

## CHAPTER FIVE

### AUSTRALIA - ASEAN ECONOMIC RELATIONS

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5.1 As a region, and as part of the broader Asia Pacific, ASEAN has become increasingly important to Australia's economic and trade interests over the past decade and a half. The rapid economic growth and development of the South East Asian economies during this period, coupled with Australia's own shift to a more 'outward looking' economy has given impetus to a broadening and deepening of trade and investment relations between Australia and the region. Closer economic engagement in turn has resulted in greater opportunities for Australia to share in the dynamism of an increasingly integrated ASEAN market. To some extent, closer engagement also means that Australia's economic interests are more dependent on the fortunes of the ASEAN economies than at any time previously.

5.2 As a non-member of ASEAN, Australia has traditionally placed emphasis on developing bilateral trade and investment links with ASEAN member states, an approach that has been reinforced, and in many respects sharpened, under the current Federal Government. This approach reflects the Government's view of bilateral relationships as the 'building block of Australia's foreign and trade policy'.<sup>1</sup> Accordingly, Australia's bilateral links with each of the ASEAN member countries, apart from Burma, are strong and wide ranging.

5.3 With the implementation of the ASEAN Free Trade Area (AFTA), and the subsequent formal dialogue between AFTA and the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA or CER for short), as well as the ASEAN-related sub-regional growth triangle initiatives, Australia's approach to ASEAN economic relations has also adopted a substantial regional focus. At the multilateral level, Australia continues to build on its relations with ASEAN members through the World Trade Organisation, and at a trans-regional level through the Asia Pacific Economic Cooperation (APEC) initiative.

5.4 It is important to note that the Federal Government has not been alone in efforts to strengthen Australia's economic engagement with the ASEAN region. Since the last Committee report on ASEAN in 1984, state and territory governments have assumed a more active role in expanding trade and investment links, as well as economic cooperation, between Australian and ASEAN. For example, the Government of Western Australia (WA) has been active in identifying trade and investment opportunities for state businesses in ASEAN markets, and developing closer links with Indonesia through the Australia Indonesia Development Area (AIDA).

5.5 Australian business is also making an important contribution to the strengthening and broadening of trade and investment links with ASEAN. National industry and business associations such as the Australian Chamber of Commerce and Industry (ACCI) and the Metal Trades Industry Association (MTIA) have been particularly active in the development of the CER-AFTA cooperation program, and in establishing linkages with business and industry groups in the region, such as the ASEAN Chamber of Commerce and Industry.

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1 See Exhibit No. 55(a), DFAT, *In the National Interest*, Australia's Foreign and Trade Policy White Paper, August 1997, in particular Chapter 4: Bilateral Relationships.

## Trade and Investment Overview

5.6 Over the past decade there has been a shift in Australia's trading patterns from the traditional North American and European markets towards the Asia region. In 1986, four of Australia's top ten export markets were in Asia. By 1996 the Asia region provided seven of our top ten export markets (see figure below). North and East Asian economies account for most of Australia's exports to the region, however South-East Asia has also grown in importance as a destination for Australia's exports. This expansion is due, in large part to rapid pace of trade liberalisation across the region, both unilaterally and multilaterally through the implementation of GATT Uruguay Round commitments, which has increased access to ASEAN markets by substantially reducing traditionally high tariff rates in a number of areas, particularly in industrial goods and semi-processed products.

5.7 Australia's exports to ASEAN have been growing at a trend rate of 18 per cent per annum, faster growth than export markets in Japan or the United States. ASEAN as a group now represents Australia's second largest export market after Japan, accounting for some 15 per cent (\$12 billion) of total merchandise exports in 1996, compared with 6 per cent (\$2.2 billion) in 1986. In 1996-97 two way trade reached \$19.9 billion in 1996-97, representing a trade balance in Australia's favour of \$4.16 billion (down from around \$4.5 billion in 1995-96).<sup>2</sup> A large share of Australia's exports to ASEAN continue to be accounted for by Singapore, which alone represented Australia's seventh largest export destination (excluding trade blocs) in 1996.

5.8 In this context it is worth noting that a significant share of Australia's total exports to the region are likely to be re-exports to other destinations, for example North and South Asia. In the absence of statistical data on Australian re-exports through ASEAN, the Committee can only suggest that, given the significance of Singapore as an entrepot for inter-regional and intra-regional trade, some portion of Australia's exports to that country (and others) may be bound for destinations beyond ASEAN.

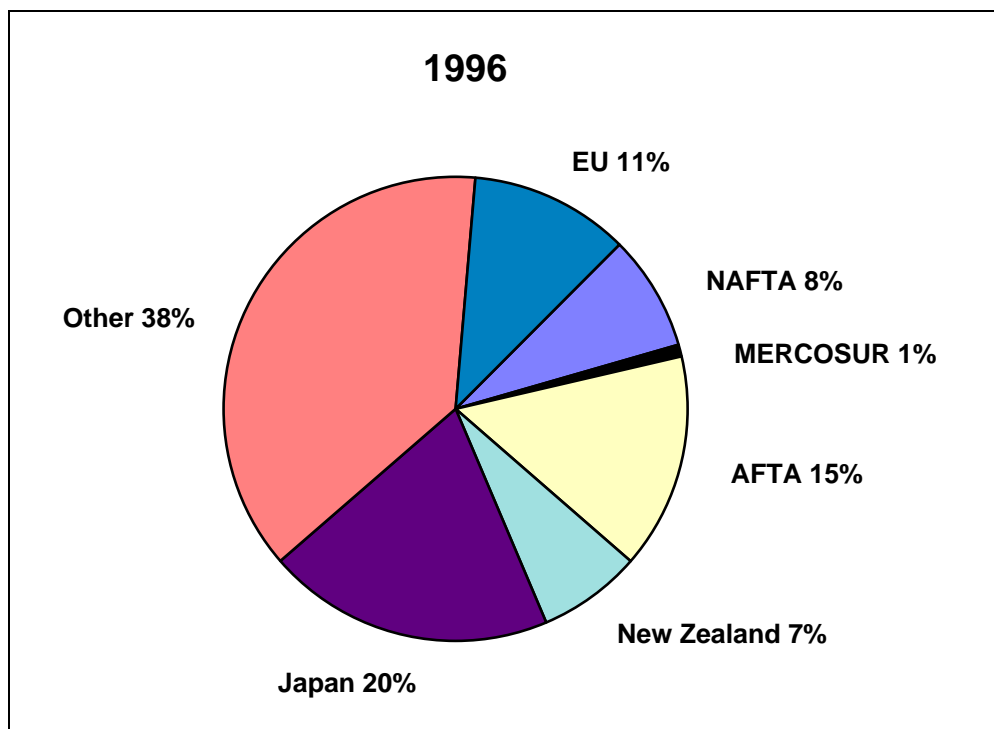
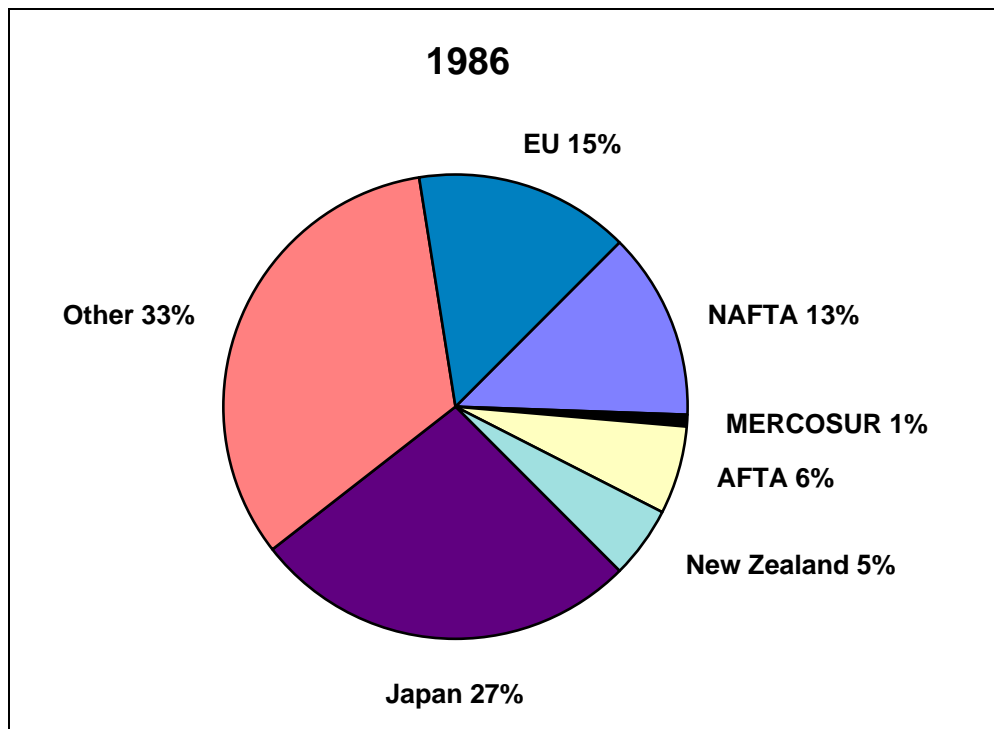
5.9 Australia's exports to ASEAN have traditionally been dominated by primary products, such as minerals, non-monetary gold, dairy products and cotton; however manufactured exports, particularly ETMs, represent an increasing proportion of total exports to ASEAN. In 1986-87, the ASEAN share of Australia's ETM exports was 9.4 per cent (\$465 million). By 1995-96, this had risen to 20.5 per cent (\$3.6 billion). The growth of ETM exports to ASEAN countries averaged 26 per cent per year over this period, compared to overall growth of 16 per cent. By 1996, ASEAN ranked second to New Zealand as a destination for Australian ETMs.<sup>3</sup>

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2 Exhibit No.55(h), DFAT, The APEC Region Trade and Investment (Australian Supplement), November 1997, p.4.

