



Australian Government

Department of Foreign Affairs and Trade

13 September 2006

Ms Sharon Bryant
Inquiry Secretary
Standing Committee on Economics, Finance and Public Administration
Department of the House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Ms Bryant

Inquiry into the state of Australia's manufactured export and import competing base now and beyond the resources boom

Attached is a submission by the Department of Foreign Affairs and Trade to the House Standing Committee on Economics, Finance and Public Administration, in relation to its inquiry into the state of Australia's manufactured export and import competing base now and beyond the resources boom. The submission has also been emailed to you.

The Department has no objection to the Committee publishing the Submission on its website if it so wishes.

Yours faithfully

Nic Brown
Acting First Assistant Secretary
Trade Development Division

Attachment A

Submission to the House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into the state of Australia's manufactured export and import competing base now and beyond the resources boom

Australia's Manufacturing Industries

**Department of Foreign Affairs and Trade
September 2006**

Submission to the House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into the state of Australia's manufactured export and import competing base now and beyond the resources boom

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Executive Summary

Australia's manufacturing sector and export performance

The manufacturing sector contributes importantly to the Australian economy, including to exports. In 2005, the manufacturing sector accounted for 12 per cent of Australia's gross value added (net output), 11 per cent of total employment and 21 per cent of total goods and services exports.

Australia's manufacturing exports grew strongly through the 1990s, supported by robust productivity growth, a declining exchange rate in the late 1990s and industry reforms. Between 2001-02 and 2003-04, manufacturing exports declined, reflecting factors such as the dollar's appreciation, slower productivity growth, weaker world demand and increasing competition from industrialising countries, especially China.

External factors such as weaker global demand and competition from emerging economies also affected the manufacturing export performance of other developed countries, including the US the UK and Japan, which also experienced static or declining manufacturing exports over this period.

Since 2003-04, growth in Australian manufacturing exports has recovered, increasing by 7 per cent in 2004-05 and by 12 per cent in 2005-06 to \$39.5 billion. Growth in 2005-06 was underpinned by an 8 per cent rise in Elaborately Transformed Manufactures (ETM) exports and a 22 per cent rise in Simply Transformed Manufactures (STM) exports.

Recent ETM export growth reflects, in part, industry specialisation in niche markets. Some Australian manufacturers are able to charge premium prices in niche markets that reflect superior design, performance and style.

Australian manufacturing is also becoming specialised and integrated into global supply chains. For example, Australia's automotive manufacturers and component producers are extensively integrated into global supply chains.

The recent growth in our STM exports, such as copper and aluminium, reflects strong demand in rapidly growing Asian countries for transformed raw materials as inputs for their production processes.

The role of trade policy in supporting manufacturing exports

Australia's manufacturing export growth has been supported by a wide range of government policies. These have included structural reforms which have enhanced the efficiency of product and labour markets and a robust macroeconomic framework. The pursuit of an extensive trade policy agenda through multilateral, regional and bilateral channels has seen trade barriers reduced substantially and opened up new markets for manufacturing exports.

Australia's manufacturing sector has been transformed since the 1980s, including through across-the-board tariff reductions and industry specific assistance packages. The reform has led to increased productivity and opened the manufacturing sector to greater international competitiveness, as well as an increased export orientation.

Growth in world manufacturing trade has been facilitated by substantial lowering of trade barriers in successive rounds of multilateral trade liberalisation. Manufacturing has been prominent in APEC's agenda since its inception, including in areas such as

automobiles and chemicals. For example, the Automotive Dialogue is focussed on the current status of the auto sector in the Asia Pacific region, and identifies barriers to growth, and develops mechanisms for APEC economies to address and reduce these impediments.

Manufacturing is an important part of Free Trade Agreements (FTAs) which Australia has entered into with New Zealand, the United States and Thailand. Collectively, these countries covered by these FTA's accounted for around 15 per cent of our total merchandise exports in 2005-06.

FTAs have eliminated tariffs for the vast majority of manufactured goods traded with FTA partners, with most of the remaining tariffs scheduled to be phased out. FTAs with Australia's key trading partners can provide more rapid gains for Australia than can be achieved multilaterally and address a broad range of trade and investment issues that reflect the reality of trade in today's world.

Australia's first FTA was with New Zealand and has served to facilitate strong growth in our manufacturing exports to New Zealand. Manufactures now account for around 51 per cent of Australia's exports to New Zealand and New Zealand is Australia's largest manufacturing export market. While the full benefits of more recent FTAs entered into with the United States and Thailand will take some years to be realised, there are some positive trends emerging - including in the manufacturing sector.

Australia is currently negotiating FTAs with China, ASEAN, and Malaysia, which collectively accounted for around 23 per cent of our total merchandise exports in 2005-06. A feasibility study on a possible Australia-Japan FTA is expected to be completed by the end of the year.

Developments in the world economy affecting the manufacturing sector

Australian manufacturers are being challenged by rapid industrialisation of emerging economies, especially China. Manufacturers who specialise in labour-intensive manufacturing and assembly are most likely to be adversely affected by China's rise. In contrast, there could well be more opportunities for manufacturers specialising in the production and export of components, capital goods and processed raw materials.

The rise of China and other large developing countries presents opportunities for Australia to exploit its comparative advantage in natural resources and 'high-end' goods and services to feed China's rapidly rising consumption. Australia is taking advantage of this complementarity. Australia's ETM exports to China have risen, on average, by 15 per cent each year since 2000-01, while STM exports have risen, on average, by 14 per cent a year over the same period.

Intra-industry trade — the extent to which similar products are concurrently exported and imported — has increased in recent decades. One factor contributing to this is the emergence of global supply chains to locate different stages of the production of final goods in countries with the lowest cost structure. Australia's manufacturing exports are growing in part because Australian manufacturers are integrated into global supply chains in a number of industries.

Intra-industry trade is also growing due to specialisation in product niches. This can allow manufacturers in Australia and other developed countries to continue to produce and export products even in industries where emerging economies have lower cost structures. For example, within the Textiles Clothing Footwear (TCF) industry Australia's overall comparative advantage has been declining yet Australia continues

to export fashion garments, but import other high quality fashion garments from Europe, and cheaper mass-produced clothing from Asia.

Over the past decade, the price competitiveness of Australia's manufactured exports has been affected noticeably by the strength in the dollar. During the late 1990s, when the Australian dollar depreciated, manufacturing export growth was relatively strong. In contrast, between 2001-02 and 2003-04, when the Australian dollar appreciated rapidly, manufacturing export growth was constrained. Since then, manufacturing export growth has recovered despite a relatively high dollar.

The current resources boom has probably had some adverse effects on manufacturing exports through the appreciation of the exchange rate, but has contributed to expanded markets for manufacturers who process raw materials as well as producers in the manufacturing sector who provide inputs to the resources sector.

Policies for realising opportunities

Australia's ability to continue to increase manufacturing exports will depend on maintaining a stable economic environment in conjunction with policies consistent with boosting the productivity and competitiveness of Australia's manufactures.

Successive multilateral trade rounds have resulted in significant reductions of barriers to trade in industrial products, although Australian manufacturers continue to face a range of barriers in overseas markets for their products.

In the Doha Round, a successful conclusion of the negotiations would see further reductions in tariffs on manufactures. However, progress has been held back by the continuing deadlock on agriculture. This deadlock led to a suspension of the Doha negotiations in late July. Australia is pushing for the negotiations to be recommenced as soon as possible.

Our current Free Trade Agreements with New Zealand, the United States and Thailand have eliminated tariffs for the vast majority of manufactured goods traded with these partners, with most of the remaining tariffs scheduled to be phased out. Under the Singapore-Australia FTA all tariffs between the two countries were eliminated when the agreement entered into force in July 2003. The in-built review mechanisms in our Free Trade Agreements can, over time, expand markets for manufacturing exporters, including through the opening up of the government procurement market (where this was not included in the initial agreement) and through addressing a range of non-tariff measures which serve to constrain trade.

In Australia's forward negotiating agenda on FTAs, the Government is seeking to make significant gains for manufacturers through the removal of tariffs and non-tariff barriers which serve to constrain trade and investment.

Austrade's extensive network of more than 140 overseas locations in over 60 countries will continue to offer practical advice, market intelligence and ongoing support, including financial help, to Australian businesses. Manufacturers looking to develop international markets stand to benefit from this extensive network given that underlying market trends point to a growing diversity of opportunities emerging across the globe, in regions as diverse as the Middle East, Western Europe, Latin America, and Central and Eastern Europe. Austrade expects to see continued opportunities in the food processing, automotive, chemicals and plastics industries in such markets. Solid growth in Australia's defence and aerospace industries is also expected, though coming from a smaller base.

I - Australia's manufacturing sector and export performance

The contribution of the manufacturing sector to the economy

The manufacturing sector contributes importantly to the Australian economy, including to exports. In 2005, the manufacturing sector accounted for 12 per cent of gross value added, 11 per cent of employment and 21 per cent of total goods and services exports (Table 1). In 2005, manufacturing production increased by 4 per cent, private capital investment in the industry rose by 31 per cent and in 2005-06 total manufacturing exports increased by 12 per cent.

