do in the future, although it has commissioned a review by the Productivity Commission on options for further tariff reductions. By all judgments, the Government could do with some encouragement to undertake further reductions of protection.

Australian industry, as represented by AUSTA (the Australian business group for a free trade agreement with the United States),<sup>13</sup> supports an FTA precisely for the benefit it will confer, by making the Australian economy more competitive. The case for this is now commonly made in international economic bodies, but has been barely recognized in Australia. The case is the benefit of what the World Bank calls "deep integration", as noted earlier.

As discussed above, the World Bank study *Trade Blocs* (2000) analyzes the benefits to be gained by industrialized economies forging regional integration agreements with a deep integration agenda. According to the report, opportunities exist to secure economies of scale and the benefits of enhanced competitiveness, provided the agenda is wide-ranging. Of necessity, the agenda must include removal of barriers to trade in services, and freedom of movement of capital and personnel. The study draws the conclusion that these economic benefits can be secured more quickly through such agreements than through the more laborious and constrained processes of the WTO.

The economic benefits of an FTA to Australia have been significantly understated. The econometric modeling of the type referred to above does not cater for the dynamic effects of trade liberalization, that is, the additional spurs to growth which liberalization encourages. Modeling is also unable to quantify the benefits for investment promotion which the endeavor of negotiating an agreement generates (the "head turning" effect of drawing the attention of US investors to the Australian market), nor the benefits from freer flow of capital, freer movement of people, or cross recognition of standards and professional qualifications.

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<sup>12</sup> Ross Garnaut worked on trade liberalization policies during the Hawke era.

<sup>13</sup> The group has around thirty members comprising companies and industry associations from all sectors of the economy. For details see [www.austa.net](http://www.austa.net)

### *Competing in the Information Age*

There are two further substantive gains for Australia from an FTA with the US. The first is an extension of the previous point. Both the US and Australia have made dramatic gains in improvement of productivity over the last decade. There is some debate about the precise causes, but common to both countries has been the application of Information Technology (IT). Major gains in key services industries have been secured, most noticeably in distribution and logistics, but flowing into all industries of the economies. The platform for these improvements has been open and competitive services sectors, particularly telecommunications and financial services. These have become the strategic sectors for competitiveness in the Information Age. Australia has major gains to secure from an FTA by securing deep integration of Australia's telecommunications and financial services industries with those in the US market.

There is no question that greater use of IT will be pioneered in the US market. The knowledge gains for Australian business of being able to operate freely in that market will ensure Australia maintains global standards of competitiveness as we move further into the Information Age.

### *Securing access*

The second gain is more mundane, but very important. Use of anti-dumping and countervailing duties to restrain trade has become one of the more mendacious instruments of protection. The use of anti-dumping and countervailing duties to restrain trade is often used by the European Commission and the US Administration, the latter directed by laws passed by Congress. US industry is very effective in using the threat of such contingent protection to harass competitive importers. Not only do they face the an average cost of US\$2 million to defend cases, the increased risk to business occasioned by the threat of disruption to trade is a bigger stick for intimidating competition.

In the early 1990's BHP got caught up in a general action triggered by the US steel industry to restrict imports. The US investigative procedures found that BHP was receiving a subsidy from the government of less than two percent (BHP always contended this was inaccurate), but it was enough to justify imposition of duties on imports, which drove BHP out of a high value steel market. The export loss to Australia was worth over \$100 million a year. During the Howe Leather dispute, US officials made it known that if Australia did not comply with the WTO ruling requiring removal of subsidies, they would impose penalty tariffs on other Australian imports, including wine. Wine exports to the US have risen from A\$43 million per year in 1992 to over A\$500 million in 2001 (ABS, 2002).

Australia's export pattern with the US has changed dramatically over the last 10 years. The fastest growing sector is manufactured products (APECSC, 2001: 106). Last year, wine and manufactures accounted for half of Australia's exports (APECSC, 2001: 110). This trend will continue. As more businesses enter the US market, there is a greater risk some will face the same sort of treatment BHP received. Countries which have Free Trade Agreements with the United States receive more favorable

treatment when contingent protection is applied. Under the North American Free Trade Agreement, Canada and Mexico are entitled to separate processes of review. Both were exempted by those provisions from the imposition of temporary safeguard tariffs on steel in 2002. Under an FTA, Australia can gain legal assurances to security of access to the US market and protect the access as competitive Australian manufacturers increase their presence in the US market.

