

Business
Council of
Australia



**BUSINESS COUNCIL OF AUSTRALIA SUBMISSION ON AUSTRALIA US FREE
TRADE AGREEMENT (AUSFTA) TO JOINT STANDING COMMITTEE ON
TREATIES**

19 APRIL 2004

The Business Council of Australia (BCA) is pleased to be given the opportunity to provide a submission to the Joint Standing Committee on Treaties on this vital Free Trade Agreement with the United States. The BCA represents 100 of Australia's leading companies, covering all sectors of the economy. Through its contribution to public policy debates the Council aims not only to promote the competitiveness of Australia's business environment, but to promote and enhance the welfare of the Australian community.

Global economic integration brings countries closer, encouraging them to exploit comparative advantage for mutual economic benefit. There is substantial and comprehensive evidence that global economic integration has been an overwhelmingly a positive force for world economic growth, development and poverty reduction.¹ International trade and investment are critical to economic growth in Australia. Integration with the world economy has the potential to deliver significant benefits to Australians – wider markets leading to increased output, job creation, lower cost goods and services – as well as core dynamic benefits, increased competitiveness and greater welfare.

The Australia US Free Trade Agreement (AUSFTA) is a significant step towards providing Australia with the benefits of global economic integration by providing close economic links with the largest economy in the world. The AUSFTA will advance Australia's global economic engagement, throughout the twenty-first century. The impact on Australia's economy will be far-ranging, touching most aspects of economic activity and providing dynamic and long-term benefits. Many of the

¹ World Bank (2002), "Globalization, Growth and Poverty", Washington DC, at econ.worldbank.org/prr/globalization/text-2857/, Dani Rodrik (2001), *The Global Governance of Trade as if Development Really Mattered*, UNDP, New York, October.

benefits will be immediate, for instance the Agreement has already fostered goodwill between business parties in both countries even before signature.

The Business Council commends the Australian Government for securing AUSFTA, being only the third trade agreement between developed countries. The AUSFTA strengthens Australia's position at the forefront of international trade liberalisation. There is intense global interest in negotiating regional and bilateral free trade agreements, and Australia has recently completed trade agreements with Singapore and Thailand, concluded a Trade and Economic Framework Agreement with Japan, and is currently investigating the benefits of an FTA with China.

If AUSFTA is not concluded on this occasion then it is feasible that this opportunity may simply be postponed and the benefits secured at a later date. However, if the current Agreement is delayed, the opportunity may also be lost.

Conditions for concluding a new agreement in future years are unlikely to be as favourable. The current goodwill felt by both parties may dissipate, while benefits flowing from well-nurtured, high-level personal contacts will be lost. Bilateral activity has accelerated rapidly in the last five years. Competition to secure access to emerging trading blocs will intensify further, making a second try with the US unlikely.

Failure to conclude an effective and progressive bilateral agreement with the United States either now or over the course of this decade will have substantial negative consequences for Australia.

The United States is Australia's number one trading partner. It is the world's largest importer and investor. Perhaps most importantly for Australia's future economic growth, the US is a world leader in technology, science, innovation, and research and development. For example the US comprises 40% of the world's IT market. Economic integration with such an economy is vital for Australia's growth, through investment and greater access to such significant markets. Australia's future growth will also be determined by our ability to take advantage of technology transfer and systems for expanding our own innovation, research and development and technology.

Failure to conclude the Agreement will damage Australia's relative global position. Potential jobs will be forfeited, as will access to rapidly growing sectors of the US economy. Other countries will take advantage of the benefits available from rapid technological integration with the US economy through bilateral agreements. Valuable opportunities for technology transfer – the key to growth in technical industries – will be sacrificed.

The BCA recognises that Australian business, in concert with Government, must take a leading role in developing AUSFTA's opportunities, if they are to be fully realised.

Supporting growth in the twenty-first century – manufactures, services and investment

Primary benefits flowing from the Agreement are those surrounding manufactures, investment and services.

The AUSFTA provides duty-free access from day one for over 97 per cent of Australia's manufacturing exports to the US, worth nearly \$6 billion last year.² This will grow in the future and the Australian manufacturing industry has already begun to factor in the benefits of increased export access in this sector such as niche industries like chemicals and motorbikes,³ and some of Australia's largest manufacturing exporters like winemakers and the auto industry.⁴

As two mature economies, Australia and the US rely increasingly on the production and trade of services to support their growth and welfare. The services sectors in both economies generate between 70 and 80 percent of GDP. Services industries generate most new jobs in today's advanced economies. The United States has the largest and most competitive services sector in the world and the Australian economy can benefit from closer integration in that market.