3 AEEMA Submission, p. S263.

**Table 5.1: Australian Exports by Destination, 1986 and 1996**



Source: MTIA, Exhibit No 43(d)

5.10 The changing composition of Australia's exports to ASEAN has in turn resulted in a slight decline in Australia's share of ASEAN's total imports, from 3.14 per cent in 1985 to 2.3 per cent in 1995. However, in terms of individual products, and at the sectoral level, Australian industries have maintained or improved their market share in ASEAN (for example, in services and mining).<sup>4</sup>

**Table 5.2: Value Of Australian Exports 1986 Vs 1996 (\$Million)<sup>5</sup>**

Rank	1986		1996	
1	Japan	9,045	Japan	15,558
2	EU	5,197	AFTA	11,614
3	NAFTA	4,249	EU	8,380
4	United States	3,632	Korea, Rep	7,329
5	AFTA	2,204	NAFTA	6,397
6	China	1,587	New Zealand	5,641
7	New Zealand	1,539	United States	4,970
8	Korea, Rep	1,401	Taiwan	3,888
9	United Kingdom	1,127	China	3,427
10	Taiwan	1,127	Singapore	3,168

Source: Exhibit 43(d), MTIA, Global Market Access: What it Means for Australian Industry, 1997, p.2

5.11 Australia's imports from ASEAN have also risen over the past decade, averaging 14 per cent growth since 1986-87. In 1996-97, imports from ASEAN totalled \$7.85 billion (compared to \$1.9 billion in 1986-87), placing ASEAN as our fourth largest source of imports. Despite this growth, Australia remains a relatively small export market for ASEAN, accounting for only 1.8 per cent of ASEAN total exports in 1996-97 (estimated at around US\$318 billion). Australia's main imports from ASEAN have traditionally been manufactured goods, with elaborately transformed manufactures (ETMs), such as computers and computer components, becoming more significant through the 1980s. In 1996-97, ASEAN imports to Australia comprised 30 per cent primary products, 8 per cent simple transformed manufactures (STMs), 59 per cent ETMs and 3 per cent other items of trade.<sup>6</sup>

5.12 Reflecting strong growth overall in Australia's services sector exports in the past decade, services exports to ASEAN increased at the rate of 17 per cent per annum over the period 1985-86 to 1994-95 (most recent figures available), rising from \$882 million to \$3.3 billion. ASEAN now accounts for the third largest share of Australia's services exports (17 per cent), behind Japan (19 per cent) and the European Union (18 per cent).<sup>7</sup> Australia's services exports to ASEAN consisted of \$1.9 billion in travel services (mainly tourism and foreign student expenditure), \$700 million in transportation services (shipment, passenger and port), and \$700 million in other services. The largest of these exports, travel services, are heavily concentrated in the Singapore, Malaysian and Indonesian markets. Together these

4 DFAT Submission, p. S415.

5 Figures cited in this table include some double counting (for example, Singapore is also a member of ASEAN, the United States is also a member of NAFTA).

6 Exhibit No.55(h), DFAT, The APEC Region Trade and Investment (Australian Supplement), November 1997, p. 4.

7 Exhibit No. 55(i), DFAT, *Trade in Services Australia 1996-97*, p. 7.

two markets account for approximately \$1.5 billion worth of Australian travel services exports.

5.13 Services imports to Australia from ASEAN also grew over the period 1985-86 to 1994-95, although at a slighter rate than Australian exports (trend growth of 11 per cent), rising from a little under \$1.1 billion to \$2.9 billion. ASEAN's share of Australia's total services imports (estimated at \$21.3 billion in 1994-95) stands at 13 per cent, up from 10 per cent in 1985-86. As with service exports to ASEAN, most of Australia's services imports from the region are sourced from three countries. In 1994-95, Singapore alone generated \$1.22 billion in services exports to Australia, with Indonesia and Malaysia accounting for a further \$1.14 billion. In terms of composition, ASEAN service exports to Australia consisted of \$700 million in travel services, \$1.5 billion in transportation services and \$600 million in other services.

5.14 While merchandise and services trade between Australia and ASEAN have exhibited strong growth over the past decade, recorded levels of investment (foreign direct and portfolio) have risen only modestly. DFAT estimates that about 6 per cent of Australia's total investment abroad was directed to ASEAN in 1994-95, compared to 2.1 per cent in 1987-88. However, compared to recorded levels of Australian FDI in ASEAN in 1980 (which amounted to 28 per cent of total Australian investment abroad),<sup>8</sup> recent levels suggest that Australia's share of total FDI stock in ASEAN has declined.

5.15 In 1996, Australian total recorded investment in ASEAN amounted to \$9.3 billion, up from \$8.4 billion in 1995 (trend growth of around 10 per cent).<sup>9</sup> Despite consistent growth in the level of Australian investment in ASEAN over the past ten years, the region's share of total Australian investment abroad remains small (estimated at 6.1 per cent in 1995-96).<sup>10</sup>

5.16 A number of factors have contributed to the low level of Australian investment in ASEAN, including ASEAN domestic impediments such as licensing laws, local equity and labour requirements, complex regulations related to tariffs on imported inputs, restrictions on capital raising and revenue repatriation, and legal uncertainties related to land title and contract dispute. Other factors identified in evidence to the inquiry include the lack of investment complementarity between Australia and some of the less developed ASEAN economies, the emphasis placed by the Federal Government on attracting investment in Australian industry over outward investment, the consequent lack of attention to promoting awareness of investment opportunities in ASEAN countries for Australian firms and the lack of adequate strategies to capitalise on such opportunities.

5.17 ASEAN total investment in Australia has been consistently greater than Australian recorded investment in ASEAN through the 1990s, reaching \$10.8 billion in 1995-96, an increase of 28.5 per cent on 1994-95. The lack of available figures on ASEAN outward investment makes it difficult to estimate the size of Australia's share of ASEAN total investment; however, it is clear that ASEAN's share of total foreign investment in Australia remains relatively low (estimated at around 2.25 per cent in 1995-96). Most ASEAN

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8 DIST Submission, p. S545.

9 Exhibit No. 55(h), Department of Foreign Affairs and Trade, *The APEC Region Trade and Investment*, November 1997, p. 97.

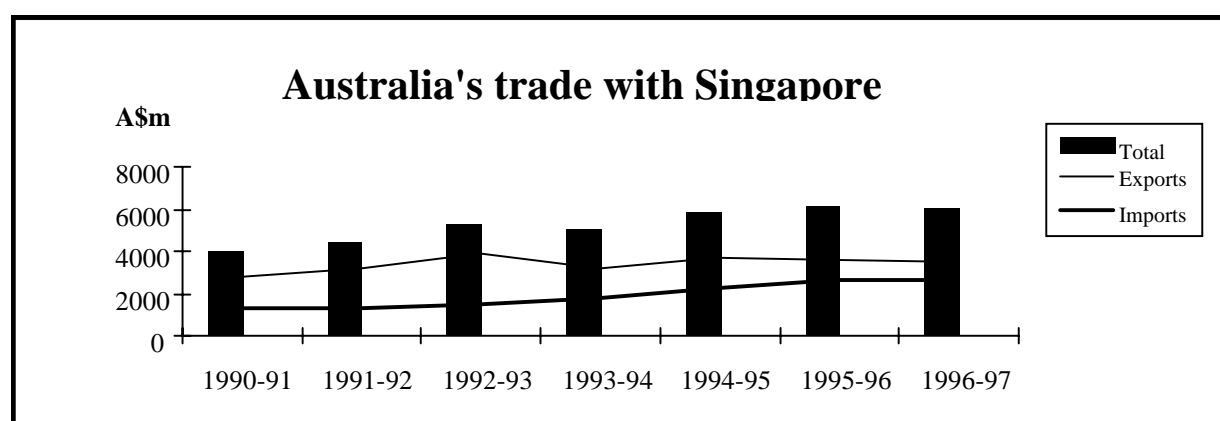
10 Latest figures available.

investment in Australia is accounted for by two countries, Singapore and Malaysia, although it is likely that a considerable proportion of this investment may actually be sourced from Indonesia and Brunei.

## Bilateral Trade and Investment Overview

5.18 In 1996-97, Australia's terms of trade with each of the ASEAN states remained favourable. In addition to a healthy merchandise trade surplus with most members (all except Vietnam), Australia also managed to record surpluses in invisibles trade - services such as transport, travel, tourist expenditure, education, finance and insurance - with all ASEAN countries except the Philippines. Five ASEAN markets are among the top twenty destinations for Australian exports, with each generating significantly greater growth than the 7 per cent trend growth for Australian exports to all destinations.<sup>11</sup>

### Singapore



Source: DFAT submission, p. S408.

5.19 Singapore is Australia's largest trade and investment partner in ASEAN, and our eighth largest trading partner overall.<sup>12</sup> In 1996-97, bilateral two-way trade reached \$6.02 billion, comprising \$3.4 billion in exports from Australia and \$2.62 billion worth of Singapore imports to Australia. Principal exports include non-monetary gold, crude and refined oils, dairy products, and computer and machine parts. Main imports to Australia include industrial machinery, petroleum products, computers and office machine parts. Services are an increasingly important part of our trade relations with Singapore, with services exports estimated at \$1.4 billion in 1995-96 (latest figures available).<sup>13</sup> The main areas are education and tourism services.

5.20 Two-way investment is also significant, with an estimated \$4.2 billion worth of Australian investment in Singapore (mainly manufacturing, information technology and financial services) and \$8.8 billion in total Singapore investment in Australia in 1996 (heavily concentrated in property).<sup>14</sup>

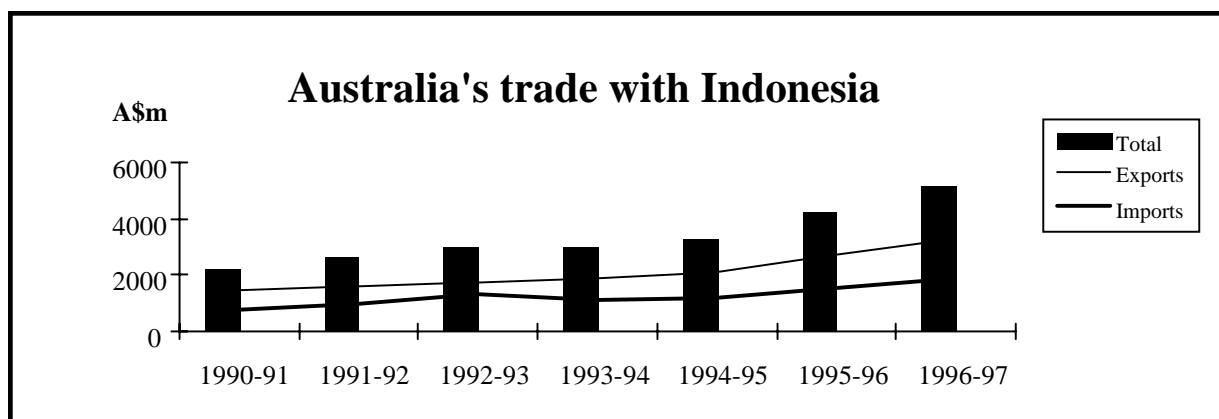
### Indonesia

11 Austrade Submission, p. S291.

12 These figures are inflated by substantial re-export trade flows through Singapore.

13 Exhibit No. 55(i), DFAT, *Trade in Services 1996-97*, p. 7.

14 Exhibit No. 55(c), DFAT, *Singapore Country Brief*, December 1997.



Source: DFAT submission, p. S408.

5.21 Australia's second largest trading partner in ASEAN, and our tenth largest trading partner overall in 1996-97, remained Indonesia. Total two way merchandise trade over the period reached \$5.2 billion ( \$3.3 billion in Australian exports and \$1.9 billion in Indonesian imports to Australia).<sup>15</sup> In 1996, Australia's principal exports to Indonesia included cotton, crude petroleum and oils, livestock and telecommunications equipment. Main imports consisted of crude and refined petroleum, textile yarn and fabrics, and paper and paper products.<sup>16</sup> Australian services exports to Indonesia have grown substantially, officially reaching \$834 million in 1995-96 (latest figures available).<sup>17</sup> This placed Indonesia as Australia's seventh largest services export destination overall; however, if services provided via third countries and service components of manufactured exports were included, Indonesia's value to Australia's invisibles trade would be significantly higher. Travel and education related expenditure provided the largest components of this export trade. 'Australia's diverse services export capacities match Indonesian requirements in areas such as tourism, leasing, pension and mutual funds management, and manufacturing'.<sup>18</sup>

5.22 Australian investment in Indonesia has risen strongly over the past five years. In 1995 it was valued at around US\$3.0 billion (in terms of actual commitments) placing it 6th amongst Indonesia's sources of foreign direct investment. Recorded Indonesian investment in Australia remains low (estimated at \$260 million in 1995-96),<sup>19</sup> and is mainly confined to portfolio and equity investment.