Table 1: A snapshot of Australia's manufacturing sector

		2005	% y-o-y
Manufacturing production ₁	\$bn	324	4
Gross value added	\$bn	96.8	0.2
Manufacturing GVA as share of total GVA	%	12	
Employment	000s	1084	-0.4
Manufacturing employment as share of total employment	%	10.8	
Private capital expenditure	\$bn	14.8	31
		2005-06	% y-o-y
Total manufacturing exports	\$bn	39.5	12
Manufacturing exports as a share of total exports	%	21	
ETM exports	\$bn	26.8	8
STM exports	\$bn	12.7	22

₁: domestic sales of goods and services by the manufacturing sector plus change in inventories; DFAT estimate

Source: DFAT STARS database; ABS Cat: 5206.0; 6203.0; 5676.0; and 5625.0

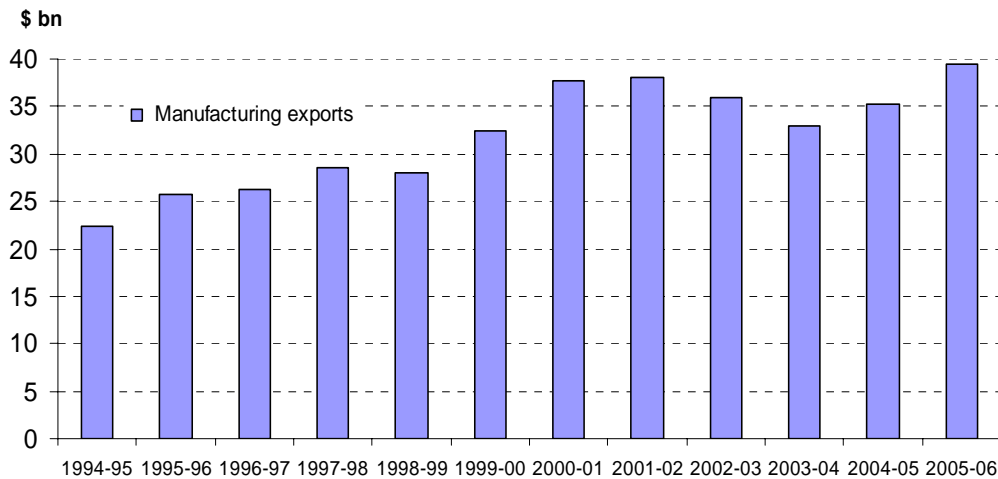
Box 1: Measuring manufacturing exports

Manufacturing exports can be measured using a product based definition or an industry based definition. DFAT adopts a product based definition of manufacturing exports in all of its statistics – which is consistent with WTO standards and is the general definition used by international agencies (WTO, IMF, UN, OECD) and by other government agencies (Treasury, RBA and the ABS). An industry based classification allocates internationally traded goods to the industry of original manufacture. Under this definition, all exports by a company operating in the manufacturing sector are classified as a manufacturing export regardless of nature. Using the product based measurement, manufacturing exports accounted for around 21 per cent of total goods and services exports in 2005-06.

Trends in Australia's manufacturing exports

Manufacturing exports grew strongly through the 1990's (Chart 1) on the back of robust productivity growth, a declining exchange rate in the late 1990s and industry reform. However, between 2001 and 2003, manufacturing exports declined, reflecting factors such as the dollar's appreciation; weaker global demand, slower productivity growth and increasing competition from industrialising countries, especially China.

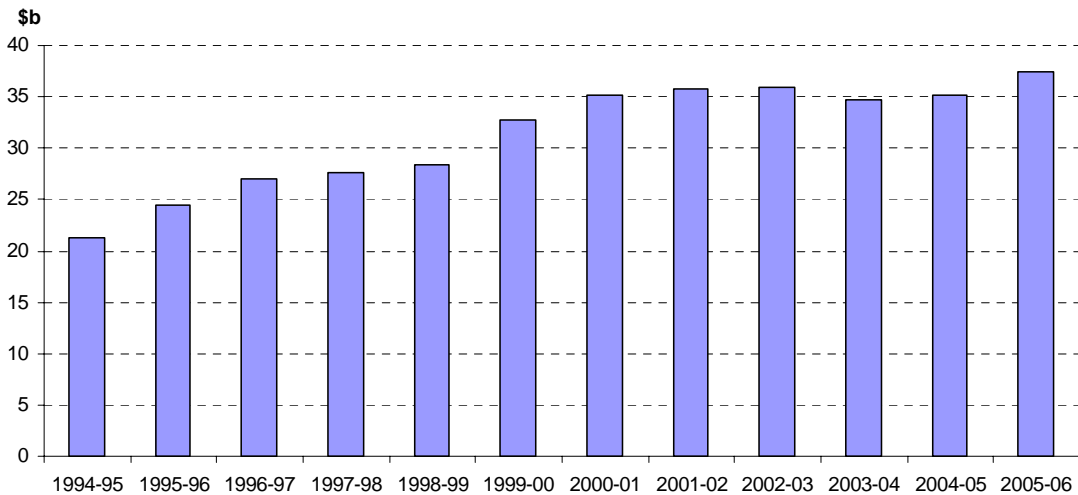
Chart 1: The value of Australia's manufacturing exports



Source: DFAT STARS database

The volume of manufacturing exports also grew strongly in the 1990's and peaked in 2002-03 before declining slightly in 2003-04 ([Chart 2](#)). Since 2003-04, growth in Australian manufacturing exports has recovered both in value and volume terms. This was due, in part, to strong global demand, particularly from China, and occurred despite a high dollar, large price rises for inputs, notably oil and steel, and strong competition from emerging economies, including China.

Chart 2: The volume of manufacturing exports



Source: ABS 5302.0

Box 2: Overview of Australia's recent trade performance

The value of Australia's total goods and services exports rose by 17 per cent in 2005-06 to a record high of \$192 billion. All major export categories (with the exception of rural exports) were higher in 2005-06—with the value of resource and services exports reaching record highs.

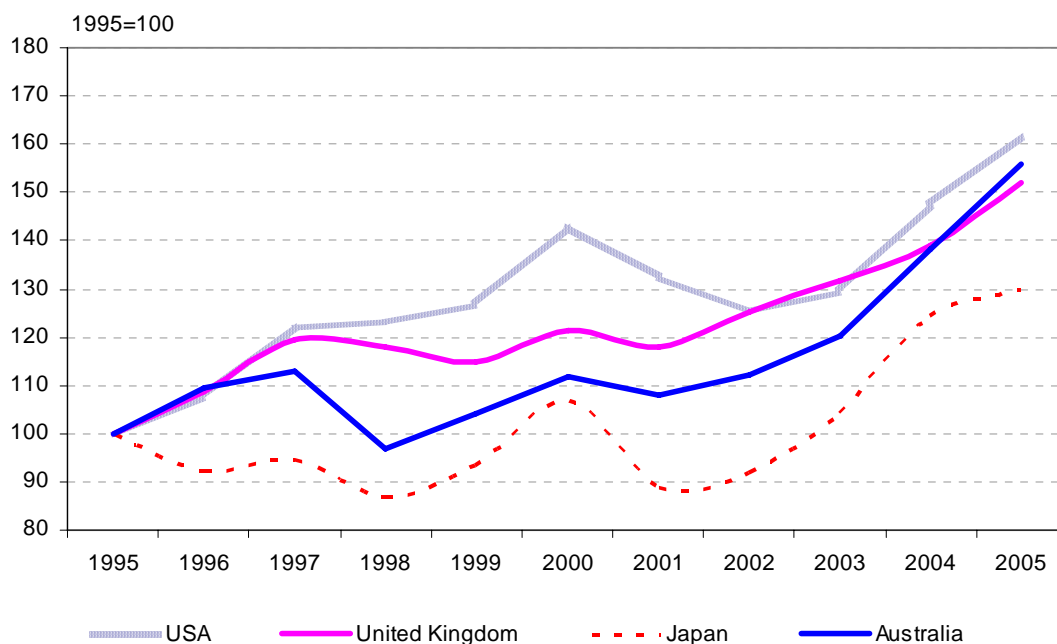
Composition of Exports

Resource exports grew by 37 per cent to reach \$66 billion supported by robust global demand and record prices for energy and metal-ores. Strong increases were recorded in exports of coal (up 42 per cent to a record \$24 billion) and iron-ore (up 54 per cent to a record \$12.5 billion). The value of energy exports was also higher in 2005-06 with crude petroleum up 5 per cent to \$6 billion and natural gas exports up 35 per cent to \$4.2 billion.

Manufactured goods exports increased by 12 per cent to \$39.5 billion in 2005-06 driven by robust world economic activity and higher prices for metal exports. Services exports rose by 5 per cent to reach a record \$38 billion driven by strong growth in overseas student enrolments in Australia. Rural exports fell by 2 per cent to \$25 billion in 2005-06 reflecting, in part, the carryover effects of poor seasonal conditions in late 2004 and early 2005.

Over the past decade Australia's manufacturing export growth has not been dissimilar to that of other OECD countries. Since 1995, in US dollar terms, Australia's manufacturing exports have grown on average, each year, by 3.4 per cent, compared with 3.2 per cent for the UK, 3.6 per cent for the US and 2.6 per cent for Japan (Chart 3).

Chart 3: Comparative manufacturing export growth (US dollars)



Source: UN Database

Table 2: The top 10 export destinations for Australian manufacturers

Manufactures Exports \$ '000	1999-00	Manufactures Exports \$ '000	2005-06
New Zealand	4,888	New Zealand	5,949
United States	4,091	United States	4,619
Japan	2,611	Japan	2,592
Republic of Korea	1,772	China	2,315
Hong Kong	1,700	Republic of Korea	2,110
Taiwan	1,473	Taiwan	1,901
United Kingdom	1,214	Thailand	1,744
Singapore	1,058	Hong Kong	1,738
Indonesia	982	United Kingdom	1,455
Malaysia	868	Indonesia	1,376
Total Manufactures Exports	32,410	Total Manufactures Exports	39,495

Source: DFAT STARS database

In 2005-06, Australia's major export destination was New Zealand, which accounted for 15 per cent of total manufacturing exports followed by the US, Japan and China. It is worth noting the emergence of China and Thailand as major markets for Australian manufacturers (Table 2). In 2005-06, China was Australia's 4th largest manufacturing export market, compared with 1999-2000 when China was ranked 11th and accounted for around \$834 million of exports. Thailand has risen from being Australia's 13th largest market in 1999-2000 to its 7th largest market in 2005-06.