Services in the information technology sector are having the most dramatic economic effect – evidenced by the strong increases in productivity in distribution, logistics and wholesaling. The United Nations Conference on Trade and Development (UNCTAD) finds the productivity gains that IT has generated in the production and distribution of goods and services to among the two primary mechanisms through which IT has delivered its macroeconomic benefit,⁵ particularly in the United States, Canada and Australia, where such technology has penetrated these functions the furthest.⁶ UNCTAD notes as examples: IT's use in warehousing, cargo, handling, and distribution to process orders with suppliers and customers, which have generated "substantial inventory-holding cost savings and resulted in highly efficient processing of orders."⁷

AUSFTA enhances both growth and employment in the Australian services sector. The Agreement ensures that Australian service providers receive treatment equal to other foreign service providers in the US. Progress in multilateral services liberalisation involving the US has been slow and modest. Legal benefits for the service sector under AUSFTA are immediate and comprehensive.

Gains on investment are equally impressive. Investment supplements and compliments trade in services. Key services, such as property development and retail management, cannot be delivered in foreign markets without investment in a commercial presence.

Australia has investments in the US of around US\$190 billion, and US investment in Australia is around US\$240 billion.⁸ While Australian foreign investment abroad brings economic return, US investment in Australia carries intangible skills that are

² Source: ABS.

³ "Trade deal opens up US market for Symex", The Age, Business 3, 11/02/04, "Cheaper wheels to drive motorbike market", Andrew Dodd, The Australian, 10/02/04, Page 13.

⁴ "Winemakers toast the FTA's potential of \$30m in savings", The Australian, 11/02/04 Page 24, "Auto industry to make inroads into commercial sector", Ian Porter, The Age, 10/02/04, Page 4.

⁵ UNCTAD (2003) E-Commerce and Development Report 2003, Internet edition prepared by the UNCTAD Secretariat, pages 41 and 45, available at www.unctad.org/en/docs/ecdr2003ch2_en.pdf.

⁶ Organisation for Economic Co-operation and Development (OECD) (2003), "ICT and Economic Growth: Evidence from OECD Countries, Industries and Firms", DSTI/IND/ICCP (2003) 2/FINAL, Paris, OECD, 22 April.

⁷ UNCTAD, op. cit.

⁸ Source: ABS.

vital for the competitiveness of the Australian economy and supports activities that would otherwise not be undertaken (on the back of Australian investment alone).

The AUSFTA ensures that Australian investors receive treatment equal that of local investors. It raises significantly – in some cases waiving completely – value thresholds for screening US investors in Australia. Increased inflows of capital to Australia assist economic growth through providing greater access to capital.

The outcomes on investment are particularly valuable to Australia. They involve the world's largest investment market, and more importantly, cannot be delivered through multilateral negotiations. AUSFTA is the sole opportunity for Australian business to secure these rights.

The outcomes on manufacturing, services and investment will create more jobs and increased wealth in the Australian economy. These effects will be on-going and will grow over the long term.

As effective as the Agreement is, there are some very important outstanding issues that have not been included in the AUSFTA. As is demonstrated in the EU and Australia New Zealand Closer Economic Relations Trade Agreement, the full benefits of economic integration are only secured when there is freedom of movement of all of the factors of production – goods and services, capital and labour. The exclusion of mechanisms to enable Australian and US citizens or even business personnel to move and work more freely between the two countries in the AUSFTA was unfortunate. The recent adverse security situation as a result of terrorism has added to the difficulty of securing these benefits in the AUSFTA.

Two key barriers to service provision abroad are the lack of recognition of professional qualifications, and barriers to the provision of temporary visas for professionals. The AUSFTA does not provide immediate mutual recognition for qualifications for engineers and architects. While accountants and lawyers' qualifications are recognised, bureaucratic visa application processes makes service provision more costly. These barriers inhibit Australia's capacity for service exports, limiting also the scope for technology transfer that occurs when professionals move freely back and forth between Australia and the world's most technically advanced economy.

The Business Council considers that negotiating an agreement with the US to liberalise movement of people and business personnel between the two countries should become a key national objective in the Australia/US bilateral relationship, as part of the implementation of the AUSFTA. If this is not secured, we will not be able to secure the full benefits the AUSFTA offers.