### *Protecting investment*

In 2000 Australia was the eight largest owner of US assets (APECSC: 15). Australian investment was greater than that from France or Japan (APECSC: 15). In 2001, the stock of Australian direct investment in the US was \$A98 billion (ABS 2001). The annual level of investment in the US in several years between 1995 and 2000 was greater than the level of exports, which themselves increased at record levels (ABS 2001, 2002). This is a new and striking interest in the US economy. Along with the steady rise of manufactures (APECSC, 2001: 106), the increase in investment marks a dramatic change in the character of Australia's economic relationship with the US. The pattern is likely to continue. Australian superannuation funds are growing and are likely to continue to invest in the world's biggest economy to secure the returns they require.

Under the North American Free Trade Agreement, foreign investors in each of the three countries are accorded a legal right to national treatment. While the US market is relatively open, the US has a large number of county administrations and State Governments. Under a bilateral FTA, Australian investors in the US market could secure the same rights of protection.

### *Defending a stake*

The United States will continue negotiating Free Trade Agreements regardless of the decisions of other economies. These agreements are becoming a new measure of how important countries are to the US. They also create avenues for countries to secure preferential positions in the US market. Australia considers itself one of the US's closest allies in the Asian Pacific region, yet, if Australia failed to secure a US FTA, the only country in East Asia with a US FTA would be Singapore. This would represent a relative weakness in the Australia-US relationship.

The US has committed to negotiate a Free Trade Agreement of the Americas, extending a free trade zone over North and South America. This is a development of great historical significance. The US is embarking on a broad policy to build new cooperative relationships with Latin America, replacing nearly a century of military intervention and hostility. It complements the process of "latinization" in the US. The competition for space on the international policy agenda in Washington is intensifying. Furthermore, some of Australia's major competitors in global agricultural markets (Brazil and Argentina) will be seeking preferential access to US agricultural markets, not only through the FTAA initiative, but also through a proposal for a relationship between NAFTA and Mercosur. It would speak ill of Australian diplomacy if these countries secured preferential access to US agricultural markets and Australia did not.

There is a case for Australia to seek an FTA with the US in order to maintain the current stake in US interests, and to ensure that stake is protected.

### **America versus Asia**

A clear flavor in criticism of an FTA with the US is that this will damage Australia's interests in securing closer economic integration with Asia. This is Garnaut's fundamental argument. It is shared by others, such as Fitzgerald (1997).

The first duty of any government is to protect the economic welfare of its own people. One can deduce from the arguments of the Asian integrationists that the political goal of building relationships with East Asian Governments might have a higher priority than enhancing national economic welfare. Garnaut argues that if Australia missteps, it will jeopardize the hard work in building trade relations in East Asia (now accounting for about 50 percent of Australian exports (DFAT, 2001)<sup>14</sup> and that it will foster inclinations to exclude Australia from emerging regional groupings.

It is true that Australia's exports have grown faster with East Asia than the rest of the world over the last decade (DFAT, 2001). However, the following are also true: firstly, that Australia's two-way investment with Europe and the United States has grown at a much greater rate than with East Asia (reflecting among, other things, that Australia's services sector, the biggest sector in the economy, has significant gains to secure in the industrialized world, and less in East Asia which will not develop services sectors comparable to those in the industrialized world for some time yet); secondly, in the latter half of the nineties, Australia's exports to the US and to the Middle East grew faster than with any other region (DFAT, 2001); and thirdly, half of Australia's exports go to destinations outside East Asia.

The important conclusion to draw from this is that Australia is a global trader and that two-way investment has become economically as, and arguably more, important to Australia than trade in goods. Inward investment has always been important. Outward investment is rapidly gaining a new importance, and this will continue as national savings for superannuation continue to rise.

It is not in Australia's interest to seek to direct trade and investment growth towards any region for political reasons if there is an economic cost. It is in Australia's interests to encourage economic integration with markets in all major regions. One reason the Asian economic crisis did not significantly impact on Australia was the importance to Australia of trade and investment with the rest of the world.

Will negotiation of an FTA with the United States damage Australia's interests in Asia? There is no dissent from Garnaut's presumption that maintenance of close relations with East Asian economies is a high priority in foreign policy. Despite occasional contentions in the political arena that one side of politics is more or less committed than the other to engagement with Asia, objective analysis must lead one to conclude there is virtual bipartisanship on this issue among the major political parties in Australia.