Growth in ETM and STM exports

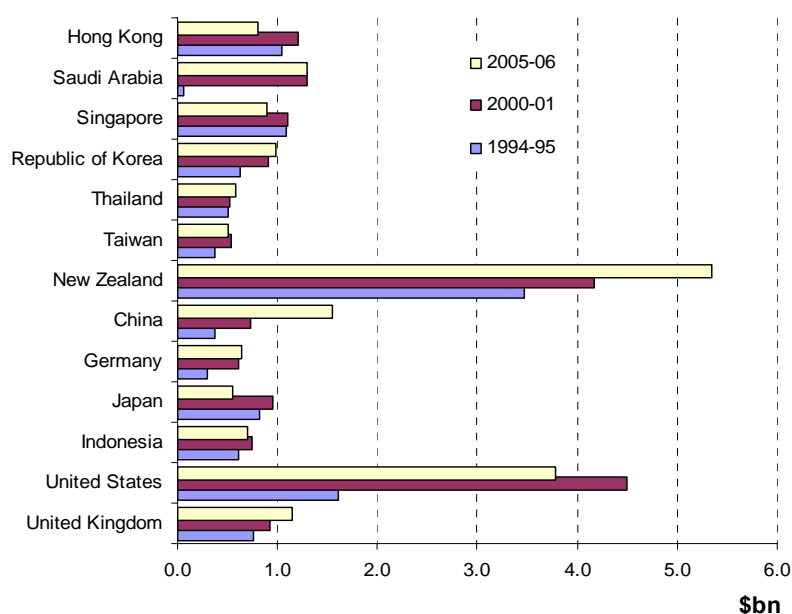
In 2005-06 ETM exports rose by 8 per cent to \$26.8 billion, accounting for 68 per cent of total manufacturing exports. Since 1995-96, ETM exports have grown each year by 4.5 per cent on average with much of the growth coming from exports to New Zealand, Saudi Arabia and China. ETM exports to Saudi Arabia have grown from just \$52.7 million in 1994-95 to \$1.3 billion in 2005-06, reflecting strong growth in motor vehicle exports. Australian ETM exports to China have grown on average by 15 per cent each year over the past 10 years and grew by 30 per cent in 2005-06 alone, reflecting strong growth of worked metals, medicaments and passenger motor vehicles. Exports to established ETM markets such as New Zealand and the US have grown, on average, each year by 8 per cent and 10 per cent respectively since 1995 (Chart 4).

Recent ETM export growth reflects, in part, industry specialisation in niche markets. According to a report by the Australian Industry Group (AiG)¹, some Australian manufacturers are able to charge premium prices in niche markets that reflect superior design, performance and style. The strong performance of professional, scientific and controlling instruments exports is an example of Australia's success in niche markets. These exports increased by 18 per cent from 2000-01 to \$1.7 billion in 2005-06 (Chart 5).

Australian manufacturing is becoming more specialised and integrated into global supply chains crossing national boundaries. For example, Australia's automotive manufacturers and component producers are extensively integrated into global supply chains. In 2005-06, Australia exported \$793 million worth of internal combustion engines and \$749 million worth of motor vehicle parts and accessories.

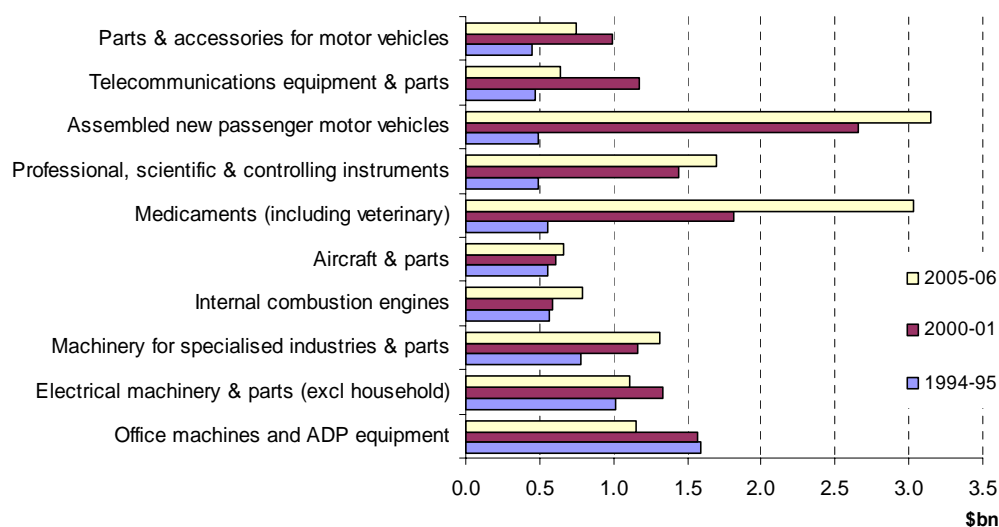
¹ Manufacturing Futures: Achieving Global Futures, Australian Industry Group (AiG) April 2006

Chart 4: Australia's major ETM export markets 1994-05, 2000-01, 2005-06



Source: DFAT STARS database

Chart 5: Australia's top 10 ETM exports, 1994-5, 2000-01, 2005-06



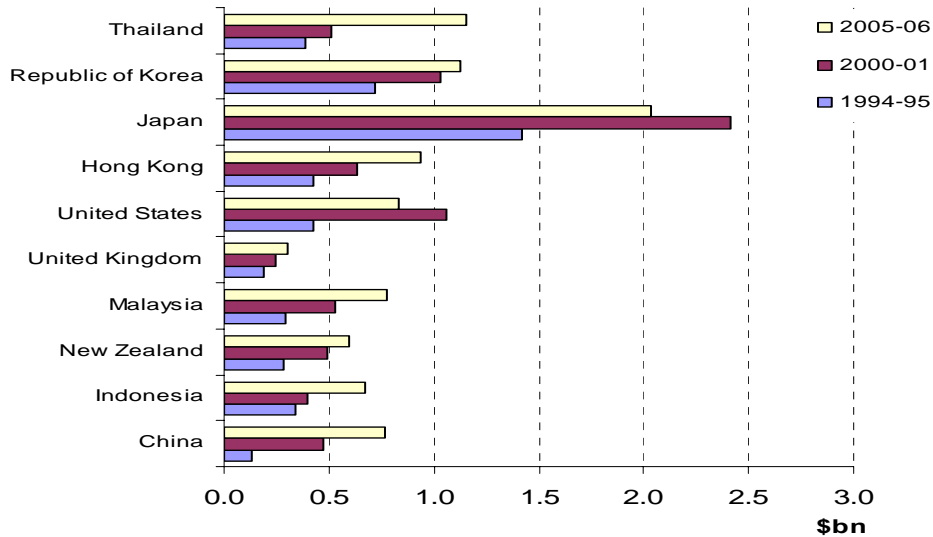
Source: DFAT STARS database

In 2005-06, STM exports rose by 22 per cent to \$12.7 billion, accounting for 32 per cent of total manufacturing exports. Since 1995-6, STM exports have grown on average by 4.9 per cent each year. Australian STM exports to China grew by 57 per cent in 2005-06 alone, reflecting strong growth of unworked metals. The recent growth in Australia's STM exports, such as copper and aluminium, reflects strong demand in rapidly growing Asian countries for transformed raw materials as inputs for their production processes.

Japan remains Australia's largest STM market, despite recent declines. There has been significant growth in STM exports to other countries in East Asia – in particular China and Thailand, and to a lesser extent Malaysia and Indonesia (Chart 6). The

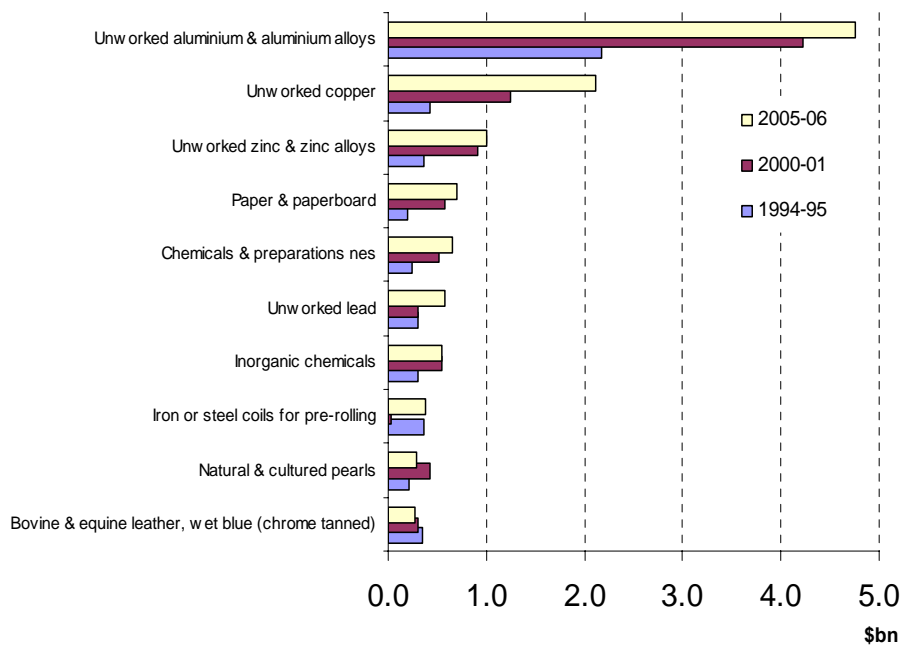
growth in exports to these destinations has been driven, in the main, by robust demand for unworked aluminium and unworked copper exports (Chart 7).

Chart 6: Major STM markets, 1994-05, 2000-01, 2005-06



Source: DFAT STARS database; Note: Because of statistical confidentiality, 2005-06 data excludes unworked nickel alloy exports valued at an estimated at \$2.5 billion.