Similarly, securing the full value of the commitments on services will require a committed and dedicated effort in Government to remove barriers to recognition of professional qualifications and to prevent national industrial and technical standards from being impediments to business. These are not glamorous issues, but often they mean more to the success of efforts to expand business in foreign markets than headline results. A deliberate attempt must be made to ensure that these issues do not just become part of the ongoing dialogue between diplomats on outstanding issues in the bilateral relationship, but are endorsed as a high priority in the implementation of the AUSFTA, and supported by a discrete program with concrete targets and timelines.

Agriculture

AUSFTA delivers substantially-improved access for Australia's agricultural sector, including for our beef and dairy producers, with more than 66 per cent of agricultural tariffs going to zero from day one of the Agreement. This is an important outcome for Australian agricultural producers.

The Business Council notes that ideally results on agriculture would have been immediate and comprehensive. However, we recognise that the political environment meant that this goal was unattainable through this bilateral Agreement. The Australian negotiators should be recognised for pushing as hard as they were able while not jeopardising the Agreement's crucial gains in other areas.

The Agreement does not damage Australia's credibility as a lead negotiator and campaigner for freer agricultural markets. The Agreement – coupled with Australia's impressive record of unilateral tariff reductions – highlights this protection for scrutiny, bringing further pressure on key parties such as the US and the European Union to reduce barriers to their agricultural markets.

Parallel multilateral and bilateral negotiations

The best prospects for enhancing the openness of the global economy are through agreements struck in the WTO framework. However, interest in negotiating bilateral and regional agreements is intense. Today around 43% of international trade occurs under Free Trade Agreements (FTAs).⁹ To ignore this activity is unwise and will compromise the competitive position of Australian business. For over 15 years, multilateral, regional and bilateral negotiations have proceeded in parallel, all producing valuable results. High quality bilateral agreements such as AUSFTA deliver advanced economic integration. FTAs, when properly constructed, are consistent the rules of the General Agreement on Tariff and Trade and the World Trade Organisation. For instance GATT Article XXIV allows FTAs between members recognising "the desirability of increasing freedom of trade by the development through voluntary agreements of closer integration between countries party to such an agreement." FTAs can provide the competition to keep multilateral talks on track, and where negotiations within the WTO become intransigent bilateral negotiations can provide fresh models and options as a solution.

The Business Council does not see the pursuit of high quality bilateral agreements such as Australia New Zealand Closer Economic Relations Trade Agreement and AUSFTA as diminishing Australia's achievements in multilateral negotiations. AUSFTA delivers benefits not readily available through multilateral negotiations – such as the liberalisation of investment regimes – and is a plank for pursuing multilateral goals. AUSFTA increases pressure on the US and other trading partners to liberalise trade and investment regimes bilaterally and multilaterally.

The experience of members of the Council since the debate and negotiation over the FTA began is not that their capacity to do business in East Asia has diminished. Important investment and trade deals have been completed during that time. The Business Council considers that completion of the AUSFTA is complementary to

⁹ Griswold Daniel T. (2003) *Free Trade Agreements, Stepping Stones to a More Open World* Washington, DC.

negotiations with key East Asian economies to expand trade and investment. It supports those activities and regards the set of activities, along with negotiations in the WTO, as essential to strengthening the base from which Australia will have to work to succeed in the global economy in the next 50 years.

The World Bank has recognised that Preferential Trade Agreements (that include the liberalisation of investment and removal of regulatory impediments) can enhance economic welfare. Such a benefit must not be ignored.¹⁰

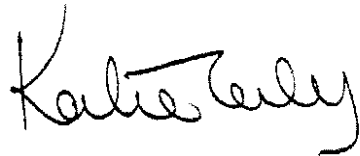
Conclusion

The benefits of AUSFTA are many and diverse. Foremost the Agreement provides a framework for global economic integration with the world's largest and most entrepreneurial economy. Through protecting service providers and investors the Agreement lowers the cost of international business. Through the lowering of regulatory impediments to trade in goods and services, the Agreement promotes job growth and prosperity.

The BCA supports and promotes the benefits of AUSFTA because it is such an important step towards the BCA's goals of increasing the competitiveness of Australia's business environment and enhancing the welfare of the Australian community. The AUSFTA will increase Australia's competitiveness through lowering the costs of doing business in both economies for instance, through reduced barriers to investment and professional services trade. The AUSFTA will ensure that welfare gains are available to society through job creation and economic growth.

The Agreement is a vital step in further consolidating Australia's position in the global economy. As such it must be embraced.

Yours sincerely



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¹⁰ World Bank (2002) *Trading Blocs*, World Bank, Washington, D.C.