



Page Research Centre Lecture

by the

Minister for Trade

&

Deputy Leader of the National Party

The Hon Mark Vaile MP

"Trade: a great wealth creator"

Sydney, July 7, 2003

(Check Against Delivery)

Federal President, Helen Dickie, State National Party Leader, Andrew Stoner, our host tonight John Azarias.

Ladies and Gentlemen.

It is an honour to be with you this evening at this the second Page Research Centre Lecture since the centre's launch earlier this year. I should also acknowledge the presence here tonight of Prue Regan, the grand daughter of Sir Earle Page, a founder of the Country Party in whose honour our party's research centre is named.

Since the middle of the last century as a nation, we have seen a major transformation of the Australian economy; this has been partly driven by a constantly changing international trading environment which has seen a significant re-alignment of our trading relationships.

One hundred years ago, we relied on the United Kingdom to consume half of our exports. Fifty years ago, that figure was a third. Today, no country accounts for more than a fifth, and we export to every major country and continent in the world.

Fifty years ago, the hackneyed phrase that Australia 'rode on the sheep's back' had much more than a grain of truth to it. By way of example, in the late 1940s, nearly 50 per cent of our export earnings came from wool, and rural products generally accounted for almost 80 per cent of Australia's export earnings.

Fifty years ago, prospects for expanding coal exports were still 'a gleam in the entrepreneurial eye', and manufactures, machinery and transport goods exports were insignificant.

And, Black Jack McEwen's landmark commercial agreement with Japan was still a decade away. In fact, Australia had the export structure of a 19th century economy.

You may well ask: What has changed the Australian economy since the 1940s?

Leadership and visionary trade policy has been a major contributor and it started following the 2nd World War, when John McEwen, the Leader of the Country Party and Deputy Prime Minister, led the way when he negotiated a comprehensive commercial agreement with Japan.

McEwen could see that we needed to lessen Australia's reliance on trade with the Commonwealth, and he courageously looked for greater market access in a country we had recently been at war with.

It proved fortunate that McEwen had such foresight because when the UK joined the European common market in the early 70's Australia might have been left high and dry. Instead we were in a position to further divert exports to Japan, who soon became our no.1 trading partner.

A bolder trade policy again emerged in the early 1980s in response to failed multilateral negotiations. The Leader of the Country Party, Deputy Prime Minister and Trade Minister, Doug Anthony challenged GATT Ministers in Geneva and told them that all countries had contributed to 'this sorry state of affairs' and all were responsible for fixing it.

At this point, Doug saw the need to deliver increased market access for our exporters and he set about opening up trade with the Arab world – the Middle East is today our fastest growing regional market with trade worth almost \$8 billion annually.

It is also, timely that we remember it was Doug Anthony who 20 years ago this year pioneered the negotiation of Free Trade Agreements by negotiating our first such agreement with New Zealand. The CER agreement between Australia and New Zealand is still recognised worldwide as one of the best Free Trade Agreements in existence.

I also want to give credit where credit is due, and acknowledge the important role played by one of my Labor predecessors, John Dawkins, who oversaw the birth of the Cairns Group in 1986. The group has become the third force in agriculture trade negotiations in the multilateral system – alongside the EU and the United States.

The Uruguay Round of multilateral negotiations – from September 1986 to April 1994 - resulted in outcomes which provided a fairer and more predictable environment for Australian exporters and investors, but fell well short of the expectations of our agriculture sector.

And then in 1996, when Tim Fischer as Leader of the National Party and Deputy Prime Minister took over the trade portfolio, he further strengthened our trade with the Middle East opening the Iranian market to Australian exporters, particularly wheat farmers. Tim also laid the foundation of a strong exporter base for Australia in his encouragement of business to become more involved in exporting.

These policies of seeking to diversify our trade and a commitment to trade liberalisation were right: for McEwen; for Anthony and for Fischer - just as they are right today.

Today, while agricultural and resource exports remain vitally important, the rapid growth in manufacturing exports has given us a diversified export portfolio.

At the same time, trade liberalisation has delivered tangible benefits to Australians, particularly the rural and regional Australians that the National Party represents.

Trade has delivered us increased economic growth, expanded employment, better family incomes and higher living standards. Today, 1-in-4 jobs in regional Australia is directly linked to trade.

To achieve this it is worth remembering that not only did Australia open its markets to trade, we also reformed our financial sector, increased competition in our markets for goods and services, and improved flexibility and productivity in our labour market. And, although I'm not going to talk about continuing reform tonight, we are a reformist Government with an ambitious forward agenda.