Chart 7: Australia's top 10 STM exports, 1994-5, 2000-01, 2005-06



Source: DFAT STARS database

II - The role of trade policy in supporting manufacturing exports

Australia's manufacturing export growth has been supported by a wide range of government policies. These have included structural reforms which have enhanced the efficiency of product and labour markets and a robust macroeconomic framework. The pursuit of an extensive trade policy agenda through multilateral, regional and bilateral channels has seen trade barriers reduced substantially and opened up new markets for manufacturing exports. The government also provides a range of programs to assist exporters through Austrade.

Unilateral tariff reductions

Australia's manufacturing sector has been transformed since the 1980s, including through across the board tariff reductions and industry specific assistance packages. The reform has led to increased productivity and opened the manufacturing sector up to greater international competitiveness, as well as an increased export orientation.

The gross value added in the manufacturing sector has increased 20 per cent over the past ten years. At the same time, manufacturing employment has fallen 2 per cent (over the same period, total Australian employment rose 20 per cent). The openness of the sector is evidenced by rising import and export shares. Manufacturing imports as a share of domestic sales rose 7 percentage points to 40 per cent over the past decade and exports as a share of domestic production rose 2 percentage points to 19 per cent over the same period.

Outcomes from multilateral negotiations, including the Uruguay Round

Growth in world trade in the manufacturing sector has been facilitated by substantial lowering of trade barriers in successive rounds of multilateral trade liberalisation. There have been eight completed multilateral rounds of the General Agreement on Tariffs and Trade (GATT) since its inception in 1947. With each of these rounds, there have been improvements in the disciplines that provide a secure and predictable international trading environment.

In the Uruguay Round (1986-1993), textiles and clothing were brought back under GATT disciplines and there were further reductions in tariffs for industrial products of around 40 per cent.

Further details are provided in [Appendix A](#).

APEC

Manufacturing has been prominent in APEC's agenda since its inception, including in areas such as automobiles and chemicals. For example, the Automotive Dialogue discusses the current status of the auto sector in the Asia Pacific region, identifies barriers to growth, and develops mechanisms for APEC economies to address and reduce these impediments. The Chemicals Dialogue covers the trade and economic challenges facing industry and users of chemicals. The Market Access Group is concerned with tariff and non-tariff measures. Its recent work has focused on information technology products. It also established a database of tariffs maintained by APEC economies.

Further details are provided in [Appendix D](#)

Australia's Free Trade Agreements (FTAs) and exports of manufactures

Manufacturing is an important part of Free Trade Agreements (FTAs) which Australia has entered into with New Zealand the United States and Thailand. Collectively, these FTAs covered around 15 per cent of our merchandise export trade in 2005-06. The gains in our FTA with Singapore are concentrated in the services sector.

Our FTAs with New Zealand, the US and Thailand are comprehensive, liberal agreements and provide for the elimination of almost all products that Australia exports to these markets, either on entry into force or over a phased transition period. Zero tariffs already apply for all products exported to New Zealand and this will be achieved for Thailand over a transition period. Zero tariffs will also apply for almost all tariff lines exported to the US.

An important aspect of our FTAs, which is also WTO-plus, is the inclusion of government procurement commitments. Government procurement is an important market worldwide, generally constituting at least 10 to 15 per cent of a country's GDP. Government procurement commitments with New Zealand and the US ensure access to significant overseas markets, including for manufactured exports. The FTA with Thailand provides a framework for negotiating market access commitments on government procurement. The in-built review mechanisms under our FTAs can assist in reducing non-tariff barriers (as occurred under arrangements implemented with New Zealand to harmonise product standards).

Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA)

Australia and New Zealand signed the Closer Economic Relations (CER) Free Trade Agreement in 1983. ANZCERTA provides for concessional (duty free) access for goods that meet rules of origin tests, with most goods now qualifying. ANZCERTA is also the umbrella agreement for close cooperation across quarantine, customs transport, regulatory and product standards and business law issue, which have served to foster economic integration between the Australian and New Zealand economies.

Trade in manufacturing has been bolstered both by the initial reductions in tariffs and the subsequent measures adopted to promote economic and trade relations between the two countries. Exports of manufactures to New Zealand increased from \$625 million in 1982-83 to \$5.3 billion in 2005-06. Manufactures now account for around 51 per cent of Australia's exports to New Zealand and New Zealand is Australia's largest manufacturing export market.

Further details are provided in [Appendix E](#)

Australia United States Free Trade Agreement (AUSFTA)

The AUSFTA was implemented on 1 January 2005. More than 97 per cent of US tariff lines on industrial exports were eliminated on the entry into force of the AUSFTA, and the remaining tariffs will be phased out by 2015.

Overall, Australia's exports of manufactures to the US grew by 6.5 per cent in 2005-06 on the back of an 8.5 per cent increase in elaborately transformed manufactures.

Thailand Australia Free Trade Agreement (TAFTA)

TAFTA was implemented on 1 January 2005. Thailand reduced all industrial tariffs (previously up to 80 per cent) to a ceiling of no more than 20 per cent upon entry into force of TAFTA before phasing down to zero by 2010. Australia's manufacturing

exports to Thailand increased 31 per cent to \$1.7 billion in 2005-06. Copper exports increased 98 per cent to \$421.5 million and aluminium grew 38 per cent to \$629 million. Exports of pharmaceutical products rose 8 per cent to \$165.7 million and motor vehicle parts increased by 219 per cent to \$30.5 million.

Singapore Australia Free Trade Agreement (SAFTA)

SAFTA came into effect in July 2003. Market access gains under SAFTA are concentrated in the services sector as most Australia merchandise exports, including manufactures, had free access to Singapore before the FTA was concluded.

Prospective Free Trade Agreements

Australia is currently negotiating Free Trade Agreements with China, ASEAN (together with New Zealand) and Malaysia. In addition, a study is currently underway on a possible FTA with Japan and Australia has also agreed to study the possibility of an FTA with the Gulf Cooperation Council.

China FTA Negotiations

The Australian and Chinese Governments agreed in April 2005 to enter into negotiations on a FTA. This decision followed the completion of a joint feasibility study that showed significant benefits to both economies from a comprehensive and liberalising FTA. Modelling done as part of the study showed that the biggest gains to Australia would come in agriculture and services, as these are the Chinese sectors with the tightest trade and investment restrictions. Nevertheless, the modelling did show some overall gains for Australian manufacturing as a whole.

Further details are provided in [Appendix F](#)

ASEAN-Australia-New Zealand FTA Negotiations

On 30 November 2004, the Prime Minister and his counterparts from the 10 countries of ASEAN and New Zealand agreed to launch negotiations on an ASEAN-Australia-New Zealand FTA (AANZFTA). While tariffs on manufactured goods tend to be relatively low, peaks are evident in some sectors (such as automotive and aluminium).

Through FTA negotiations, Australia is also seeking to address non-tariff measures affecting Australian exports of manufactured goods. Australian industry has identified particular difficulties relating to inspection procedures, product labelling and testing requirements in many ASEAN countries.

Further details are provided in [Appendix G](#)

Malaysia-Australia Free Trade Agreement Negotiations

The announcement on 7 April 2005 by the Prime Minister and Malaysia's Prime Minister of Malaysia-Australia FTA (MAFTA) negotiations followed completion of parallel scoping studies by both countries. The study found that Australian manufacturing industries which could most benefit from an FTA include beverages, ferrous metals, and motor vehicles and automotive components. Barriers to Australian exports are important in areas such as processed foods and other manufactures including steel, chemicals, plastics and automotive products – tariffs on steel can be up to 50 per cent while for passenger motor vehicles they are 30 per cent which effectively block Australian products from the Malaysian market.

Further details are provided in [Appendix H](#).

Japan FTA study

Japan is Australia's top trading partner and in 2005-06 accounted for 20 per cent of our merchandise exports. It is expected that a feasibility study on a possible Australia-Japan FTA will be completed by the end of the year.

Possible Gulf Co-operation Council (GCC)-Australia FTA study

Australia has agreed to study the possibility of an FTA with the Gulf Cooperation Council, which is an important market for the Australian automotive industry.

Trade promotion

Austrade assists exporters with a network of more than 140 overseas locations in over 60 countries offering practical advice, market intelligence and ongoing support, including financial help to Australian businesses looking to develop international markets. Austrade also provides advice and guidance on overseas investment and joint venture opportunities, and helps put Australian businesses in contact with potential overseas investors.

In 2005-06, Austrade facilitated almost 3055 deals for Australian advanced manufacturing industries. On the basis of export sales, the top 4 markets offering opportunities for Australia's manufacturing exports were Japan (11.7 per cent), USA (8.1 per cent), China (5.9 per cent) and Singapore (5.1 per cent).

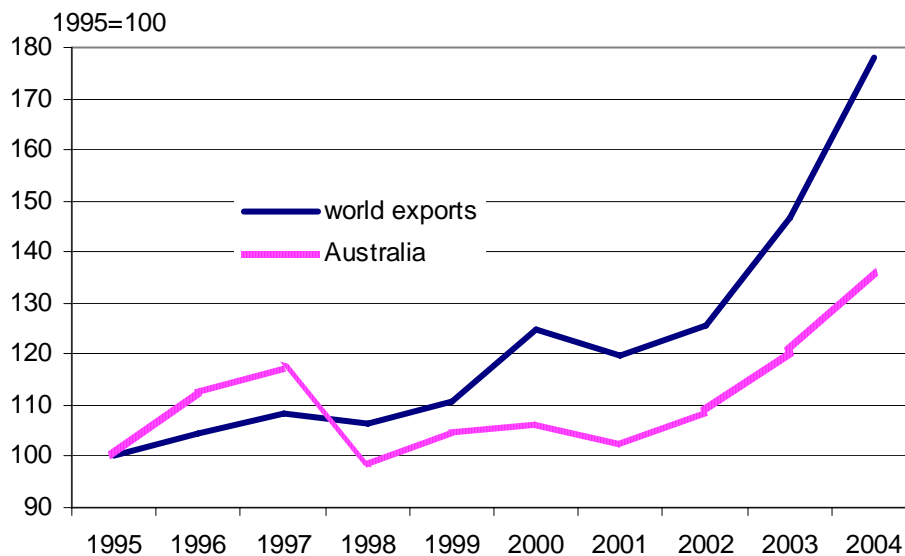
Further details of support provided to manufacturing exporters by Austrade are outlined in the Austrade submission to the enquiry.