15 Exhibit No. 55(c), DFAT, *Indonesia Country Brief*, December 1997.

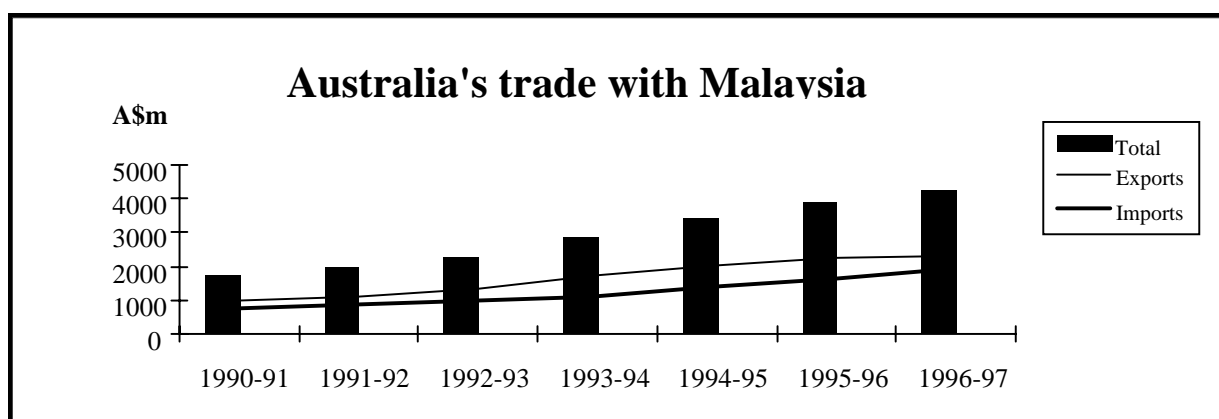
16 *ibid.*

17 Exhibit No. 55(i), *op. cit.*, p. 45.

18 DFAT Submission, p. S407.

19 Exhibit No. 55(h), *op. cit.*, p. 96.

## Malaysia



Source: DFAT submission, p. S408.

5.23 Malaysia is Australia's third largest trade partner within ASEAN and our 12th largest partner overall. In 1996-97, total two-way trade amounted to \$4.22 billion (reflecting trend growth of 17.4 per cent through this decade).<sup>20</sup> Australian exports to Malaysia, valued at \$2.3 billion for the last financial year, have traditionally been dominated by unprocessed primary products (including coal, dairy products and wool), but are gradually being overtaken in importance by processed primary and manufactured products. Malaysian exports to Australia grew at a rate of nearly 18 per annum over the period 1991-1997, reaching \$1.9 billion in 1996-97. This consisted mainly of computers, cathode tubes and integrated circuits, and sound and video electronics.<sup>21</sup> In terms of services trade, Malaysia is now Australia's second largest ASEAN market for services exports. Major sectors include education and tourism, but also increasingly financial and professional services, information technology and transport.<sup>22</sup>

5.24 Bilateral investment between the two countries is also substantial. As of June 1996, DFAT estimates total Australian investment in Malaysia at approximately \$2.86 billion, consisting mainly of fixed investment in the manufacturing sector (for example, textiles and textile products, electrical and electronic products).<sup>23</sup> Malaysian investment in Australia was estimated at \$1.2 billion in 1995-96, making it the second largest source of ASEAN FDI in Australia. Much of this investment has been concentrated in the property sector, however there is evidence of increasing diversification into transport, minerals and infrastructure.<sup>24</sup>

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20 *ibid*, p. 20.

21 *ibid*, p. 63.

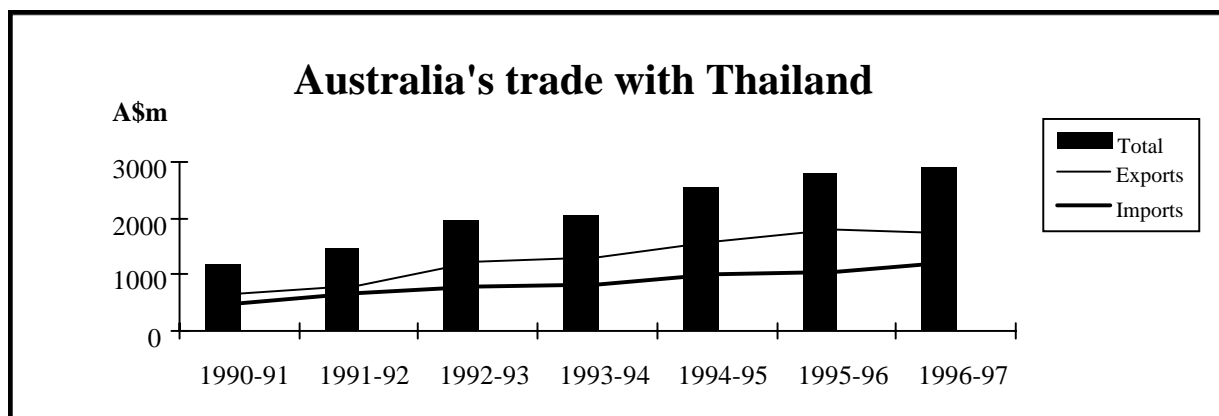
22 Exhibit No. 55(c), DFAT, *Malaysia Country Brief*, December 1997.

23 *ibid*.

24 *ibid*.



## Thailand

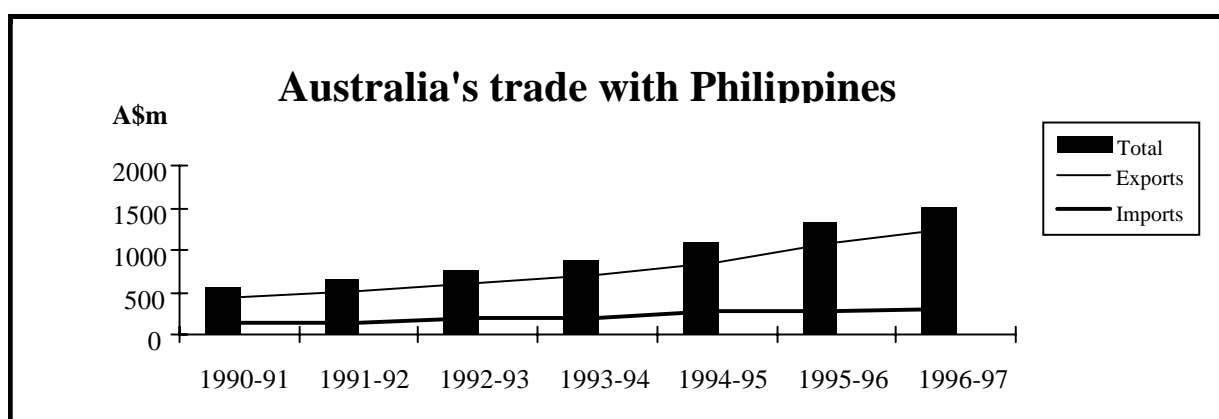


Source: DFAT submission, p. S408.

5.25 Thailand's importance to Australia as a trading partner has grown dramatically in the past decade. Total two-way trade in 1996-97 was estimated at \$2.76 billion, up from \$508 million in 1986-87, making Thailand our 15th largest trade partner. Australian exports to Thailand were valued at \$1.69 billion, and consisted mainly of energy, minerals and primary commodities, although industrial machinery and manufactured exports have also showed solid growth. Thai exports to Australia in 1996-97 amounted to \$1.2 billion, and included seafood products, computers, televisions and heating and cooling equipment. The proportionate increase in Thai exports of elaborately transformed manufactures over the past decade reflects the industrial transformation of the Thai economy.

5.26 Services trade and investment levels in both directions remain relatively low but growing. Potential for trade and investment in a range of sectors, including environmental services, financial and business services, processed food and beverages, energy and mining systems and infrastructure is high, and should expand in the medium to longer term.

## The Philippines



Source: DFAT submission, p. S408.

5.27 Trade flows between Australia and the Philippines appear relatively slight compared to other larger ASEAN markets, however they have increased rapidly over the past five years. Total two-way trade has grown from just under \$775 million in 1992-93 to \$1.5 billion in 1996-97 (an increase of 94 per cent over the period). Australia's exports to the

Philippines were valued at \$1.25 billion in 1996-97, and consisted mainly of dairy products, livestock, iron and steel, cereals and refined petroleum products. However, manufactured products are also growing in importance, accounting for 39 per cent of Australia's total exports in 1996-97.

5.28 Philippine exports to Australia have increased over the past five years also (59 per cent increase over the period), reaching \$281.8 million in 1996-97. Major exports include electricity distribution equipment, computers, and cathode valves and tubes. Bilateral services trade between the two countries remains negligible (estimated at \$109 million in 1995-96).<sup>25</sup> However DFAT notes that opportunities for Australian services exports in areas such as power transmission and distribution and telecommunications are continuing to grow.<sup>26</sup>

### *Vietnam*

5.29 Australia's trade and investment relations with Vietnam have strengthened considerably over the past five years, particularly Australia's exports, reflecting the gradual liberalisation of the Vietnamese economy under *doi moi*. Total two-way trade in 1996-97 was placed at \$596 million. Australia's exports to Vietnam were valued at \$202.7 million (up from \$50.5 million in 1992-93) and consisted mainly of cereals, medicines, electricity distribution equipment, rolled iron and steel and industry specific machinery. Vietnam's exports to Australia have also grown rapidly, from \$202 million in 1992-93 to \$392.8 million in 1996-97, providing Vietnam with a large surplus in terms of trade with Australia. Australia's imports from Vietnam are dominated by crude petroleum and oils (comprising nearly 62 per cent of total), but also include seafood, coffee and textile products.