Within this framework our exporters have demonstrated great resilience and enterprise in the face of many challenges.

There is no question that the current international environment for Australian exporters and traders is a tough one.

- The drought continues to have a big impact on exports with rural exports falling by almost 15% in the 11 months to May this year to \$23.5 billion ;
- Global economic weakness has also contributed to a fall in exports of manufactures of 3% in 2002 to \$36.9 billion, while services exports rose marginally (0.3%) to \$31.7 billion
- Specific sectors, such as aviation, tourism and some food exports, have also suffered as a result of the uncertainty and lack of confidence generated by terrorism and the impact of SARS.

It is important however, to step back and look at our trade performance in overall terms, rather than through snapshots that might present a skewed picture.

- We should remind ourselves that the figures I have just cited are in comparison to a very high base. Since 1996, Australia's exports surged from \$99 billion to \$151 billion – exports have increased an average 8 percent per annum since 1997.

We should remember that particular product sectors, such as wine, motor vehicles and civil engineering and electronic equipment have continued to perform extremely well.

- We should remember that in markets where economic growth has been above global averages, such as Korea, China, New Zealand and the United Kingdom, Australian exports have continued to grow.

- And we should remember that the terms of our trade – in other words, the change in prices received for our exports, relative to prices paid for imports – have improved by 2.5 percent last year alone.

Ladies and gentlemen

The positive outlook for Australia’s trade and economic performance is built upon a new trade policy agenda, arguably the most ambitious trade policy framework in Australia’s history.

The central element of this policy framework is what we call “competitive liberalisation”.

- It is a strategy for maximising our trade opportunities by striking trade deals with individual countries (who also want to move at a faster pace), with regional groups of countries, and at the same time continue our central role in the multilateral trading system.
- It is a strategy for demonstrating that what we do – bilaterally, in the region, or in the WTO – is mutually supportive and not a zero-sum game.

- And ultimately, it is a strategy to ensure, in an uncertain and difficult international environment, that our exporters achieve greater access to overseas markets as quickly, as broadly and as deeply as possible.
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The WTO

A strong framework of multilateral rules governing international trade is essential for Australia – and for the cause of economic openness.

In 1999 the fragile international consensus on economic liberalisation faltered at the now infamous Seattle WTO ministerial meeting.

It took us a further two years and – some would argue – a major shock in the form of September 11, before the world was able to launch a new Round of global trade negotiations.

At Doha in 2001, we reached agreement to launch the Doha Development Round and we agreed to negotiate market access for agriculture, industrial products, and services.

We also agreed to finish the Round in just 3 years, by 1 January 2005.

Australia has worked hard lodging serious proposals in all sectors of the Doha Round negotiations.

We have injected maximum political momentum into the process in an attempt to bring about quicker decision making. We hosted the first mini-ministerial meeting after Doha, here in Sydney last November.

But now we are seeing global consensus on trade and investment reform falter once again, in the face of economic slowdown, the uncertainties posed by terrorism and the outbreak of SARS, and continued protectionism in agriculture.

Unfortunately, key negotiating deadlines have already been missed – on agriculture, industrial products, intellectual property and access to medicines, and the all-important developing country issues.

Despite the recent step forward on Agriculture with the European Union announcing modest reforms to their Common Agriculture Policy, there is still a long way to go on the crucial agriculture negotiations.

And, resolving the access to medicines issue, which is so important to Developing Countries, should remain a moral obligation for the developed world to resolve.

At the recent APEC meeting in Thailand and G8 summit in France, Ministers and leaders stressed the need to make progress on the Doha Round – I welcome this.

UN Secretary General, Kofi Annan's call for the leading developed countries to confront distortions in trade in agricultural products, is also welcome.

But, the deadlock in the agricultural negotiations, in particular, leaves me no choice but to conclude that, unless there is movement on some of the outstanding issues in Montreal later this month, then there is little prospect of a major breakthrough before the Fifth WTO Ministerial Conference in Cancun, Mexico in September.

It is worth remembering that:

- If the round succeeds the world economy would benefit by US\$2.8 trillion a year (according to former WTO Director-General Mike Moore);
- In Australia alone the benefit of a 50% cut in global *agricultural* protection would be US\$1.3 billion annually;
- The benefit to Australia of a 50% cut to distortions on *services* would be US\$3.5 billion annually by the end of the Doha implementation period

So ladies and gentlemen, the stakes are high, very high.