III - Developments in the world economy affecting Australia's manufacturing sector

The global marketplace is changing rapidly. In particular, the emergence of China, growth in intra-industry trade in the manufacturing sector and the resources boom are greatly affecting Australian manufacturers.

Since 1995, world manufacturing exports have grown on average each year by 5.9 per cent, while Australia's manufacturing exports have grown, on average, each year by 2.6 per cent over the same period, in US dollar terms ([Chart 8](#)).

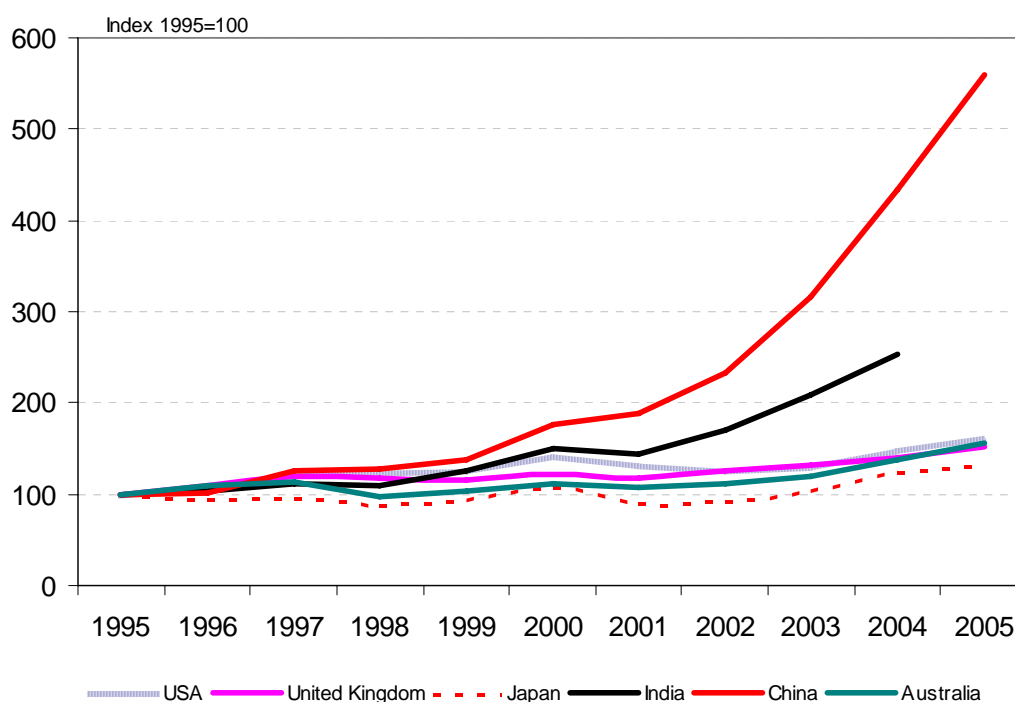
Chart 8: World manufacturing exports (\$US)



Source: UN Comtrade Database

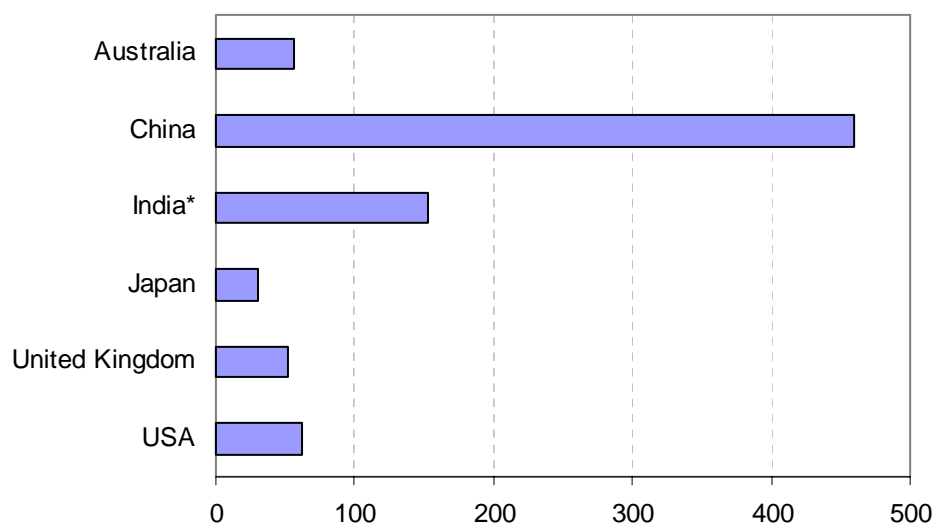
The strong growth in world trade has been driven largely by China. The rapid industrialisation of China is one of the most important developments for the global economy in recent times. China's recent trade growth has been very high relative to that of developed countries. Between 1995 and 2005, for example, China's manufacturing exports rose by around 460 per cent as compared with 62 per cent for the US, 52 per cent for the UK and 30 per cent for Japan ([Charts 9 and 10](#)).

Chart 9: Manufacturing exports by major countries



Source: UN Comtrade Database

Chart 10: Manufacturing export growth, 1995 to 2005, for selected countries



Notes: * data 1995 to 2004 ;Source :UN Comtrade Database

The emergence of China has coincided with increased specialisation along supply chains. Companies are seeking to locate different stages of production in countries with the lowest cost structure. As a result, there is growing dispersion of production processes - with assembly operations migrating to relatively low-wage countries, and the production of components taking place in higher-wage countries.

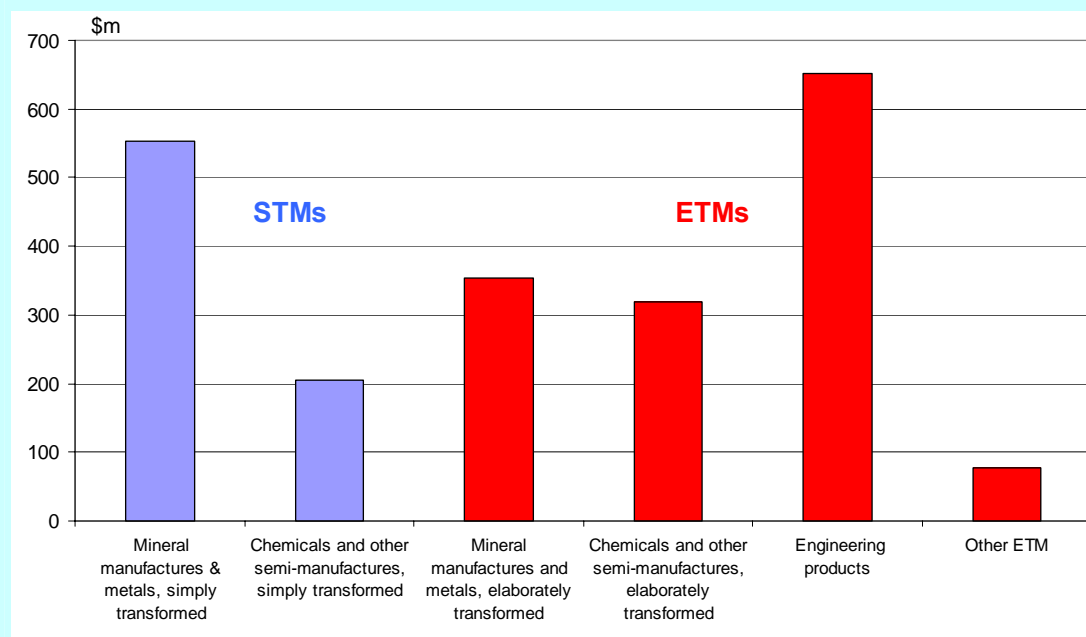
While there are a range of views about how quickly China will move up the value chain, its international trade will for a long time reflect its relative abundance of

labour. This suggests that China will continue to export mostly labour-intensive manufactures, and to import mostly processed raw materials, processed metals such as aluminium and copper (see Box 3) and capital-intensive manufactures.

Countries which specialise in labour-intensive manufacturing assembly are most likely to be adversely affected by China's rise. In contrast, countries specialising in the production and export of components, capital goods and raw materials are more likely to be favourably affected. The rise of China and other large developing countries presents opportunities for Australia to exploit its comparative advantage in natural resources and the processing of these resources and 'high-end' goods and services, although more labour-intensive sectors are likely to face increasing competition.²

Box 3: Australia's major manufactured exports to China

Around 42 per cent of Australia's manufacturing exports to China are processed metals. This includes 70 per cent of STM exports such as unworked aluminium and 20 per cent of ETMs which includes products such as copper. When processed metals are added to resources these products accounted for around \$9 billion, equivalent to around 55 per cent of Australia's total merchandise exports to China in 2005-06.



Australia's top 5 ETM exports to China are: worked nickel; paints, pigments and varnishes; worked aluminium and aluminium alloys; passenger motor vehicles; and medicaments. In 2005-06, these exports accounted for 44 per cent of Australia's ETM exports to China.

Australia's top 5 STM exports to China are: unworked copper; unworked aluminium; unworked zinc; paper and paperboard; and bovine and equine leather. In 2005-06, these exports accounted for 86 per cent of Australia's STM exports to China.

² Treasury Budget papers 2005-06

The rise of global intra-industry trade

Intra-industry trade — the extent to which similar products are concurrently exported and imported — has increased in recent decades. One factor contributing to this is the emergence of global supply chains to locate different stages of the production of final goods in countries with the lowest cost structure.