5.30 Australia has established a strong investment stake in Vietnam, dating back to the early 1990s, and is now capitalising on some 'first mover' advantages, for example, as a service provider to other foreign investors. As of August 1996, Australia had 53 licensed investment projects in Vietnam, with total committed capital of US\$683 million. Australian investment covers areas as mining, hotels, banking, energy development, food processing, building and construction and medical services.<sup>27</sup>

### *Brunei*

5.31 Australia's total two-way trade with Brunei remains modest, amounting to \$70.2 million in 1996-97 (comprising exports valued at \$70 million and imports of \$0.2 million). This represents a significant decline in trade volumes on the previous year, and is due almost entirely to the cessation of crude and refined petroleum imports from Brunei. It also underestimates total trade between the two countries as a significant portion of Australian exports reach Brunei as re-exports through Singapore. Australia's major exports to Brunei in 1996-97 were: bovine meat and livestock; machine tools; computer parts and equipment for distributing electricity. Bilateral investment would also appear to be relatively low (Brunei publishes no investment figures), with Bruneian investment in Australia heavily concentrated in cattle industry holdings in the Northern Territory.<sup>28</sup>

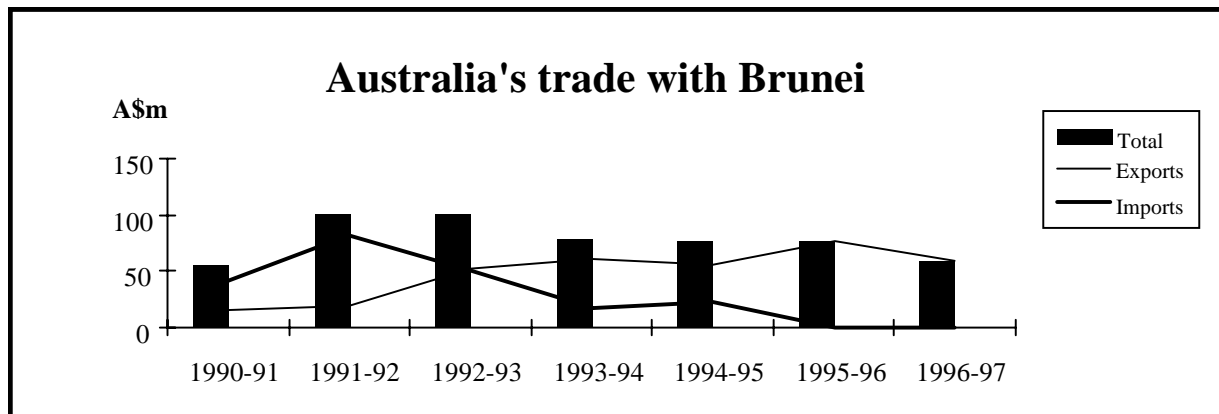
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25 Exhibit No. 55(h), op. cit., p. 86.

26 Exhibit No. 55(c), DFAT, *Philippines Country Brief*, January 1998.

27 Exhibit No. 55(c), DFAT, *Vietnam Country Brief*, November 1997.

28 Exhibit No.55(c), DFAT, *Brunei Country Brief*, December 1997.



Source: DFAT submission, p. S408.

### *The New ASEAN States*

5.32 Australia's bilateral trade and investment relations with the most recent ASEAN members, Laos and Burma remain relatively un-developed, although for differing reasons. Australia's commercial engagement with Laos has increased with liberalisation of the Lao economy, and should expand significantly as the economy becomes more outward orientated. Australia's exports to Laos had risen from under \$0.5 million in 1991 to around \$38.6 million in 1994; however, they have since tailed off dramatically (estimated \$7.8 million in 1996-97),<sup>29</sup> due to decline in gold exports, Australia's principal export to Laos. Australia is currently the sixth largest investor in Laos, with an estimated \$169 million invested in some 40 projects, chiefly in the mining, construction and energy sectors.

5.33 Due to political reasons, Australia's bilateral trade and investment links with Burma have not been encouraged. In 1996, Australian exports (direct) to Burma totalled \$14.6 million, up from \$12.5 million in 1995. Recent declines in exports of crude petroleum and oils have been offset by stronger sales of telecommunications, marine vessels and engineering equipment. Imports from Burma amounted to \$6.9 million in 1996, and consisted almost exclusively of seafood. In terms of investment flows, Australian direct investment in Burma remains slight compared to other ASEAN markets. To date, 11 Australian projects have been approved (valued at approximately \$50 million), all in the mineral and oil exploration field.<sup>30</sup>

29 Exhibit No.55(c), DFAT, *Laos Country Brief*, November 1997.

30 Exhibit No.55(c), DFAT, *Burma Country Brief*, December 1997.

## Specific Sectors of Interest to Australia

### *Processed Foods*

5.34 ASEAN has become an important market for Australia's food industry. Australia's total food exports to ASEAN in 1995-96 were worth almost \$2 billion, or 10 per cent of Australia's global food exports. Food exports to ASEAN rose by 100 per cent over the 5 year period up to 1996, accounting for a greater share of Australia's total merchandise exports to the region in the process (20 per cent in 1995-96). Exports of processed food to the region have also grown rapidly (increasing by 138 per cent from 1991-92 levels) reaching \$1.3 billion in 1995-96.<sup>31</sup> This has been largely driven by strong increases in exports of dairy, confectionary, meat, cereal and fruit and vegetable products. The Philippines represents the largest market for Australian processed food exports within the ASEAN region (\$372 million in 1995-96) followed by Malaysia and Singapore (each worth \$247 million in 1995-96).<sup>32</sup>

5.35 Despite recent impressive growth, and clear potential for further trade expansion, Australia's processed food exports continue to face significant market access barriers within the ASEAN region. These include:

- high tariffs in a number of markets;
- labelling requirements for products;
- quantitative restrictions, such as quotas;
- import licensing and quarantine restrictions; and
- the presence of AFTA preferential tariff rates which encourage investment within AFTA at the expense of Australian exports.

5.36 As a result, Australian based food processing companies have looked to increase their level of investment in ASEAN, through a combination of direct investment, joint ventures, strategic collaboration, licensing and technology transfer arrangements. Major companies that have invested in the region to date include Burns Philp (yeast production), Ausdairy (milk processing, dairy products), Goodman Fielder (margarine, oils, ice cream, bread) and CCA-Amatil (soft drinks). Other smaller, privately owned companies have also formed commercial arrangements with ASEAN-based companies, combining Australian access to raw materials and process technology with local knowledge of and access to markets and distribution networks.<sup>33</sup>

5.37 Recognising the importance of Asian markets to Australia's food industry, the Federal Government established an industry advisory body, the Supermarket to Asia Council in September 1996, to develop and implement a strategy to improve market access and competitiveness of Australian food exports to the region.

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31 DFAT Submission, p. S425.

32 *ibid.*

33 DIST Submission, p. S554.

## *Information Industries*

5.38 Over the past decade Australian information industry exports to ASEAN grew at an average of 19.5 per cent, slightly lower than the annual growth rate of exports to all destinations of 22 per cent, however significantly faster than other manufactured exports to ASEAN. Still, Australia (and other international suppliers) have traditionally faced high barriers to trade in information technology and telecommunications (ITT) in ASEAN, particularly in the area of services, but also in manufactures such as electrical and telecommunications equipment.

5.39 In the telecommunications sector, there is increasing potential for Australia to invest in ASEAN, specifically in terms of development of rural telecommunications. In May 1996, the Indonesian Government awarded NEC Australia and Phillips Electronics a two year contract valued at \$107 million to assist with the development of rural telecommunications in the country. Telstra has also held a nation-wide trunking licence in Indonesia since 1993, and is also a partner in an international consortium which is investing around \$1 billion in the construction and operation of telephone lines in Central Java.<sup>34</sup>

5.40 The recent WTO Information Technology Agreement (ITA) and Basic Telecommunications services agreement provides Australian exporters with greater access to large and growing markets for information technology and telecommunications products, particularly in the East Asian region, and also provides Australian firms and consumers with greater access to IT&T products at world competitive prices. The ITA represents a commitment on the part of some 30 countries to abolish tariffs, and other duties and charges, on an agreed list of information technology and telecommunications products by the year 2000. The ITA builds upon outcomes achieved through the Uruguay Round, and provides for further market liberalisation through negotiations on the elimination of non-tariff measures. The Australian telecommunications industry has estimated that the ITA will add up to \$400 million a year in new exports. Other parts of the ITT industry believe that exports of their products will at least double by the end of the decade.<sup>35</sup>

5.41 The Committee recommends that:

- 1. the Federal Government strongly encourage those ASEAN countries not party to the WTO Information and Technology Agreement (ITA) to accede to the agreement as soon as possible.**

## *Education*

5.42 ASEAN remains an important destination for Australia's exports of education and training services. According to the Department of Education, Employment, Training and Youth Affairs (DEETYA) 'of the estimated 141,000 international students enrolled in Australia during 1996 [latest figures available], 53,000 or 38 per cent were estimated to have come from ASEAN countries'.<sup>36</sup> As a proportion of Australia's total earnings from education services exports, valued at \$3 billion in 1996, DEETYA then estimated that ASEAN countries accounted for around \$1.2 billion. Malaysia, for example, contributes

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34 DIST Submission, p. S559.

35 Exhibit No. 51(b), P. Gibbons, *The Impact of the Information Technology Agreement*, Second Annual Conference on International Trade, Education and Research, pp. 5-6.

36 DEETYA Submission, p. S984.

approximately A\$344 million per annum, Singapore A\$275 million, Indonesia A\$348 million, Thailand A\$151 million and Brunei A\$10 million.<sup>37</sup>

### *Financial Services including Banking*

5.43 Although Australia has yet to become the major regional banking, finance and insurance centre envisaged in the 1984 Committee Report, due largely to the slow pace of liberalisation in regional financial sectors, it has becoming increasingly active both offshore and as a locale for foreign financial and banking service providers, including those from ASEAN countries. Mutual access, however, remains a critical issue for Australian financial service providers. While Australia's financial sector has been progressively deregulated, and 'opened-up' to foreign competition over the past ten years, ASEAN's financial services markets retain significant barriers to entry. These include restrictions on the nature and number of foreign banking activities allowed (Indonesia), restrictions on foreign equity participation in local banks (Malaysia), and operating conditions which competitively disadvantage foreign-owned financial institutions (Philippines).<sup>38</sup>

5.44 In terms of Australia's participation in ASEAN's banking and financial services markets, both DFAT and Treasury noted that Australian banks and financial service providers have obtained increased access over the past decade. In the banking sector, a number of Australia's major institutions have interests in the region. According to DFAT:

- The Australia New Zealand Banking Group (ANZ) has established branch operations in Vietnam, with a primary focus on trade financing and retail banking. It has also applied for a full banking licence in Malaysia, and in January 1996 opened its first branch in the Philippines.
- The National Australia Bank (NAB) has representative offices in Kuala Lumpur and Bangkok, and has also applied for a full banking licence in Malaysia. In 1996 the NAB was granted a designated offshore banking licence to operate in the Malaysian Federal Territory of Labuan, and has also obtained a limited licence in Thailand (enabling provision of certain banking services and eligibility to apply to establish branch operations).
- Both the Commonwealth Bank and Westpac have representative offices in the region; however, with the exception of Singapore, neither are currently conducting formal banking activities.<sup>39</sup>

5.45 In terms of financial services activity in the ASEAN region, DFAT notes that a number of Australian firms are now active in ASEAN markets, particularly in the insurance sector. For example:

- QBE Insurance has been operating in Malaysia for a number of years and currently has a 25 per cent stake in Sahasin-QBE Insurance in Thailand, which provides non-life insurance activities.

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37 *ibid.*

38 DFAT Submission, p. S418.

39 *ibid.*, p. S416.