We only have 18 months to go!

Regional and bilateral trade agreements ...

Ladies and gentlemen

The pursuit of multilateral trade reform remains our no.1 priority – but that is a long and winding road littered with challenges and delays.

Australia can not just depend on reaching agreement among 146 WTO members to open markets for our exporters. Our safeguard strategy is to pursue a limited number of preferential market access agreements with key trading partners.

In our region we have seen new interest in regional and bilateral arrangements that can liberalise and facilitate trade faster than the multilateral system.

The landmark AFTA-CER Closer Economic Partnership agreement between the 10 members of ASEAN and Australia and New Zealand, signed last September, is one example of commitment in the region to move more closely together.

On the one hand, the agreement reflects good cooperation and willingness to adopt measures that facilitate trade.

On the other hand, it falls short of a free trade agreement because some members of ASEAN were reluctant to embrace genuine improvements in market access. It is more about trade facilitation than trade liberalisation.

We are seeing these same tensions playing out in other proposals for trade and economic integration in our region, such as between ASEAN and China, and between Japan and ASEAN.

In the meantime, many countries have decided that they need to press ahead with initiatives that deliver market access outcomes faster than regional or multilateral agreements can deliver.

Australia is one of those countries.

Last year we concluded our FTA negotiations with Singapore. This process is now complete with the approval of legislation in both countries. SAFTA will come into force in the next few weeks. Also last year we launched negotiations on a CER-FTA agreement with Thailand. We are discussing ambitious framework agreements with our major trading partners in North Asia.

Our most important bilateral initiative is our negotiation for a Free Trade Agreement with the United States – due to be completed by the end of this year.

This FTA potentially offers the opportunity for extensive market access gains for our farmers, manufacturers and service industries.

- In particular, we want gains for Australian sugar, dairy, beef and canned fruit products, as well as fast ferries, motor vehicles and e-commerce.

The Australia-US FTA offers us a potential windfall in investment terms, and it is our hope that the final agreement will “turn heads” in the United States to the opportunities for further investment in the Australian market.

This FTA also offers an opportunity for much greater business integration, as Australian and US companies realise synergies in innovation, research and development, material sourcing, product development, marketing and information technology.

- Access to the world’s biggest government procurement market through the FTA would also be a huge bonus for Australian companies wishing to work with US firms in winning US government contracts.

Strategic economic interests ...

An FTA with the United States offers us not just direct economic and commercial benefits, but also an enormous new *strategic* opportunity.

We have an opportunity to underpin our economic relationship with a treaty level agreement on a par with our long-standing political and security relations.

We also have an opportunity to shape US attitudes and positions, as influential as they are, in the Doha Round of multilateral trade negotiations and for the multilateral trading system itself.

- In particular, we can help forge an improved trade negotiating partnership with the United States on the need for global agricultural policy reform.

Multilaterally, this FTA will set new benchmarks and raise ambitions in the Doha Round of negotiations, and demonstrate how a comprehensive agreement can support the multilateral trading system.

Regionally, this FTA can demonstrate the benefits of a genuinely liberalising agreement to other countries contemplating similar arrangements.

- In our own region, an FTA with the United States will send a powerful message about the type of liberalisation we want to see.

Costs and benefits

A study by the Centre for International Economics, for example, shows that an FTA with the United States offers the prospect of a boost to Australia's GDP of between 0.3-0.4 percent, over the next ten years, which translates into approximately US\$2 billion a year.

- Imagine what greater integration with the one economy in the world which accounted for 60% of global growth between 1997 and 2003 could do for the future of the Australian economy – just think about it!

- For the beef industry alone, removing tariff quota restrictions could be worth several hundred million dollars annually.

Public policy instruments ...

Some Australians are concerned that the Americans will use the FTA negotiations to force changes to important public policy programs in Australia.

We have made it very clear that we will ensure that any agreement will not compromise fundamental objectives in health care, education, consumer protection, cultural identity and quarantine.

- We remain committed to a Pharmaceutical Benefits Scheme that provides Australians with access to affordable, quality medicines.
- We will not enter into any arrangement that compromises the scientific integrity of Australia's quarantine regime, nor the broader objective of protecting human, animal and plant health.
- We will ensure that our capacity to support Australian culture and national identity, including in audio-visual media, is not watered down in the negotiations.

Ladies and gentlemen

Any Australian political party not prepared to support these negotiations is turning its back on this once in a century opportunity.