Australia's manufacturing exports are growing in part because Australian manufacturers are integrated into global supply chains in a number of industries. For example, in 2005-06, Australia exported \$793 million worth of internal combustion engines.

There are also examples of intra-industry trade growing due to specialisation in product niches. This can allow manufacturers in Australia and other developed countries to continue to produce and export products even in industries where emerging economies have lower cost structures. For example, within the TCF industry Australia's overall comparative advantage has been declining yet Australia continues to export fashion garments, but import other high quality fashion garments from Europe, and cheaper mass-produced clothing from Asia.

The competitiveness of the manufacturing sector and the exchange rate

The competitiveness of Australian manufacturing exports reflects both price and non-price factors. For homogenous commodities, price competitiveness—including the strength of the dollar—is a key factor.

Movements in the exchange rate can affect the competitiveness of commoditised manufactures where an appreciation of the exchange rate cannot be easily passed through to the overseas customer. For instance, where producers absorb an exchange rate appreciation, they may be able to maintain their market share in the export market, but profitability (when sales are repatriated in Australian dollars) will be affected.

Over the past decade, the price competitiveness of Australia's manufactured goods has been affected noticeably by the strength in the dollar ([Chart 13](#)). During the late 1990s, when the Australian dollar depreciated, manufacturing export growth was relatively strong. In contrast, between 2001 and 2003, when the Australian dollar appreciated rapidly, manufacturing export growth was constrained. Since then manufacturing export growth has recovered despite a relatively high dollar.

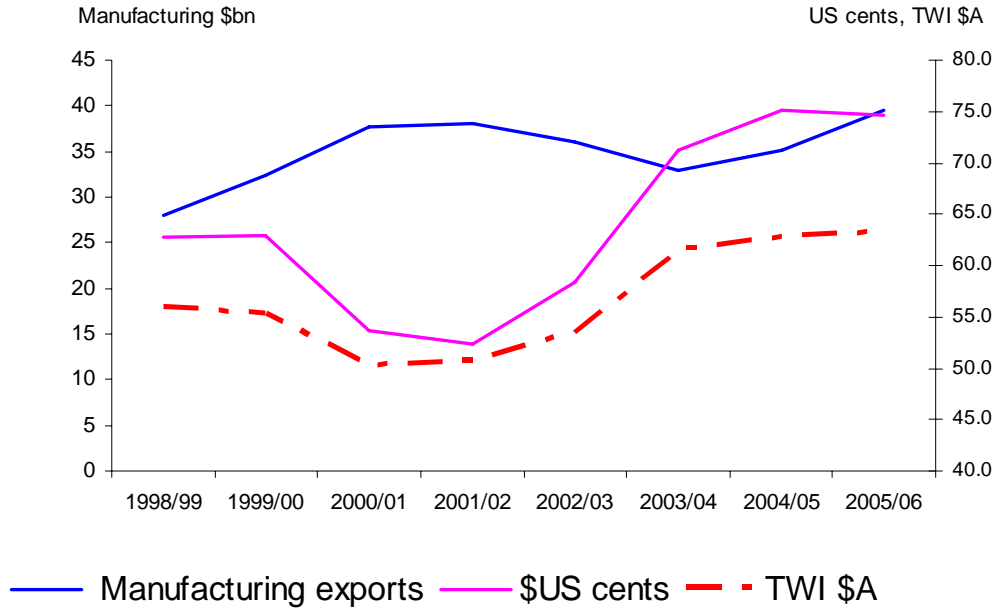
Over time there has been a relatively strong relationship between the Australian dollar and commodity prices. Hence, the current resources boom has probably had some adverse effect on manufacturing exports through the appreciation of the exchange rate, as well as on manufacturing firms in the import-competing sector. However, it has also contributed to expanded markets for those parts of the manufacturing sector which process raw materials as well as producers in the manufacturing sector who provide inputs to the resources sector.

A stronger dollar can also provide benefits to manufacturers who use imported inputs in their production processes. The prices for these inputs are lower than they might otherwise have been when the dollar is stronger.

The impact of a higher exchange rate will be less pronounced for more differentiated products such as ETMs, where innovation, design, style, uniqueness and reliability of supply can also be important selling features. For integrated supply chains that

involve long term investment, exporters' production decisions are less likely to be affected by short term price changes.

Chart 11: Australia's exchange rate and the value of manufactured exports



Source: DFAT STARS database; ABS Cat 5302.0

IV - Policies for Realising Opportunities

Improving productivity

Australia's continued export success in the manufacturing sector will depend on maintaining an active trade agenda as well as maintaining a stable economic environment in conjunction with policies consistent with boosting the productivity and competitiveness of our manufacturers.

Improving market access and removing trade barriers

Australian manufacturers continue to face a range of barriers in overseas markets for their products, although successive multilateral trade rounds have resulted in significant reductions of barriers to trade in industrial products. In addition, while a significant proportion of tariffs on industrial products have had binding WTO commitments made on them, this is not evenly spread across countries and products. There are also many instances where the WTO bound commitments are well above applied tariff rates, contributing to a lack of certainty on market access.

The Doha Development Agenda, or Doha round, was launched in November 2001 with an ambitious mandate for the reform and liberalisation of multilateral trade rules. The mandate currently agreed by WTO Members for the Doha round has the potential to result in improved market access for Australian exports of agriculture, manufactured products and services. A successful conclusion to the Doha negotiations remains the Government's top trade priority.

The current state of play in the Doha Round

Like earlier rounds of multilateral negotiations, there have been delays and interruptions. After a number of Ministerial meetings in 2006 where limited progress was achieved, the negotiations were suspended on 24 July, essentially because key WTO members could not agree on how to reform agriculture trade. Without movement on agricultural trade reform there will be no progress on opening markets in industrial products (including manufactures) and services. While no date has been set for negotiations to resume, Australia remains committed to these objectives and will be pushing for WTO Members to re-engage in the negotiations as soon as possible.

For more information on negotiations on Industrials (including manufactures) in the Doha Round see [Appendix B](#).

APEC initiatives

Work underway in APEC will continue to focus on reducing tariff and non-tariff barriers in the region. Areas of particular relevance to the manufacturing sector are sectoral work underway in the Automotive Dialogue and the Chemical Dialogue as well as the work of the Market Access Group which is concerned with tariff and non-tariff measures.

Current Free Trade Agreements (FTAs)

Australia's approach to multilateral trade through the World Trade Organization negotiations is combined with a practical approach to improving market access on a bilateral basis, particularly with key trading partners in our region.

Our FTAs with New Zealand, the United States and Thailand accounted collectively for around 15 per cent of Australia's total merchandise exports in 2005-06. These FTAs have eliminated tariffs for the vast majority of manufactured goods traded with FTA partners, with most of the remaining tariffs scheduled to be phased out.

In addition, the in-built review mechanisms contained in these agreements can over time facilitate new markets for manufacturing exporters. For example, government procurement is on the forward agenda of our FTA review with Thailand. Also, economic integration under an FTA umbrella can assist in reducing non-tariff barriers (as occurred with under arrangements implemented with New Zealand to harmonise product standards).

The AUSFTA (Technical Barriers to Trade chapter) provides a mechanism to facilitate the recognition of standards and technical regulations and to address other non-tariff barriers.

Prospective Free Trade Agreements (FTAs)

Australia is currently negotiating FTAs with China, ASEAN (together with New Zealand) and Malaysia. The countries included in these prospective FTAs collectively accounted for around 23 per cent of total merchandise exports in 2005-06.

The Australian Government in these negotiations is seeking to achieve an outcome that brings real commercial benefits to Australian business. The Government's view is that the FTA with China should bring about the elimination of all Chinese tariffs on Australian goods on a preferential basis. It will also be seeking to resolve as many as possible of the "beyond the border" barriers to trade and investment in the Chinese market (such as intellectual property, restrictions on investment and uneven customs regulation). An improvement across these issues would boost the capacity of Australian manufacturing companies to export to, and invest in, China.

In the case of our negotiations with ASEAN, while most tariffs on manufactured goods tend to be relatively low, peaks are evident in some sectors (for example, automotive and aluminium exports). Through FTA negotiations, Australia is also seeking to address non-tariff measures affecting manufacturing goods. For instance, Australian industry has identified particular difficulties relating to inspection procedures, product labelling and testing requirements in many ASEAN countries.

In the case of our negotiations with Malaysia, it is again the case that, while most tariffs on manufactured goods tend to be relatively low, peaks are evident in some sectors, including steel, chemicals, plastics and automotive products. Through FTA

negotiations, Australia will also be seeking to address non-tariff barriers that impact negatively on Australia's trade with Malaysia. For instance, local content requirements, non-automatic import licensing, and a general lack of transparency associated with government regulations. Malaysia also appears to apply a discriminatory rebate of excise taxes for national car manufacturers.

Further details are provided on FTA negotiations with China, ASEAN and Malaysia at [Attachment F](#), [Attachment G](#) and [Attachment H](#) respectively.

Supporting manufacturing exporters

Austrade will continue to assist exporters with its network of more than 140 overseas locations in over 60 countries offering practical advice, market intelligence and ongoing support, including financial help, to Australian businesses. Manufacturers looking to develop international markets stand to benefit from this extensive network given that underlying market trends point to a growing diversity of opportunities emerging across the globe, in regions as diverse as the Middle East, Western Europe, Latin America, and Central and Eastern Europe.

Within the broad spread of markets outlined above, Austrade expects to see continued opportunities in the food processing, automotive and chemicals and plastics industries. Solid growth in Australia's defence and aerospace industries is also expected, though coming from a comparatively smaller base.

Further details of programs to support Australia's exporters are provided in Austrade's submission to the inquiry.