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<sup>14</sup> It should be noted this figure includes trade with New Zealand which has in the past accounted for about 25 percent of Australia's exports.

There is nothing to point to in political utterances by Governments in the East Asian region to suggest an FTA with the US represents disinterest by Australia in Asia. Criticism of Australia from Malaysia or Indonesia over areas of bilateral tension do not constitute such a general view. A more sobering reality is that the desire for regional economic engagement between Australia and East Asia to which Garnaut and Fitzgerald attach such high priority does not seem to be matched in several East Asian capitals. It was the Mahathir Government which blocked proposals to merge AFTA and CER, not Australia (and for economic reasons as much as political – Malaysia has consistently resisted commitments within AFTA (the ASEAN Free Trade Area) to remove trade barriers, in particular, to its very highly protected automobile sector. It was ASEAN which proposed exploration of an economic community comprising ASEAN plus three (China, Japan and Korea), and China which proposed a free trade area between China and ASEAN. It was Malaysia which blocked Australia's membership of the Asian European dialogue (ASEM).

It is clearly discomfoting for some that Australia appears to be being excluded from regional arrangements. To what extent is this important? To twist Groucho Marx's dictum that any club which wanted him as a member was not worth joining, are the groupings of concern worth joining, ie, will they achieve anything? The idea of an East Asian economic community with common economic institutions such as a common currency is so far from economic reality that it is unrealistic, as more reflective analysts among ASEAN economies are now pointing out (Tay, Estanislao & Soesastro, 2001). Most of the trade of most East Asian economies is with economies outside East Asia, in particular with the United States, and this will continue to be the case for a considerable time yet. A China/ASEAN FTA which has anything more than political symbolism will be difficult to create. The momentum for liberalization within AFTA has stalled.<sup>15</sup> There is also apprehension among ASEAN economies about competing with China (some ASEAN officials are saying privately ASEAN agreed to the proposal for a China/ASEAN FTA because they felt they could not say 'no' to China). As for concern about Australia's being "excluded" from ASEM, the logic of that is hard to discern. ASEM was a European initiative to enable European governments to establish linkages with East Asian economies which they perceived APEC was providing to others, particularly the US. As a founding member of APEC, Australia already had such linkages. Furthermore, because ASEM has no core purpose other than dialogues, it is withering on the vine.

If these regional arrangements have no significant economic effect and principally serve political purposes, will that matter to Australia? One would have to question what political value they will serve, since significant strategic and political rivalries lie just the below the surface in East Asia. China and Japan will increasingly vie for leadership of the region. Apprehension about domination by big powers is a standard preoccupation among ASEAN countries. They are not going to allow institutions to develop which give one power leadership advantage. As a defense against domination by major powers, a long tradition in the region is to invite other major powers to be engaged. This is a key reason APEC is likely to grow in importance as a

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<sup>15</sup> Although ASEAN countries have regularly reduced timetables for achieving their reduction targets, the liberalizing effect of AFTA will be small. It covers little trade (most trade of most ASEAN economies is with countries outside ASEAN) and ASEAN countries, most recently Malaysia over automobile tariffs, have been reluctant to accept effective commitments.

forum for managing political relations among Asian Pacific economies. Its appeal is that it brings the United States into play in the game of balancing the influence of major Asian powers.<sup>16</sup>

APEC's weakness is that it remains excessively focused on trade liberalization as the vehicle for regional integration. It is clear in the aftermath of the Asian currency crisis that there is an urgent need for East Asian Governments to refocus on the importance of well functioning market institutions. It is clear today that high trade barriers are not the problem of flagging growth in East Asia, it is poor policy. Australia should seek to reorient APEC's core focus onto macroeconomic policy for the next decade.

Australia should use opportunities such as an FTA with the US, as well as with Singapore and with Thailand, to seek the deep integration recommended in the World Bank report and to foster greater market reform in the APEC region. This will help to revitalize the organization, encourage a focus on fundamentals in the region, and advance Australia's broad goals of fostering open economic policies regionally.