If Simon Crean doesn't get it, then its time he listened to his State Labor Leaders who do.

Peter Beattie in Queensland, Mike Rann in South Australia and Steve Bracks in Victoria have all acknowledged the benefits to their states of an FTA with the US. And Bob Carr has said recently:

“It is in Australia’s interests to link ourselves with the world’s most dynamic and creative economy. It’s about more than trade, it’s about more than investment, and it doesn’t rule out Australia’s growing economic relationship with East Asia”.

It seems that, with the exception of Simon Crean’s federal Labor caucus, we have a political consensus in this country - and throughout the Asia-Pacific - for FTAs such as the one we’re negotiating with the United States.

Relations in East Asia

One thing an FTA with the United States will not do, as some critics have claimed, is detract from the quality of our relationships in Asia.

This line of thinking, firstly, assumes that our relations around the world are some sort of zero-sum game – that is: if you are doing business with the US you can’t do business with Asia.

The logic of this argument would have some argue that we should stand idly by while other countries in the region pursue their own FTAs, or other forms of economic integration, with the United States, or China, or Japan.

Secondly, it assumes that Australia and the United States are somehow not involved in the region, and ignores the fact that both countries are already intimately engaged in Asia.

As I have said, last year we completed a Free Trade Agreement with Singapore – the first FTA Australia has entered into since the CER with New Zealand was completed 20 years ago.

I recently met Thai Prime Minister Thaksin, and was delighted with his strong commitment to concluding our negotiations for a Free Trade Agreement by the time of the APEC Leaders' meeting in October.

And, as you know, we are also pursuing a bilateral trade and economic framework agreements with Japan.

For more than 12 months Australia and Japan have been working to ensure that this important trading relationship is as modern as possible. Though we would love to be able to negotiate an FTA with Japan, that is frankly not possible while the Japanese bureaucracy refuses to break down their high level of agricultural protection.

Following China's entry to the WTO, we are also looking to further develop our already strong trade and economic relationship with the world's most populous nation. China is currently our third largest trading

partner and there is enormous potential for further growth: merchandise exports to China doubled between 1999 and 2002, making it by far our fastest growing major export market.

We have been working with the Chinese government to maximise the trade and investment potential of the relationship and substantial progress has been made.

Through these discussions we are looking to develop this ambitious and comprehensive framework agreement to secure and build on Australian business's leading position in the Chinese market in the years ahead.

We are hopeful of significant developments in these relationships this year.

I believe that the opportunities for Australia in China's economic advancement will match, if not surpass, those Black Jack McEwen saw when he looked to Japan almost 50 years ago.

In the past year or so I have visited many of our Asian neighbours (Thailand, Vietnam, Singapore, Malaysia and Indonesia), as well as China, Japan and Korea.

Not once on any of these visits have my counterparts raised with me any concern that an Australia-US FTA would impact negatively on Australia's trading relations in the region.

In fact, when I was in Thailand for APEC last month it became clear that 21 of the 22 APEC members were currently negotiating regional and/or bilateral agreements or were trying to do so. It would be negligent of an Australian government not to be following this path under these circumstances and it is ludicrous to suggest that our Asia Pacific neighbours are going to turn against us for negotiating bilaterally when they are doing so themselves.

With signature last year of the AFTA-CER Closer Economic Partnership; an FTA with Singapore already concluded; FTA negotiations with Thailand to be concluded by October; our pursuit of a trade and economic agreement with Japan; and our pursuit of a higher level economic framework agreement with China, it defies understanding that anyone could suggest that Australia has taken our eye off our own region.

It's time to focus on the benefits Australia stands to gain from the free trade negotiations we are conducting – the business community is, so should the broader community.

Conclusion

Ladies and gentlemen

We are all going to have to show serious commitment – and negotiating flexibility – in Cancun and beyond, to achieve success from the Doha Round.

Our approach of *competitive liberalisation* is to work hard at the main game – the Doha Round of multilateral trade negotiations - while also seeking other opportunities for quicker and deeper results.

These initiatives – such as the FTAs we are striking in the region and with the United States – serve both as an incentive to the Doha negotiations, and as an insurance policy should the Round continue to falter.

In the end, our trade policy is about pragmatic, hard-headed decisions, free of ideological bias or pre-conceived notions. Decisions that serve the interests of our primary producers, manufacturers and service providers, also serve the national interest.

In the tradition of past National Party trade ministers, my trade policy embraces change and advances the national interest.

Thank you.