Outcomes from past multilateral negotiations, including the Uruguay Round

Growth in world trade in the manufacturing sector has been facilitated by substantial lowering of trade barriers in successive rounds of multilateral trade liberalisation. There have been eight completed multilateral rounds of the GATT since its inception in 1947. With each of these rounds, there have been improvements in the disciplines that provide a secure and predictable international trading environment. With ever increasing membership and broader sectoral coverage, the multilateral trading system provides for the continuing process of trade liberalisation in which investment, job creation and trade can grow. While the Uruguay Round (1986-1993) did not liberalise as deeply as Australia wished, it did cover virtually every sector of world trade, bringing under its umbrella services and intellectual property. Agriculture was subject to new disciplines, textiles and clothing were brought back under GATT disciplines and further reductions were made in tariffs on industrials.

Outcomes of the Uruguay Round for industrial products included reductions in tariffs by around 40 per cent and an increase in security in the trading system by virtue of the large increase in WTO tariff commitments, especially by developing countries.

Additional security for negotiated reductions in trade barriers was provided by rules that ensure that countries do not use other trade measures to restore previous levels of protection.

The Uruguay Round also saw a number of sectoral arrangements including for agricultural equipment, chemicals, construction equipment, furniture, medical equipment, paper, pharmaceuticals, steel and toys, whereby those countries participating agreed to lower their tariffs in those sectors to zero.

The current state of play on negotiations on Industrials in the Doha Round.

The Doha Round mandate on non-agricultural market access (NAMA – previously known as industrials) provides for negotiations to further reduce or eliminate tariffs, including tariff peaks, high tariffs and tariff escalation, as well as non-tariff barriers (NTBs). All non-agricultural products, including manufactures, are covered by the negotiations with no a priori exclusions. In the WTO context, non-agricultural products include forestry, fish, minerals and energy products, as well as other industrial products. The negotiations are to take into account the needs and interests of developing countries, including through “less than full reciprocity” in tariff reduction commitments, and “flexibilities” in terms of product exemptions. The Doha mandate also separately provides that environmental goods are to be specifically considered.

Australia supports an ambitious outcome on NAMA negotiations that increases real market access in developed and developing countries alike. Many other WTO members have significant national interests involved in seeing a comparably ambitious outcome in NAMA. Australia’s overall aim is to cut tariffs, particularly high tariffs (e.g. greater than 15 per cent), tariff peaks (sensitive products with exceptionally high tariff protection) and tariff escalation (a tariff that rises with the increasing transformation of a product).

Non-tariff barriers (NTBs) are another element of NAMA negotiations. In 2003, many WTO Members, including Australia, lodged notifications on the types of NTBs faced by their exporters. The main priority in the negotiations has been for Members to develop specific proposals on NTBs that can realistically be progressed. However, limited progress has been achieved to date on this front. Australia sees benefits in ensuring progress is made in the specific negotiations on Trade Facilitation, as many of the NTB issues faced by Australian exporters involve customs issues such as fees and formalities connected with administration of trade regulations, and it is the Trade Facilitation negotiations which aim to address these issues.

NAMA negotiations have been primarily focused on the core issues of the tariff reduction formula and the range of coefficients that will determine the level of cuts to bound tariffs, the extent of flexibilities for developing countries and the treatment of unbound tariff lines (ie, those not bound after the Uruguay Round).

Another component of the NAMA negotiations is the sectoral negotiations. Participation is not mandatory, but interested members can participate in informal negotiations aimed at gaining even deeper tariff cuts in certain sectors. Key issues in the work on the sectoral component have been the selection of sectors, defining the product coverage for each sector, and the method for determining participation.

The NAMA Negotiating Group has held regular consultations and in late June the NAMA Chair released his report, “Towards NAMA Modalities” for submission to the Trade Negotiations Committee. The Chair’s report sets out the results of the negotiations to date and notes that the core issues remain unresolved. Progress in the NAMA negotiations is linked with progress in the agriculture negotiations; until there is progress on agriculture, the NAMA negotiations are likely to remain deadlocked. Major developing countries in particular are reluctant to offer tariff cuts in industrial

products until it is clear that agriculture markets in developed countries will be opened up.

With the suspension of the Doha round, the work of the NAMA Negotiating Group has also been suspended.

Barriers to trade in industrial products

Australian manufacturers continue to face a range of barriers in overseas markets for their products, although successive multilateral trade rounds have resulted in significant reductions of barriers to trade in industrial products. In addition, while a significant proportion of tariffs on industrial products have had binding WTO commitments made on them, this is not evenly spread across countries and products. There are also many instances where the WTO bound commitments are well above applied tariff rates, contributing to a lack of certainty on market access.

The WTO provides an opportunity to address trade barriers at the multilateral level with the 148 other WTO members. The Doha Round negotiations would be binding on all WTO members. However, tariff commitments are likely to be made from WTO bound tariffs, which in the case of a number of WTO members, particularly developing countries, are above the tariff rates currently applied. As well, developing countries will receive flexibilities in terms of commitments they will be required to make. Security of access is likely to be enhanced through further WTO tariff bindings on the part of developing countries, but improvements in market access for non-agricultural products may be more limited and focused in areas such as seafood and mineral and metals products.

As tariffs on manufactured goods are reduced, non-tariff barriers are becoming increasingly important as barriers to trade. Such non-tariff barriers can include lack of transparency; certainty in trading conditions including customs procedures; lack of uniformity in use of standards for products; poor enforcement of intellectual property; non-science-based quarantine systems; arbitrary administrative import requirements; burdensome technical regulations and restrictions on mobility of business people. Such non-tariff barriers continue to cause uncertainty and less than full access to markets.

APEC's role in promoting economic integration in the Asia-Pacific

APEC's main focus is on promoting economic integration in the Asia-Pacific region. Since its inception it has made a strong contribution to freer movement of goods, services, capital and people in the Asia-Pacific region in several ways. APEC trade ministers have contributed substantially to progress in the DDA negotiations in areas such as tariff reductions and trade facilitation. At the sectoral level, the Automotive Dialogue seeks to discuss the current status of the auto sector in the Asia Pacific region, identify existing barriers to growth, and to develop effective mechanisms for APEC economies to cooperate in addressing and reducing these impediments. The Chemicals Dialogue is a forum in which officials and industry representatives from Member Economies discuss trade and economic challenges facing the chemical industry and users of chemicals. The Market Access Group is concerned with tariff and non-tariff measures. Its recent work has focused especially on information technology products. It also established a database of tariffs maintained by APEC economies.

In 2005, APEC leaders endorsed the Busan Roadmap to the Bogor Goals and welcomed, in particular, one element of the Roadmap – the Busan Business Agenda (BBA). The BBA responds to the specific concerns of the business community by incorporating a goal of further reductions in trade transaction costs by five percent by 2010, a comprehensive business facilitation program, and new work on intellectual property rights, anti-corruption, investment, and secure trade. All sectors, including manufacturing, can benefit through regional initiatives on these issues under APEC auspices. APEC is supported in its work by an active APEC Business Advisory Council (ABAC).

Australia New Zealand Closer Economic Relations

The Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA or CER) came into practice in 1983. As well as underpinning bilateral trade in goods and services, CER is the umbrella for close collaboration across quarantine, customs, transport, regulatory and product standards and business law issues.

CER built on a series of earlier preferential trade agreements between Australia and New Zealand, including the original NAFTA (the 1966 New Zealand and Australia Free Trade Agreement). By the late 1970s, NAFTA and its predecessors had led to the removal of tariffs and quantitative restrictions on 80 per cent of trans-Tasman trade. CER provided for the progressive implementation of a free trade area between the two countries, with the elimination of all remaining tariffs and quantitative restrictions by 1995 for goods meeting ANZCERTA rules of origin.

Since its inception in 1983, ANZCERTA has undergone three general reviews. These accelerated the free trade in goods, providing for the elimination of all remaining tariffs and quantitative restrictions by 1 July 1990, five years ahead of the original schedule. The agreement was widened to include trade in services from January 1989. CER was deepened to harmonise a range of non-tariff measures that affect the flow of goods and services, including in respect of quarantine and customs issues, standards and business law.

Australia New Zealand Trade

Australia's exports of goods and services to New Zealand reached \$11.7 billion in 2005³, up from \$1.5 billion in 1982, the year before CER was implemented. Growth in exports to New Zealand was very strong in the 1980s, particularly in the years following implementation of the CER, with annual growth averaging 12.9 per cent. In the 1990s annual exports growth averaged 9.9 per cent, and in the 2000s annual exports growth to New Zealand has averaged 5.9 per cent.

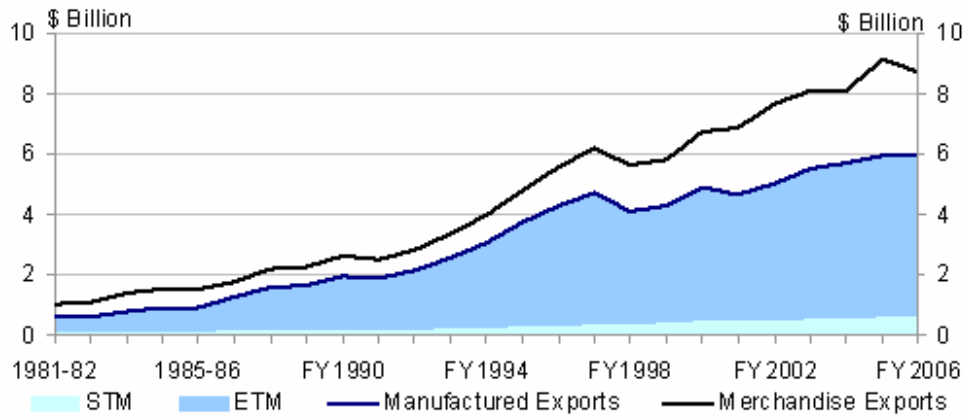
Australia's Manufacturing Exports to New Zealand

New Zealand is Australia's top export market for manufactured goods. Manufactured exports to New Zealand have grown from \$625 million in 1982-83 to \$5.9 billion in 2005-06 (Chart 2). In that year, manufactured exports accounted for 68 per cent of Australia's merchandise exports to New Zealand. Manufactured exports to New Zealand grew very strongly in the 1980s, by an average of 16 per cent per year, as tariff reductions in an otherwise highly protected trading environment created clear incentives for trade. While slowing to 11 per cent in the 1990s and to around 4.5 per cent in the 2000s, manufactured exports to New Zealand have remained robust and retain their key importance within the trade relationship. Elaborately Transformed Manufactures account for the majority of Australia's goods exports to New Zealand. Key items are passenger motor vehicles, medicaments, IT equipment, perfumes and cosmetics, and paper products.