There is disposition among Asian economies to agree to negotiate regional or bilateral trade or economic agreements which have weak economic provisions for political reasons. This is the likely direction in which any China/ASEAN FTA will move. The danger for Australia is that over time more effective economic provisions will be negotiated which discriminate against Australian trade. An effective strategy to guard against that risk is to complete bilateral trade agreements with individual Asian economies, as well as to continue to press for global trade liberalization through the WTO. The bilateral agreements will secure access to those markets and enhance integration with particular economies and create a case to involve Australia if the point is reached where regional agreements acquire any economic teeth. If any discriminatory treatment results from regional or bilateral agreements, this will be come less significant as global levels of protection fall as multilateral liberalization proceeds.

### **And the role of the WTO?**

A particular concern about an Australian US FTA is that in pursuing it, Australia diminishes somehow the importance of the WTO and the prospects for securing advantage for Australia through the WTO.

The mere fact that bilateral and regional agreements are proliferating does not mean the authority or effectiveness of the WTO is diminished. What matters is the economic effect of the agreements. If they foster trade diversion and diminish the economic welfare of members, then they undermine the effectiveness of the WTO which was established to secure the opposite result. As discussed earlier, there is no evidence that this is the general effect.<sup>17</sup>

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<sup>16</sup> This is not regarded as important by some supporters of Australian political integration with Asia. Fitzgerald disparages APEC as a "white man's club" because it includes the United States. Unlike most other Australian analysts, Fitzgerald advocates a degree of "Asianization" of Australian political culture to ensure integration. See Fitzgerald (1997), *Is Australia an Asian Country?*.

<sup>17</sup> It is also regularly asserted that Australia could not negotiate a Free Trade Agreement with the US which complied with the WTO rules because this would require the US to agree to fully liberalize agriculture. It is asserted incorrectly that an FTA must achieve complete liberalization in all sectors to

Some seem to argue that Australia encourages this general trend if it negotiates Free Trade Agreements itself. Australia is not responsible for the proliferation of bilateral agreements (if anyone was, it would be the EU) and is not in a position to stop this process. If significant interests can be advanced by negotiating an FTA then self-interest surely appears more important than adherence to a principle of which the veracity has not actually been established.

A further, rather banal point which is made is that if Australia negotiates an FTA, it is diverting resources away from other goals which could produce a bigger result, such as lobbying to alter the US Farm Bill, or lobbying in the WTO, or leading the Cairns Group. This is no reason why this should necessarily be the case. The experience of Australia and other countries over the last decade and a half in fact argues to the contrary. During the Uruguay Round, several countries demonstrated that they could negotiate bilateral and regional agreements at the same time as they negotiated in the WTO. The Uruguay Round was the most far-reaching and innovative round in the history of multilateral trade negotiations. While it was being negotiated, the EU completed the Single Market Agreement, the US negotiated NAFTA and Australia and New Zealand negotiated ANZCERTA. Governments can manage simultaneous negotiations.<sup>18</sup>

No foreign government could have influenced the development passage of the US Farm Bill, and certainly not the Australian government. To believe this is possible is to misunderstand the nature of law making in the US. Australian politicians and officials and farm groups may make loud noises complaining about such developments, however most of them know their audience is not US Congress or the Administration, but Australians listening at home.<sup>19</sup>

Suggestions that Australia would be better off negotiating with the US on agriculture in the WTO rather than in a bilateral format reflect a misunderstanding of both the opportunity presented by an FTA and how the WTO negotiations work. Levels of protection in the WTO are so high that quotas have been introduced to facilitate

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comply. A reading of the relevant Article of the GATT (Art XXIV.6) is recommended (the agreements must cover "substantially all" trade) and a study of the processes of review in the WTO is recommended. If the rule were so interpreted, most customs unions and free trade agreements would have been ruled inconsistent. The process is more flexible than is understood by those who argue this).

<sup>18</sup> Another critique is that Australia's authority to lead the Cairns Group of agricultural exporters in the WTO would be diminished if Australia negotiated an FTA with the US. This apprehension reflects a misunderstanding of the basic dynamic which drives the Cairns Group. Members of the group understand that they have competing interests in world markets but that the aim of collaborating in the WTO is to act there in common interest. The Group was formed on that understanding and it continues to apply. There have been many instances where individually members of the Cairns Group have acted competitively in individual markets, but have still actively collaborated in the WTO.