- National Mutual Australasia and Legal and General have both acquired interests in recent consortia bids for new insurance licences in Thailand.
- The Colonial Mutual Group (CMG), has become a joint venture partner in Thailand's fastest growing insurance company, Ayudhya Jardine CMG Life Assurance.
- Australian interests in the Philippines insurance sector to date have been confined to CMG, which has a minority stake in a joint venture with Jardine International, although other Australian firms are apparently actively 'scouting' the Philippines insurance market.<sup>40</sup>

5.46 Foreign participation in Australia's financial services sector has grown substantially over the past decade. Treasury notes that since the Committee's 1984 report, there have been a number of changes which have facilitated foreign entry into the Australian banking industry. In 1985, sixteen foreign banks were invited to establish trading operations in Australia (as subsidiaries), with the first starting operation in the latter half of that year. Government policy in relation to foreign bank entry was further liberalised in 1992, with authorised foreign banks allowed to operate branches in Australia, subject to certain restrictions on the acceptance of retail deposits. Limits on the number of banks that could establish operations in Australia were removed later in the same year.<sup>41</sup> According to Treasury, there are now three ASEAN banks operating in Australia: the Overseas Chinese Banking Corporation (formerly the Bank of Singapore); Overseas Union Bank; and the United Overseas Bank. In addition, two Indonesian banks and one Philippines bank have representative offices in Australia.<sup>42</sup>

5.47 Reflecting Australia's strong interests in reducing barriers to entry in ASEAN banking and financial services markets, the Australian Government has 'pushed hard' for improved market access commitments from our ASEAN neighbours through the recently concluded negotiations on financial services in the WTO. According to the Minister for Trade, the WTO Agreement will result in significant liberalisation across 90 per cent of the world's financial services trade,<sup>43</sup> including greater opportunities for Australian firms in key regional financial markets, for example improved equity participation in Indonesia's insurance and non-bank financial services industries. The Agreement will also bolster continued reforms in Australia's financial sector, providing further improvements in the efficiency of domestic financial services market through greater competition.

5.48 The Committee recognises the importance of the WTO Financial Service Agreement both to Australia's financial services exports to the region, and the potential future development of Australia as a regional hub for financial service suppliers in areas such as banking, insurance, funds management, venture capital and securities. It commends the Australian Government's efforts to secure meaningful liberalisation outcomes in international services trade through multilateral and regional mechanisms. However it reiterates its support for more intensive bilateral dialogue and cooperation with ASEAN countries on

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40 *ibid.*

41 Treasury Submission, p. S968.

42 *ibid.*

43 Exhibit No. 47, Media Release, Minister for Trade, 14 December 1997.

financial services sector reforms, such as the MOU signed between Australia and Indonesia in 1996.

## Market Access

5.49 The consistently strong growth in two-way trade between Australia and ASEAN through the 1990s (see Table 5.3) is testament to the substantial liberalisation of the Australian economy over the past decade and the significant advances made by ASEAN members in reducing their tariff and, to a lesser extent, non-tariff barriers to trade. Much of the impetus for trade liberalisation in the region has been provided by the multilateral market access negotiations under the GATT Uruguay Round, and on a voluntary basis, tariff reduction commitments made as part of the APEC initiative. However, the Australian Government has also had considerable bilateral success in encouraging ASEAN members to liberalise beyond their Uruguay Round commitments in certain key markets, for example milk products in Malaysia and Thailand.<sup>44</sup>

5.50 The Committee received some evidence of ASEAN efforts, both multilaterally through the GATT Uruguay Round and unilaterally, to reduce external tariff barriers across a range of sectors.<sup>45</sup> According to DFAT, ASEAN countries (excluding Brunei and Vietnam) have cut tariffs, on a trade weighted average, by around 66 per cent between 1985 and 1995.<sup>46</sup> Many of the tariff reductions made by AFTA members under the CEPT scheme have been extended to other trading partners on an MFN basis. In fact, two of the larger ASEAN economies, Indonesia and the Philippines, announced during 1997 that tariffs cuts made under their AFTA commitments will be extended to all countries on an MFN basis.<sup>47</sup>

5.51 Nevertheless, average levels of protection across ASEAN remain comparatively high. For example, the average MFN tariff rates on durable manufactures - such as petroleum and coal products, fabricated metal products and machinery - applied by countries such as Indonesia (22 per cent), Philippines (27 per cent) and Thailand (30 per cent) remain much higher than tariff rates maintained by Australia (9 per cent).<sup>48</sup> Tariff peaks and escalations, even within binding Uruguay Round commitments, remain a significant concern for Australian exporters.

5.52 A related concern for Australian industry is the potential discriminatory or trade diverting effect of AFTA on Australian exports to the ASEAN region. A number of submissions highlighted the potential market access problems created by increases in differentials between AFTA and MFN tariff rates (for example on manufactured goods) or the extension of preferential tariff rates to currently excluded areas, such as processed foods. To date, the impact of AFTA on Australian merchandise exports to ASEAN has been negligible. Partly this is a result of the limited coverage of the CEPT scheme which, until relatively recently, did not include certain areas of key export interest to Australia (such as unprocessed agricultural products). It is also due to the escalating nature of ASEAN country

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44 Exhibit No. 55(j), DFAT, *Trade Outcomes and Objectives Statement*, February 1997, p. 7.

45 For example, submissions by the ACCI and MTIA.

46 DFAT Submission, p. S414.

47 APEC Study Centre Transcript, p. 454.

48 Exhibit No. 59, op. cit., p. 9.



tariff regimes, which have tended to place heavier levies on high value-added products (compared to raw or unprocessed inputs),<sup>49</sup> and hence favour Australia's trade profile.

5.53 However, as manufactures, particularly ETMs, become a more important part of Australia's exports, and as Australia's exports face reduced competitiveness against ASEAN sourced goods resulting from recent currency devaluations, it can be expected that AFTA will have some dampening effects on Australian exports in sectors such as processed food, electrical machinery and automotive parts.<sup>50</sup> Despite this trend, it must be noted that continuing reductions in MFN tariff rates by ASEAN countries, unilaterally as well as through WTO and APEC commitments, are likely to erode AFTA preferential margins, and hence discriminatory effects on non-ASEAN trade, over time.

5.54 Perhaps a more important barrier to ASEAN market access for Australian exporters remains the large number of non-tariff measures (NTMs) employed by ASEAN governments. These range from outright prohibitions on imports in selected industries, for example distribution transformers in Indonesia and automotive cable in Malaysia, through monopoly importing and licensing requirements to local content requirements (for example on Indonesian government procurement of telecommunications products) and sanitary and phyto-sanitary<sup>51</sup> regulations (for example, halal certification requirements placed on Australian pork exports to Malaysia).<sup>52</sup>

5.55 The Committee heard evidence that ASEAN is moving to address substantively the problems of non-tariff measures on a regional basis, although much of the work to date appears to have been consultative in nature.<sup>53</sup> Under the CEPT scheme, AFTA members are required to eliminate all NTMs on CEPT-covered items by 2003. Significant progress has also been made in identifying those NTMs which impact most adversely upon intra-ASEAN trade, particularly those affecting widely traded goods in areas such as minerals, electrical appliances and industrial machinery.<sup>54</sup>

5.56 As Australia's services exports to ASEAN have increased over the past decade, so too has attention on the trade barriers impeding Australian market participation. DFAT acknowledges that services exporters, particularly in the professional, financial and telecommunications sectors, hold concerns about the high levels of protection in the ASEAN economies.<sup>55</sup> ASEAN market access restrictions assume a number of forms, both generic and industry specific. These include:

- restrictions on foreign equity participation,
- various licensing and operating regulations,
- personnel and accreditation requirements,
- outright restrictions on certain types of products and services ( particularly in the banking and financial services sectors), and
- prohibitive levels of corporate tax levied on foreign participants.<sup>56</sup>

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49 AEEMA Submission, p. S268.

50 *ibid.*, p. S266.

51 Relating to agricultural products.

52 Exhibit No. 55(j), *op. cit.*, p. 103.

53 AEEMA Transcript, p. 597.

54 Exhibit No. 60, ACCI, *AFTA: What's in it for Australian Business?*, October 1997, pp. 16-17.

55 DFAT Submission, p. S414.

56 Exhibit 55(j), *op. cit.*, pp. 85-128.

5.57 The Australian Government has had some success addressing market access problems in the ASEAN services sector at the bilateral level; for example, the conclusion of a Memorandum of Understanding (MOU) with the Malaysian Government encouraging greater cooperation in banking and financial services provision, and initial progress in talks with the Thai Government on proposed reforms of the Thai Alien Business Law, particularly provisions relating to prohibitions on and/or licensing restrictions of foreign firms in certain service industries.<sup>57</sup>

5.58 Significant and persisting barriers, both tariff and non-tariff, to market access in ASEAN are clearly a cause of concern for Australian industry and business groups. Conditions placed on investment in ASEAN economies are also considered a barrier by some sections of Australian industry. Most ASEAN countries have foreign equity limits of 25 to 49 per cent for many industry sectors, with some sectors (such as banking and insurance) completely closed. Further, a number of ASEAN countries package a range of trade related investment measures with foreign investment incentives, which effectively function as non-tariff barriers (for example, exemption from import duties and sales tax, duty drawback, local content levels and domestic purchasing guarantees).<sup>58</sup>

5.59 The Committee supports the view of various peak industry groups that close consultation with industry sectors by government is needed if Australia is to develop effective strategies to take advantage of export opportunities in ASEAN markets. It agrees that industry has a valuable role to play in assessing the potential benefits and costs of sector specific initiatives, for instance Australia's participation in the recently concluded WTO Information Technology Agreement (ITA).

5.60 The Committee recommends that:

2. **a unit be established within the Department of Industry, Science and Tourism (DIST) to liaise with industry, Austrade and DFAT in identifying and regularly updating information on major non-tariff barriers to Australian exports in key markets, including those in ASEAN.**

### **Sub-Regional Initiatives**

5.61 Consistent with the Federal Government's 'integrated trade policy framework', which views bilateral, regional and multilateral approaches as complementary,<sup>59</sup> Australia has looked to augment its bilateral relations with the ASEAN community through involvement in a number of ASEAN's sub-regional initiatives on economic cooperation and integration. It has also encouraged state and territory governments and the private sector to become directly involved in these initiatives, both through formal linkages with sub-region participants and through a range of second-tier activities.

### ***BIMP-EAGA***

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57 *ibid.*

58 AEEMA Submission, p. S270.

59 Exhibit No. 55(a), *op. cit.*, p. 53.

5.62 According to DFAT, Australia takes a strong interest in the development of the BIMP-EAGA, with the Federal Government supporting and enhancing the efforts of State Governments, in particular the Northern Territory Government, to strengthen ties with the sub-region.<sup>60</sup> The Northern Territory Government has concluded a number of formal agreements aimed at stimulating trade and investment with the BIMP-EAGA sub-region, including Memorandums of Understanding (MOUs) with provinces of Indonesia (1992), the Philippines (1995), and Brunei Darussalam (1995), and a Memorandum of Intent with the Malaysian federal territory of Labuan in May 1996. Two other memorandums are being negotiated with the Malaysian states of Sabah and Sarawak.