³ The last full year available for total exports including services.

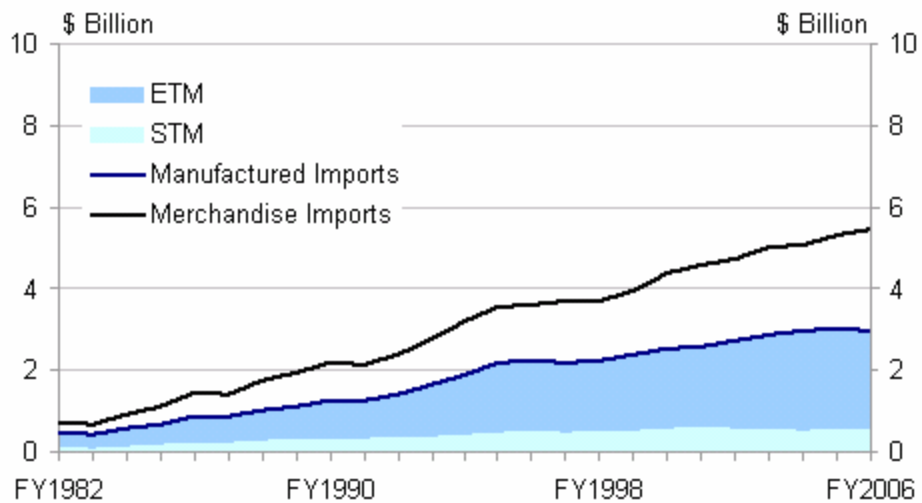
Manufactured imports from New Zealand have grown from \$430 million in 1982-83 to \$3.0 billion in 2005-06 (Chart 3). Once again they account for the majority (54 per cent) of New Zealand’s merchandise exports to Australia, and ETMs form the major part. Some key import items are paper and paper board, household equipment, and heating and cooling equipment.

Chart 1: Manufactured Exports to New Zealand



Source: DFAT STARS Database.

Chart 2: Manufactured Imports from New Zealand



Source: DFAT STARS Database.

China FTA Negotiations

The Australian and Chinese Governments agreed in April 2005 to enter into negotiations on a Free Trade Agreement (FTA). This decision followed the completion of a joint feasibility study that showed significant benefits to both economies from a comprehensive and liberalising FTA. Modelling done as part of the study showed that the biggest gains to Australia would come in agriculture and services, as these are the Chinese sectors with the tightest trade and investment restrictions. Nevertheless, the modelling did show some overall gains for Australian manufacturing as a whole.

The Australian Government is seeking in the negotiations to achieve an outcome that brings real commercial benefits to Australian business. In the view of the Australian Government, the FTA should bring about the elimination of all Chinese tariffs on Australian goods on a preferential basis. It should also resolve as many as possible of the “beyond the border” barriers to trade and investment in the Chinese market (such as intellectual property, restrictions on investment and uneven customs regulation). An improvement across these issues would boost the capacity of Australian manufacturing companies to export to, and invest in, China.

The fact remains, however, that in many relatively labour-intensive areas of manufacturing, China enjoys a significant comparative advantage over Australia. The FTA is unlikely to change significantly that fact of economic life. The impact of China (and of other low-cost overseas manufacturing centres such as India) upon parts of the Australian manufacturing sector is already considerable. And Australian border protection is set to be reduced under existing industry plans to a tariff of five per cent by 2010 (for autos) and 2015 (for clothing). Against this background of a mandated decline in Australian tariffs and the improving competitiveness of Chinese manufacturing, it is difficult to see how the China FTA in itself will have a substantive negative impact on Australian manufacturing.

DFAT has received over 260 public submissions for both the feasibility study and the FTA negotiations to date and agencies have consulted extensively with industry, States and Territories and other interested parties. DFAT has held over 230 seminars and individual briefings since the launch of negotiations.

ASEAN-Australia-New Zealand FTA Negotiations

On 30 November 2004, the Prime Minister and his counterparts from the 10 countries of ASEAN and New Zealand agreed to launch negotiations on an ASEAN-Australia-New Zealand FTA (AANZFTA) based on a comprehensive set of Guiding Principles. The Guiding Principles commit the countries to negotiate a comprehensive, WTO consistent agreement that covers trade in goods and services, as well as investment, and provides for progressive elimination of all forms of barriers to trade. A high-quality AANZFTA would not only deepen Australia's economic integration with ASEAN, but would contribute to the overall economic prosperity of the region.

Australia-ASEAN trade has grown faster than the growth of Australia's trade with any of its other leading commercial partners, except China and India. ASEAN, which comprises 15 per cent of our total trade, is a larger trading partner for Australia than any single country, including Japan (14 per cent), the United States (11 per cent) or China (11 per cent). Together, Singapore, Malaysia, Thailand and Indonesia account for around 85 per cent of Australia's total goods and services trade with ASEAN.

Australia's exports to ASEAN are dominated by rural and resource-based products, rather than manufactures. While tariffs on manufactured goods tend to be relatively low, peaks are evident in some sectors (e.g. automotive, aluminium). Notable gaps between bound and applied tariff rates also mean a lack of certainty for Australian exporters and investors in ASEAN markets given the scope for countries to raise applied tariffs. Through FTA negotiations, Australia is also seeking to address non-tariff measures affecting Australian exports of manufactured goods. Australian industry has identified particular difficulties relating to inspection procedures, product labelling and testing requirements in many ASEAN countries.

Australia is seeking ambitious outcomes in terms of coverage and the timeframe for removal of barriers to trade. Negotiations are complex given the number of countries involved and the differing levels of economic development. Our approach is aimed at providing an improved framework for encouraging trade and investment flows between Australia and the countries of ASEAN. We are seeking a comprehensive FTA that addresses a broad range of trade and investment-related issues. Many of the issues are directly relevant to the manufacturing industry – i.e. tariffs, non-tariff access barriers, restrictions on services trade, including services bundled with goods, investment restrictions, intellectual property and government procurement.

An important aspect of the FTA is that it should secure Australia's competitiveness in ASEAN markets, given that ASEAN is also involved in FTA negotiations with other regional countries, including China, India, Japan and the ROK. Importantly, ASEAN has accepted that nothing in the AANZFTA will detract from Australia's existing bilateral FTAs with individual ASEAN countries.

DFAT has held over 60 stakeholder consultations over the past 12 months, involving over 200 organisations and companies. The consultations have been held jointly with consultations on the Malaysia-Australia FTA. The Department has also received over 50 written submissions on the AANZFTA, including those received before the commencement of the negotiations. These inputs have informed the development of Australia's negotiating position.

Malaysia-Australia Free Trade Agreement Negotiations

The announcement on 7 April 2005 by the Prime Minister and Malaysia's Prime Minister (Abdullah Badawi) of Malaysia-Australia FTA (MAFTA) negotiations followed completion of parallel scoping studies by both countries. The Australian Study found that an FTA would deliver worthwhile economic benefits for both countries. Economic modelling conservatively estimated that an FTA would increase Australia's GDP by \$1.9 billion (in net present value terms) over 20 years. The study found that Australian manufacturing industries which could most benefit from an FTA include beverages, ferrous metals, and motor vehicles and components.

Australia and Malaysia already have strong economic linkages, with two-way trade in goods and services valued at over \$10.4 billion in 2005, although investment flows are more modest. Our major goods exports include raw sugar, refined copper, aluminium, dairy products (where New Zealand is our main competitor), wheat, coal and medicaments. The major services exports are education and tourism.

While much of our manufactured trade with Malaysia takes place at low or zero tariffs, there are significant impediments to bilateral trade. Barriers to Australian exports are important in areas such as processed foods and other manufactures including steel, chemicals, plastics and automotive products – tariffs on steel are 50 per cent while for passenger motor vehicles they are 30 per cent, which effectively block Australian products from the Malaysian market. Non-tariff barriers, such as local content requirements, non-automatic import licensing, and a general lack of transparency associated with government regulations negatively impact on Australia's trade with Malaysia. Malaysia also appears to apply a discriminatory rebate of excise taxes for national car manufacturers.

In negotiating an FTA with Malaysia, the Government's objective is to achieve a comprehensive and genuinely liberalising agreement in the shortest possible time to maximise the gains from the FTA. Ideally, the agreement will include liberal commitments on a full range of trade and investment related issues that will strengthen two-way trade and investment flows. We are seeking to gain new market access opportunities, as well as seeking to ensure no winding back of existing opportunities. The approach is aimed at eliminating and binding tariffs on the broadest possible basis as well as satisfactorily addressing non-tariff measures. We are also seeking to develop measures that facilitate cooperation and provide a mechanism for addressing issues on standards certification and agree a set of rules that avoid unnecessary obstacles to trade. The tariff elimination and other proposed measures will provide greater certainty for the 3,500 Australian companies who currently export to Malaysia and for those other companies who have yet to consider this market.

DFAT has held over 60 stakeholder consultations over the past 12 months, involving over 200 organisations and companies. The Department has also received over 110 written submissions to both the Scoping Study into an Australia-Malaysia Free Trade Agreement and since MAFTA negotiations commenced. These inputs have informed the development of Australia's negotiating position.