<sup>19</sup> It should also be noted that the economic significance of the Farm Bill in Australia has generally been overstated. It does not increase subsidies, as generally contended, but will maintain them at existing levels. This is demonstrated by the appropriations advice which accompanied the Bill in the Congress. There is also no point linking a case for changes to the Farm Bill to progress with an FTA. The Farm Bill sets subsidies, it does not determine access to the US market. The most effective forum to seek reductions of US farm subsidies is the WTO. The Farm Bill also will not finance a flood of agricultural exports into the US market as recently contended by Davidson (*The Age*, Opinion Section, 13/6/02). Even with subsidies, US producers who depend on them are not efficient enough to enter the Australian market.

increased access. A bilateral negotiation with the US creates an opportunity to leverage for greater access. The advantage of the bilateral is that it is a “one-to-one” negotiation. In the WTO such negotiations are also “one-to-one”, however, they are conducted in parallel, so that the negotiations compete with each other. In practice then, the type of negotiation to occur in an FTA is the same as that in a multilateral negotiation, except that the circumstances are more favorable.

Furthermore, the reality is that no negotiation on agriculture can be expected in earnest in the WTO until 2004 or 2005. The only real pressure for change will be when the EU decides to settle its policy on agriculture as part of the terms of entry of the next tranche of members. It could defer that until 2006, requiring an extension of the Doha Round. On this scenario, the most optimistic guess about when agriculture negotiations in the WTO will conclude must be 2006. Implementation of new commitments will start after that, and will be subject to phasing in. It is clear that an FTA can be completed well within that time frame. It is also clear that it presents an opportunity to negotiate access to the US market in advance of negotiations in the WTO.

### **FTAs – tools for the times**

The decision by the Australian Government to negotiate Free Trade Agreements, first with Singapore, then Thailand and then with the US, and even to initiate discussions with Japan over an economic integration agreement, represents a departure from policy which tended to concentrate on achieving trade liberalization through the WTO. This has become a subject for debate in Australia.

The debate has had two strands. Intertwined in the argument that Australian trade policy should continue to give priority to the multilateral forum has been an interest in promoting economic integration in East Asia. There is no automatic intellectual linkage between these strands. One cannot be achieved without the other. The linkage is a policy preference of its advocates. In this respect, one cannot but wonder that if among those who make the link that there is apprehension about strengthening the relationship with the United States.<sup>20</sup> It is notable that a chorus of concern about bilateral and regional agreements only arose in public debate in Australia when the proposal to negotiate with the US was floated. The idea of linkage between ANZCERTA and AFTA should have been grounds for concern about undermining the WTO because AFTA itself offends many key liberal principles of effective liberalization.<sup>21</sup> Yet AFTA has been described by Australian academics who advocate priority in policy for Asian economic integration was as an example of “open regionalism”.<sup>22</sup>

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<sup>20</sup> Again there is no automatic intellectual linkage between the idea that we intensify relations with the US and that doing so diminishes close relations in Asia. In the view of this writer, it reflects a policy preference to contend that that is the case.

<sup>21</sup> See Robertson (1998). AFTA has a positive list approach to liberalization, initially, several areas were omitted from coverage and eligibility for preferential access is based on a reciprocity principle. The World Bank study (2000: 127) explains how some South-South agreements lead to negative results for poor countries.

<sup>22</sup> by Drysdale and Elek at the Australia Japan Research Centre at ANU

It is clear now that FTAs have acquired a new value in international relations. To a degree, they always served a political purpose of demonstrating closer relations with one country or another. However, in the era of globalization, this takes on a new dimension. They become a tool for accelerating integration of economies in a global economy where world trade is more open and global economic integration more intense than ever. This is not to say they should supplant the role of the WTO in fostering multilateral trade liberalization. It is vital to maintain the integrity of the multilateral trading system and the authority of the WTO to husband that system and the economic benefits it delivers.

At the same time, as argued above, countries must continue to act in their national self-interest. If Australia is to prosper in the global economy in the future, it must maintain or increase the global competitiveness of its economy. Setting the US economy as a reference point for Australia's competitive position is a sound strategy, given that the US is by far the most competitive economy in the world and likely to remain so. A Free Trade Agreement is a very effective means to this end. In the process of securing an FTA, important bilateral trade and economic interests can be advanced and protected. Suggestions that this must come at the cost of pursuing goals of economic integration with Asia, or of pursuing our interests vigorously and effectively through the multilateral trading system, ignores manifold examples in the recent past of how in international relations governments can do more than one thing at a time.

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