5.63 In addition to formal agreements, the Northern Territory Government has also been active in developing a number of business to business links with BIMP-EAGA. In the past four years, the Northern Territory Government has sponsored a number of business delegations to the BIMP-EAGA, as well as assisted the Northern Territory Chamber of Commerce and Industry to establish links with counterpart organisations in Sabah and Davao. More recently the Northern Territory Government hosted the inaugural BIMP-EAGA Trade and Development Forum in June 1996, at which a range of trade facilitation issues were discussed, including the need to improve NT air transport links with the region and Northern Territory participation in areas such as fisheries management, mining and agriculture (including aquaculture).<sup>61</sup>

5.64 As a result of these efforts, Northern Territory's trade links with some parts of the sub-region have expanded significantly. The Northern Territory Government estimates that total exports to the region for 1995-96 increased 61 per cent from 1994-95 to \$194 million. This trade consisted mainly of shipping services involved in live cattle exports (\$148 million), mineral fuels (\$23 million) and machinery and transport equipment (\$10 million).<sup>62</sup> Growth in imports from parts of BIMP-EAGA to the Northern Territory was also encouraging, with a large increase in imports from Indonesia (\$8.3 million - up 86 per cent on 1994-95) and a smaller gain for Malaysia (\$5.1 million - up 5 per cent on 1984-85) in 1995-96. At the time of writing it was unclear how the economic difficulties being experienced by BIMP-EAGA members, particularly Indonesia, would affect demand for Northern Territory's primary exports, live cattle and minerals/fuels.

### *Other Growth Triangles*

5.65 To date, there has been limited Australian involvement in ASEAN's other sub-regional growth initiatives. A small number of Australian firms have entered joint venture arrangements under the IMS-GT initiative, including Pac Rim printing, which has established operations with an Indonesian firm on Batam island, and Bunge International Limited, which has joined forces with Indonesia's Salim group in a \$60 million pig farming venture on Bulan Island.<sup>63</sup> Future projects under the IMS-GT could hold potential for Australian companies already established in Singapore, particularly those in the construction and engineering fields, as well as agribusiness and tourism<sup>64</sup>. However, there has been no significant activity by Australian firms to date.

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60 Exhibit No. 55(g), DFAT, East Asia Analytical Unit, *Growth Triangles of South East Asia*, 1995, p. 81.

61 DFAT Submission, p. S421.

62 Northern Territory Government Submission, p. S670.

63 DFAT Submission, p. S423.

64 Exhibit No. 55(g), op. cit., p. 64.

5.66 Australian interests in the IMT-GT have been concentrated mainly in a number of small projects and bilateral commercial links. A West Australian company, Wavemaster, has established a joint venture with the Penang Shipbuilding Corporation to supply high speed ferries to Penang and the surrounding region. There is also a considerable and growing presence of Australian education providers in Penang, with major twinning arrangements involving a number of Australian universities. BHP has established a regional office in Medan, Northern Sumatra as part of its joint venture, PT BHP Steel Building Products, and have more recently opened a factory in the Medan Industrial Estate in 1996.<sup>65</sup>

### *Mekong Basin Development*

5.67 DFAT's submission to the inquiry notes that 'Australia has been involved for many years in a number of bilateral and regional projects<sup>66</sup> in the Mekong basin. Between 1975 and the end of 1998, Australia will have contributed over \$2 billion to development projects in the Mekong Basin region through both bilateral and multilateral programs. The most prominent example of this involvement has been the Friendship Bridge project, linking Laos and Thailand, which included both private and public sector participation. Besides bridge building, Australia has also been involved in a number of other bilateral programs with governments of the region in areas such as health care, water supply and sanitation, human resources development, public administration, agriculture and environmental protection.<sup>67</sup> Further, Australia has agreed to jointly fund a second Mekong river bridge, at My Thuan in Vietnam, with Australian firms Baulderstone Hornibrook and AIC Maunsell providing contracting services.<sup>68</sup>

5.68 According to DFAT, the Australian Government has welcomed the establishment of the Mekong Basin Development Cooperation (MBDC) initiative, and has indicated its interest in facilitating Australian involvement in the development of the sub-region.<sup>69</sup> The Australian Government is currently working with the private sector to identify opportunities for further Australian involvement, primarily through the Australian International Projects Group, which in January 1997 agreed to act as the coordinating body for private sector participation. The AIPG is currently bringing together a lead group of Australian companies, mainly in the construction, engineering consultancy and defence related manufactures fields, who have interests in the development of regional projects.

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65 *ibid.*

66 DFAT Submission, p. S423.

67 Exhibit No. 55(d), DFAT, *Asialine*, December 1997, p. 30.

68 *ibid.*, p. 33.

69 DFAT Submission, p. S423.

## AIDA

5.69 Another initiative of increasing importance to Australia's regional links with ASEAN is the Australia Indonesia Development Area, which was established following the third Australia-Indonesia Ministerial Forum Meeting in Jakarta in October 1996. AIDA will further subregional economic cooperation between Australia and Indonesia, and will focus on development in Eastern Indonesia. According to DFAT, 'AIDA offers the prospect of a distinctive Australian role in the development of Eastern Indonesia which will offer long term economic, and indeed, broader benefits to both Indonesia and Australia'.<sup>70</sup> Although still in the early stages of implementation, AIDA is conceived as a private sector driven initiative, with businesses from both countries involved in the planning and conduct of activities.

5.70 In April 1997, AIDA Ministers agreed to establish six sectoral working groups, involving government and business in the following areas: tourism; transportation; agriculture, fisheries and animal husbandry; education and training; mining and energy; and trade and industry. In addition to the working groups, a number of other initiatives under the AIDA umbrella have also been announced. The Australian Government has indicated that it will establish two honorary consulates in the region (the first in Kupang), and has also implemented a system of Visa Agency Agreements to facilitate the grant of Australian visas for Indonesians.<sup>71</sup>

## APEC

5.71 Although Australia's relations with ASEAN remain primarily informed by our bilateral links with ASEAN member countries, they are also increasingly strengthened through regional involvement in the Asia Pacific Economic Cooperation (APEC) initiative. Since its inception in 1989, APEC has developed quickly to become the 'preeminent economic institution of the Asia Pacific region', and as a result, is now viewed by the Australian Government as central to our efforts at improving regional cooperation. It provides a forum for consultation and dialogue on a range of trade and investment issues, and a framework for common approaches to further trade liberalisation and economic integration.

5.72 Australia's linkages with ASEAN through the APEC forum are developed at a number of levels. Most prominently, Australia-ASEAN dialogue is pursued through the APEC Leaders summit which has been held annually around November since 1993. Australian and ASEAN ministers are also involved in the annual APEC Ministerial meetings and in a growing number of specific portfolio meetings; for example: trade, treasury and finance; transport; energy; environment and sustainable development; and human resources development. Government officials from APEC countries also meet for discussions in a range of areas as part of the APEC calendar of activities. Private sector activities, which are now an important element of the APEC program, are strengthening the business-relevant focus of APEC and private sector linkages across the region.

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70 *ibid.*

71 Exhibit No. 55(D), *op. cit.*, p. 7.

## CER-AFTA Cooperation

5.73 Interest in closer economic cooperation between Australia and ASEAN over the past five years has, to some extent, been informed by the success of our own 'open regional' trade arrangement with New Zealand. This arrangement, comprising the Australia New Zealand Closer Economic Relations Trade Agreement (1983) and a group of related bilateral agreements (together referred to as CER), has in a relatively short period become one of the more advanced, comprehensive regional trade arrangements in the world. In addition to greatly expanding trade and investment flows across the Tasman, CER has also developed a substantial program of collaboration on trade facilitation issues, such as harmonisation and mutual recognition of standards and customs procedures. In this context, CER has provided both an example of the benefits of progressive trade liberalisation on a regional basis and a useful model for ASEAN's own regional economic cooperation programs.

5.74 The idea of developing linkages between AFTA and CER was first mooted in late 1993, when the then Deputy Prime Minister of Thailand, Dr Supachai, suggested that AFTA should establish linkages with other regional trade areas, including CER, as a means of enhancing multilateral efforts to further liberalise international trade. Australia and New Zealand welcomed Dr Supachai's comments, and jointly agreed to pursue the idea of developing linkages with AFTA through high level representations in ASEAN countries, beginning with the Australian and New Zealand Prime Ministerial visits to the region in 1994. Over the next two years ASEAN and CER Ministers and Senior Officials held a number of informal talks, which led to agreement on a number of priority areas for cooperation. These areas included: exchange of information; human resource development; customs matters; standards and conformance; trade investment and facilitation; competition policy and industrial cooperation.<sup>72</sup> Further agreement was found on the need to emphasise practical, business-oriented activities, which would facilitate trade and investment while reducing transaction costs and procedures.

5.75 The first phase of the CER-AFTA work program, which began in 1996, focussed on improving access to and sharing of trade and investment related information, and included the creation of a CER-AFTA customs compendium, the development of a trade and investment database, and the publication of material on CER standards and certification requirements in ASEAN technical journals.<sup>73</sup> Further progress in the CER-AFTA link was made in September 1996 with the signing of the first agreement between CER and ASEAN countries, the Memorandum of Understanding (MOU) concerning Cooperation on Standards and Conformance. Building on this MOU, the 1997 CER-AFTA work program has looked to further cooperation on standards and conformance, particularly in the areas of mutual recognition, and development of accreditation of certification procedures. Other activities prioritised by Ministers included a range of customs activities, joint studies to examine the medium to long term developments of the CER-AFTA linkage, and cooperation in services sectors, such as transport and tourism.

5.76 At the Third AEM-CER Informal Ministerial Consultations in Malaysia in October 1997, Ministers expressed 'satisfaction with the development of the Linkage to date in facilitating trade and investment flows between the region', and noted the substantial progress made in areas such as information exchange (accreditation of quality system and

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72 DFAT Submission, p. S419.

73 *ibid.*

certification bodies, technical information on standards etc), and conformance on international standards. However, Ministers also 'recognised the need to intensify activities under the CER-AFTA linkage'.<sup>74</sup> They identified a number of additional areas for CER-AFTA cooperation, which included: human resource development; investment promotion; services sectors such as building and construction; and electronic commerce.<sup>75</sup> These areas presumably will be gradually incorporated into an expanded CER-AFTA work program, however details of specific activities have yet to be released.

5.77 In addition to Ministerial level consultations and work programs carried out by government, CER-AFTA has also seen the development of linkages between the region's business communities. In 1996 the ASEAN-CER Business Forum was established, primarily to encourage networking between the ASEAN and CER business sectors, but also to facilitate business sector dialogue on issues affecting CER-AFTA relations and in particular, means of progressing the CER-AFTA linkage. ASEAN-CER business linkages have also provided a valuable forum for the business sector to feed into the CER-AFTA 'first track' process. At the Third AEM-CER Informal Ministerial meetings in September 1996, ASEAN and CER business representatives were requested to prepare a list identifying significant barriers to trade and investment in ASEAN and CER, and report on priority areas for future cooperation between the two groupings.

5.78 At the time of writing, work by both the ASEAN Chamber of Commerce and Industry (ASEAN-CCI) and Australian and New Zealand business representatives on identifying barriers to trade and investment had been completed and presented at the Third AEM-CER Ministerial Consultations in Malaysia in October 1997. ASEAN and CER business leaders have also established a Working Committee to develop mechanisms and strategies to promote closer economic cooperation, which, in consultation with ASEAN and CER officials, is scheduled to report to the fourth Ministerial meeting in Philippines in late 1998.

5.79 Australian industry associations have been particularly active in supporting the development of the AFTA-CER linkage, both in Australia and overseas. For example, an MTIA delegation visited Indonesia, Malaysia, Singapore and Thailand in February 1997 for discussions with business leaders aimed at maintaining the momentum of ASEAN-CER business consultations. Further, following a specific request from AFTA business leaders at the first ASEAN-CER Business Forum in September 1996, MTIA established the ASEAN CER Liaison Secretariat, which will act to coordinate Australian industries' interface with the ASEAN business sector, the Australian Government and the New Zealand Business sectors.<sup>76</sup>

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74 Exhibit No. 47, Joint Press Statement, Third AEM-CER Informal Ministerial Consultations, 17 October 1997, p. 7.

75 *ibid.*

76 MTIA Submission, p. S245.

## CER-AFTA Linkage

5.80 Much of the evidence received by the Committee on Australia's economic relations with ASEAN centred on the question of whether Australia should pursue a free trade arrangement or merger between AFTA and CER. The idea of an AFTA-CER free trade area is not new, in fact there has been considerable, if fluctuating, interest in extending the AFTA arrangement to include Australia and New Zealand from the time the AFTA initiative was first proposed in 1992. Certainly the idea of a merger has a ready logic. As Lloyd notes:

AFTA and CER are geographically close and they are the only two regional trade arrangements in the East Asia/West Pacific region. Both ... are outward looking regional trading arrangements which have lowered external trade barriers vis-a-vis outside countries during the period of regional trade liberalisation. For more than a decade Australia has put primary emphasis in trade policy on relations with Asia and the Pacific ... Given these developments and the proposals for links between other regional trading arrangements which are emerging in other parts of the world, it is not surprising that a link between AFTA and CER has been raised.<sup>77</sup>

5.81 However, interest in an AFTA-CER merger has been dampened by a number of factors. At a practical level, Australia's GATT commitments meant that it could not seriously contemplate an CER-AFTA merger until the latter covered substantially all intra-regional trade. Not surprisingly, given the infancy of the initiative, AFTA coverage has excluded a number of areas, including agricultural products and services, which it has only recently begun to address. More importantly, following the conclusion of the GATT Uruguay Round in late 1993, Australia's interest in multilateral trade reform quickly shifted to the APEC forum, and prospects of further non-discriminatory trade liberalisation across a region which included most of Australia's largest trading partners. In this light, a preferential trade arrangement with ASEAN was seen as promising fewer benefits to Australia than continued liberalisation on an APEC-wide basis, and as such became a lower priority. Lloyd's assessment in 1995 perhaps reflects the consensus view of government and policy makers at the time:

At the present time the AFTA and CER countries should defer detailed consideration of any trade liberalisation through a link as this could divert energies from the negotiations at the multilateral and APEC levels. Moreover, if APEC succeeds in achieving the goal of free and open trade and investment, by either a preferential or non-preferential modality, an AFTA-CER link within the APEC region will be redundant ... If multilateral trade liberalisation through the WTO and APEC falters, an AFTA-CER link becomes an important possibility.<sup>78</sup>

5.82 The Committee recommends that:

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77 Exhibit No.14(w), P J Lloyd, *Neighbours: Should AFTA and CER Link?* Australian Economic Review No. 111, July 1995, p. 6.

78 *ibid.*, p.14.



**3. the Federal Government, in close consultation with Australian industry and business groups, review the impact of AFTA on Australia's trade and commercial interests.**

5.83 To a large extent, the Australian Government's position on an AFTA-CER merger does not appear to have changed radically. The recent foreign and trade policy white paper, *In the National Interest*, emphasises that improving Australia's connections with AFTA is a priority;<sup>79</sup> however, it is clear that the Government conceives the evolving CER-AFTA linkage as furthering Australia's trade facilitation objectives in the region, rather than as a vehicle for expanded regional trade liberalisation.<sup>80</sup> In oral evidence to the inquiry, DFAT officials indicated that Australia, like the other participants, primarily views the CER-AFTA dialogue as a mechanism for exploring ways of facilitating business linkages and exchanges in the region.

Where the process may evolve is still uncertain and has not been resolved on both sides. Both sides, though, are strongly committed to concrete business-relevant actions and see the facilitation agenda as very much supporting and complementary to the APEC business facilitation agenda.<sup>81</sup>

5.84 Continued Australian interest in developing the CER-AFTA linkage into a preferential trading arrangement then, has largely been generated by sections of Australian industry and business, as well as by some state and territory governments. The Committee received evidence from a number of bodies encouraging the Australian Government to explore the options for closer economic relations between CER and AFTA, including that of a trade liberalisation arrangement.

5.85 At the state level, the Northern Territory Government suggested that, 'without diminishing or excluding other relations, Australia should be focusing on the development of closer economic relations with ASEAN to at least achieve a Closer Economic Relations-type of agreement or participation in AFTA'.<sup>82</sup> The Government of Western Australia similarly emphasised its support for the 'development of stronger linkages between CER and AFTA as a viable means of strengthening Australia's future trade and investment integration' with the region, and as a means of ensuring that the AFTA region 'stays as open as possible to two way trade and investment between Australia and ASEAN'.<sup>83</sup> On this point, the WA Government indicated that it 'would like to see CER-AFTA broadened effectively so that there is an overall linkage if at all possible, so that there may be some joint setting of tariff reductions...'.<sup>84</sup>

5.86 Business and industry association groups also expressed support for an AFTA-CER trade arrangement. In their submission to the inquiry, the Australian Electrical and Electronic Manufacturers' Association (AEEMA) argues that while the focus of the existing CER-AFTA program on customs procedures and product standards has definite merit, the gains from such activities are insignificant if there are also large barriers impeding trade with

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79 Exhibit No. 55 (a), op.cit., p. 45.

80 Exhibit No. 55 (j), op. cit., p. 38.

81 DFAT Transcript, p. 6.

82 NT Government Submission, p. S683.

83 Government of WA Submission, p. S915.

84 WA Government Transcript, p. 381.

the region. It maintains that the simple solution is for Australia to aggressively pursue the incorporation of CER within AFTA, while at the same time working to reduce tariffs within the APEC framework.<sup>85</sup>

5.87 The Metal Trades Industry Association (MTIA) largely echoes the view of AEEMA. It emphasises that, given Australia's trade interests in the ASEAN region and the more immediate time frames for the achievement of free trade under AFTA compared with the APEC trade and investment liberalisation agenda, a priority objective of Australian trade policy in the immediate term must be the pursuit of closer links between AFTA and CER.<sup>86</sup> According to MTIA, such a link would promote or support the APEC liberalisation process, by assisting the South East Asian economies to address liberalisation in a more manageable or 'bite-sized' context.<sup>87</sup>

5.88 MTIA's strong interest in a CER-AFTA trade arrangement has recently lead the organisation to commission the Centre for International Economics (CIE) to assess the economic benefits and costs of such a link. The CIE study, released in September 1997, focuses on quantifying the economic benefits of liberalising trade between AFTA and CER, through econometric modelling of the effects of the removal of tariff barriers between the two arrangements. It also considers some of the non-quantifiable benefits and costs to both parties of CER joining AFTA.

5.89 In short, the CIE study found that the measurable economic dividends of an AFTA-CER merger are likely to be small, and dwarfed by those resulting from the implementation of the APEC trade liberalisation agenda (estimated by the CIE to be potentially five to ten times greater than CER-AFTA gains). The study found that liberalised trade between AFTA and CER by the AFTA target date of 2003 would generate an estimated increase in GDP of US\$16.1 billion across the region. The gains of a free trade area for both groupings was estimated at US\$9.8 billion for ASEAN, US\$5.3 billion for Australia.

5.90 However, the study also emphasised that a CER-AFTA linkage would deliver a number of benefits to Australia, including: the expansion of trade as a result of removal of tariff and non-tariff barriers facing non-AFTA partners; improvement in productivity as a result of dynamic effects of increased integration, including greater competition and the exploitation of economies of scale; fostering of closer business links (strengthening business networks) and cultural exchange; and increased foreign investor interest in response to the creation of a larger integrated market and production/consumer base. Further the CIE study emphasised that a CER-AFTA trade arrangement would provide important stimulus to trade and investment liberalisation through the APEC initiative and future WTO multilateral trade negotiations by encouraging members of the new arrangement to improve their institutional capacity to address regional and global trade issues.<sup>88</sup>

5.91 The Committee supports the Australian Government's current efforts to develop closer linkages between CER and AFTA focused on improving areas of trade facilitation (for example, customs harmonisation, standards, trade promotion and transport). It echoes the view that Australia's regional trade, investment and commercial interests are best served, at

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85 AEEMA Submission, p. S269.

86 MTIA Submission, p. S240.

87 MTIA Transcript, p. 602.

88 Exhibit No. 55(d), DFAT, Asialine, October 1997, p. 8.

this stage, by strengthening the APEC program for realising trade and investment liberalisation in the region by 2020 (2010 for developed APEC economies). In this way, closer CER-AFTA relations should proceed in a manner which is complementary, and hence supportive, of the APEC process.

5.92 The Committee recommends that:

4. **the Federal Government further develop the existing program of CER-AFTA cooperation, and explore the possibility of expanding the initiative to include liberalisation on a sectoral basis, for example in the area of services.**

## **Assessing Australia's Trade and Investment Performance**

5.93 In the course of the inquiry, the Committee heard views from a range of witnesses from government, non-government and the private sector on the strength and weaknesses of Australia's trade and investment relations with ASEAN. Most witnesses welcomed the efforts of the present Federal Government to focus on strengthening bilateral trade and investment links with ASEAN members. There was also general support for efforts to balance bilateral approaches to ASEAN with a regional strategy that encompasses closer CER-AFTA cooperation, Australian participation in sub-regional initiatives such as the Mekong River Development Cooperation scheme, as well as linkages through the APEC initiative. Moreover, this complementarity of policy approach will become more effective as ASEAN regionalism, particularly with regard to economic cooperation and trade liberalisation, consolidates, and ASEAN member countries adopt a more regional perspective in their economic relations with Australia.<sup>89</sup>

5.94 Witnesses to the inquiry also drew attention to the growing strength of Australia's private sector linkages within the ASEAN region. Austrade, for example, pointed to the development of strong Australian business networks in the region over the past five to eight years:

Twenty years ago they were highly fragmented; now there is a strong core of Australian business networks. There are formal ones such as business councils...as well as informal groups. They are extremely valuable networking groups, and a change from past years. So the support structure for Australian companies entering the market is very strong.<sup>90</sup>

5.95 The importance of the business and industry linkages was also touched upon by organisations such as the Australian Chamber of Commerce and Industry (ACCI), the Chamber of Commerce and Industry of Western Australia (WACCI) and the Metal Trades and Industry Association (MTIA).

### *Export Promotion Efforts*

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89 DIST Submission, p.S541.

90 Austrade Transcript, p.28.

5.96 Although it is beyond the scope of this report to assess in any detail Australia's export promotion efforts in the ASEAN region, it is worth briefly focussing on the activities of Austrade, the State Government trade promotion offices and trade-related programs of other Commonwealth agencies. The Committee notes that, since the last report in 1984, the Australian Government, as well as the Australian private sector, has radically improved its approach to promoting Australian trade and investment interests in the South East Asian region. Partly this is a result of the increasingly 'outward' orientation of the Australian economy in general, but it also reflects the emphasis placed by the Australian Government on the diverse range of Australian export capabilities.

5.97 Austrade, in its submission to the inquiry, states that while the agency has expanded its coverage of the ASEAN region, it has also engaged in more careful targeting of resources and objectives. In 1995-96, Austrade's ASEAN offices assisted over 10,000 Australian business visitors (the highest volume of Australian business visitors of any region in the world), reflecting the high level of Australian commercial activity in the region.<sup>91</sup> Much of this assistance has focused on identify commercial opportunities and providing business-matching services for Australian companies. Austrade has a regional network, consisting of offices with Australian-based staff in most ASEAN capitals (with the exception of Brunei and Burma), as well as a number of specialist offices in Bandar Seri Begawam, Rangoon, Phnom Penh, Penang and Surabaya. With increasing market diversification and cross border opportunities emerging in the region, it is expected that Austrade's network will expand to other regional centres, such as Medan (Sumatra), Balikpapan (Kalimantan), and cities in East Malaysia, the Southern Philippines and Southern Thailand.<sup>92</sup>

5.98 In addition to its regional offices, Austrade also has an Investment Commissioner based in Singapore with responsibility for attracting inward investment from South East Asia. Investment promotion activities to date have focused primarily on Singapore, Malaysia and Indonesia; the former two have strong interests in property development and increasingly, manufacturing and services industries. In Australia, Austrade's northern regional office in Darwin is also integrated into the South East Asian network. This arrangement has been designed to access potential commercial opportunities flowing from Northern Australia's developing links with East Asian sub-regional growth areas, such as BIMP-EAGA and AIDA.<sup>93</sup>

### *Support for State Governments*

5.99 Austrade has also developed close relations with a number of State and Territory governments in their attempts to promote state trade and commercial interests in the ASEAN region. State government offices have been established in a number of ASEAN countries over the past ten years, particularly in Indonesia, and are often based on sister state and sister province relationships. These include the WA Government trade office in Surabaya, the Victorian and South Australian trade office in Jakarta, and the proposed Queensland office in Jakarta. Other state government trade and investment development offices in the region include the WA office in Kuala Lumpur and the South Australia office in Singapore.<sup>94</sup> These

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91 Austrade Submission, p. S283.

92 *ibid.*, p. S297.

93 *ibid.*, p. S286.

94 Austrade Transcript, p. 32.

offices are assisted by Austrade's offices in the region, and to a large extent dovetail with Austrade's trade and investment promotion activities in various ASEAN markets.

5.100 In April 1997, Austrade negotiated an agreement with the Western Australian Government to establish a state-dedicated position in Austrade's Bangkok office, which will service state entrants to specific markets within the federal framework for trade and investment promotion provided by Austrade. The position is funded by the Western Australian Government Department of Trade and Commerce, but will be covered under the Austrade act (effectively making the occupant of the position an Austrade employee), which, it is hoped, will reduce potential conflict of interest. Austrade notes that this arrangement, known as the Bangkok model, may become the basis for further trade promotion cooperation with other states in future.

5.101 The Committee strongly supports the Austrade-WA Government initiative and recommends that:

5. the Federal Government explore ways in which the provision of state-funded, state-dedicated Austrade resources for trade and investment promotion (Bangkok model) can be extended to other states and territories.

#### *Feedback*

5.102 The inquiry canvassed views from a range of witnesses, both state government and business, on the effectiveness of Austrade in assisting Australian companies to identify and take advantage of commercial opportunities in the ASEAN region. The general response was positive - most witnesses viewed Austrade as providing a valuable resource for Australian business, particularly in terms of assisting companies establish contacts and networks, in ASEAN's markets.<sup>95</sup> Other witnesses emphasised the profile which Austrade was able to bring to Australian firms attempting to establish a presence in the ASEAN region:

Austrade have a lot of pull quality; they can pull in high-level speakers...and raise awareness of things, but in doing business it is the personal link and the follow through of years of connections and introduction from Austrade which really helps, because a guy who has worked for [Austrade] for 15 years gives you a quantum leap into starting to talk about business.<sup>96</sup>

5.103 A number of witnesses, however, did raise concerns over aspects of Austrade's operations. The Chamber of Commerce and Industry of Western Australia (WACCI) noted that Austrade's focus has tended to be on the larger established companies, and that smaller firms and first time and potential exporters have had some problems accessing Austrade's services.<sup>97</sup> These problems have, to some extent, been compounded by the rationalisation of Austrade's domestic structure in response to budget cuts over the past three years. For a number of firms, particularly firms in the more remote states, the cutbacks have effectively made the gateway to Austrade's services more narrow and difficult. Again the WACCI notes:

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95 *ibid.*, pp. 406-407.

96 *ibid.*, p. 344.

97 *ibid.*, p. 408.

The Austrade office ... in Perth has effectively got three or four people in it now, compared to 20 or 30 staff, going back 10 years ago. Those staff who are there to help exporters or, more importantly, would-be or potential exporters, are very, very thin on the ground indeed. So, more and more, you see the smaller companies turning to other agencies (such as the WA Government Trade Office) for assistance, both here and overseas.<sup>98</sup>

5.104 Other witnesses raised concerns over Austrade's fee for service approach, both in terms of the value of the service provided, and the service-client relationship engendered by such an arrangement. Witnesses in the Northern Territory noted that the standard of the service provided by Austrade in ASEAN posts varied considerably, and that in some instances, those services lacked the quality of services available through private sector consultancies.<sup>99</sup> It was also noted that Austrade's fee for service approach has in the past created perceptions that Austrade's focus was more on obtaining payment than developing a working relationship with businesses attempting to enter the region.<sup>100</sup> Again, this appeared to be more a problem for smaller companies and would-be exporters, particularly with regard to the cost of Austrade's services vis a vis other agencies.

### *Tied Aid Schemes*

5.105 Another issue touched on by the inquiry is the extent to which elements of Australia's official development assistance (ODA) program should be used to further Australia's trade and investment interests in the ASEAN region. In particular, the Committee heard evidence from a number of witnesses on the effects of the removal of the Development Import Finance Facility (DIFF) scheme on the competitiveness of Australian business in the ASEAN region. For example, AEEMA argued that the removal of concessional finance provided by DIFF makes it practically impossible for Australian firms to compete for non-commercial, infrastructure type projects, as all other major Western countries provide a mixed credit aid scheme for their firms. A number of businesses reported that while the DIFF program clearly had weaknesses, it was nonetheless, another mechanism by which Australian companies could access opportunities in developing country markets which are becoming increasingly competitive. In the context of Australia's aid program, export assistance through a DIFF-type scheme should not necessarily be viewed as counter-productive to poverty alleviation or other development objectives:

If we have [the aid program] correctly focused on ensuring that the host country still has a very strong say in what is happening and what the program is in their country, there is no reason why Australian companies still cannot deliver those goods.<sup>101</sup>

[Lots] of other countries aggressively practise tied aid, and they get due kudos for the whole exercise. We have a limited aid program and a limited aid budget to spend, and I think we should be trying to attract

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98 *ibid.*

99 *ibid.*, p. 346.

100 *ibid.*, p. 409.

101 *ibid.*, p. 387.

as much benefit in as sensible and proper terms for Australian business and commerce.<sup>102</sup>

5.106 Other witnesses to the inquiry questioned whether continued subsidisation of Australian exporters, in this case through tied aid projects, would benefit industry in the longer term. It was noted that there was little statistical evidence to suggest that the DIFF scheme had helped Australian companies improve competitiveness; moreover there was little evidence to suggest that DIFF-type schemes enabled companies to secure market share in the region.

5.107 The issue of how Australia should be seeking to maintain competitiveness in the face of foreign mixed credit schemes is a long standing one, and raises difficult questions of both Australia's trade and official development assistance policy objectives. The Committee acknowledges that, in the short to medium term, Australian businesses attempting to tender for development projects in the ASEAN region, may be further competitively challenged by the lack of government support through a tied aid, mixed credit facility. It however supports the view that, in the longer term, Australia's trade and commercial interests are best served by efforts to reach international standards in terms of cost competitiveness, and that government assistance for business, through export facilitation or tied aid, should not be linked to Australia's ODA program and objectives.

5.108 The Committee concludes, however, that there may be some merit in considering a limited, mixed credit scheme as part of Australia's trade budget. It recommends that:

**6. the Federal Government review the possibility of introducing a mixed credit scheme for Australian firms undertaking infrastructure projects in the Asia Pacific region, to be administered by the Trade portfolio with due regard to Australia's ODA program objectives.**

*Australian Investment in ASEAN*

5.109 A number of witnesses to the inquiry addressed Australia's relatively low (and declining) level of direct investment in ASEAN as an issue of concern, both for policy makers and Australian business interests in ASEAN markets. As DIST noted, outwards direct investment is a prime method by which Australian companies can be integrated into the ASEAN regional economy. In 1980 Australian FDI stock in ASEAN countries accounted for 28 per cent of Australian FDI stock abroad, however by 1994 had fallen to around 6 per cent.<sup>103</sup> DFAT itself acknowledges that Australian direct investment in ASEAN has been 'disappointingly low'<sup>104</sup> to date, and can only be explained partly by impediments in individual countries. Other factors include the lack of investment complementarity between the ASEAN economies, deficiencies in the investment strategies of Australian companies, a lack of awareness of investment opportunities in ASEAN countries by Australian management, and of rules and regulations governing FDI in ASEAN countries.<sup>105</sup>

5.110 The Committee agrees with DIST's assessment that the issue of Australian industry direct investment in ASEAN and its policy implications for Australia require further

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102 *ibid.*, pp. 413-414.

103 DIST Submission, p. S546.

104 DFAT Submission, p. S413.

105 *ibid.*, p. S414.

analysis. Given the scope for expansion of Australian direct investment, both in response to the establishment of AFTA and the incentives provided by the ASEAN industrial and sub-regional initiatives, and the strategic advantages of reinforcing our commercial engagement in the region at the present time (particularly in relation to other major investors, such as the United States), the Australian Government needs to focus more attention on investment facilitation and promotion efforts in the region.

## **Prospects for Trade and Investment Growth**

5.111 Despite recent economic difficulties in the region, which are likely to result in depressed demand for Australian exports in key ASEAN markets, the prospects for continued growth in two-way trade in the long run remain solid. Given predicted growth in average per capita income across the region, anticipated rapid industrial development in a number of economies (brought about by economic liberalisation), such as Vietnam, ASEAN demand for consumption and capital goods should continue to grow at a healthy rate. Australia remains well positioned to capitalise on this demand, particularly in the areas of commodities and food products, minerals and metals for industrial processing, fuels and value-added manufactures. Moreover, as Australian industry continues to improve its competitiveness in response to further liberalisation of the Australian economy, our share of ASEAN markets for goods and services has the potential to increase further.

5.112 Most witnesses to the inquiry support the view that ASEAN will continue to present major trade and investment opportunities for Australia in the medium to longer term. Austrade identifies a number of areas of development in ASEAN of particular potential for Australia, including:

- infrastructure, especially in power, environmental management and telecommunications;
- rural areas, which in many cases possess a range of infrastructure and industrial development needs;
- transport links, especially roads and railways, but also major airports;
- social infrastructure, including health and education (especially vocational training);
- tourism (including inbound tourism to Australia and construction and management of tourism facilities in South East Asia, for example in the area of eco-tourism); and
- transfer of technology for use in new, higher value-added manufacturing and technology-based industries (for example software applications).<sup>106</sup>

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106 Austrade Submission, p. S294.



