

Evolution of Australia-ASEAN Trade Relations

The purpose of this paper is to examine developments in Australia's trade relationship with ASEAN since we became ASEAN's first dialogue partner in 1974. Part I outlines the evolution of Australia-ASEAN trade relations and part II details the development of the Australian-ASEAN trade and investment relationship over the past decade. The paper is intended as a guide, not only to the progress of the past, but to the possibilities the relationship holds for the next decade and beyond.

I. History of Trade Relations with ASEAN

Australian trade relations with ASEAN Member States traditionally placed emphasis on developing bilateral trade and investment links with the individual countries. From the 1970s to early 1990s, regional trade policy engagement with ASEAN was not accorded priority. Australia's main priority during this period was multilateral trade liberalisation through the GATT Tokyo Round (1973-79) and Uruguay Round (1986-1994). However, Australia developed closer working relationships on trade policy with several ASEAN countries (and New Zealand) during the Uruguay Round due to our common membership of the Cairns Group of Agricultural Exporters, which Australia chaired. Following the Uruguay Round's conclusion, the APEC forum was the main focus for trade liberalisation with a far wider array of major Australian trading partners. At that time, Australia had one free trade agreement (FTA) – the Closer Economic Relations Trade Agreement with New Zealand (ANZCERTA, hereafter referred to as CER), which entered into force in 1983.

After ASEAN's formation in 1967, the ASEAN Free Trade Area (AFTA) was implemented in 1993. That same year, the then Deputy Prime Minister of Thailand, Dr Supachai Panitchpakdi, visited Australia and 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. Dr Supachai's comments triggered Australia's trade policy engagement with ASEAN.

Opportunities to consider closer trade engagement were provided by Prime Ministerial visits to ASEAN from both Australia and New Zealand in 1994, and consultations between ASEAN Economic Ministers (AEM) and Ministers from Australia and New Zealand in September 1995. The Ministers agreed to 'region to region linkages' between AFTA and CER. The AEM-CER Consultations have been held annually from that time; the 21st AEM-CER Consultations were held on 4 August 2016 in Vientiane, Lao PDR.

In the late 1990s, Australia-ASEAN relations were still seen as a matter of trade facilitation rather than trade liberalisation, as noted in 'Australia and ASEAN: Managing Change,' a 1998 report by the Australian Parliament's Joint Standing Committee on Foreign Affairs, Defence and Trade.¹ Overall, multilateralism still

¹ Available at:

http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Committees?url=jfadt/asean/reportinx.htm

remained the goal for Australia, though the report conceded that ‘if multilateral trade liberalisation through the World Trade Organization [WTO] and APEC falters, an AFTA-CER link becomes an important possibility.’

The difficulties faced by the WTO in promoting further trade reform were highlighted by the Seattle Ministerial meeting in 1999 when it failed to launch a new WTO round. This was coupled with the 1997-98 East Asian Financial Crisis; which broke the East Asian growth momentum and exposed the vulnerabilities of a number of countries across East Asia, including some ASEAN member states. It was apparent that broader reform was needed, and the 1999 AEM-CER meeting established a High Level Task Force to examine the feasibility of an AFTA-CER Free Trade Area. The ensuing report, ‘The Angkor Agenda,’² became a touchstone document for the decade ahead.

Angkor Agenda to the Launch of AANZFTA Negotiations

In response to the East Asian Financial Crisis, globalisation and the rise of economies such as China and India, the Angkor Agenda was finalised in 2000 and stated in its first paragraph that “ASEAN and CER have become acutely aware of the necessity of improving the region’s competitive strength, if it is to sustain dynamic growth and maintain its significance as an economic and political force as well.” It therefore argued that “*establishing a free trade area between AFTA and CER is not only feasible but also advisable.*”

It would be comprehensive; covering goods, services, investment and “new issues not currently covered by the AFTA or CER Agreements,” with four objectives: (i) to enlarge the market for the improvement of the efficiency and competitiveness of firms and industries for the economic well being of the peoples of the two regions; (ii) to liberalise and facilitate trade in goods and services; (iii) to establish a framework conducive for investment; and (iv) to establish simple and transparent rules.

The Angkor Agenda concluded that “in a world of constant flux, to stand still is to fall back. ASEAN and CER must take this decisive step. They must seize this unique opportunity to move forward.” However, it would not be seized until November 2004, when the formal decision was taken to launch the ASEAN-Australia-New Zealand FTA (AANZFTA) negotiations at the ASEAN-Australia-New Zealand Commemorative Summit.

Leaders agreed to a comprehensive set of “Guiding Principles” for the negotiations and that the negotiations would commence in early 2005, to be completed within two years. The Guiding Principles committed countries to negotiate an agreement that covered goods, services and investment; the progressive elimination of all forms of barriers to trade and investment; and full implementation within 10 years.

² Available at: <https://dfat.gov.au/trade/agreements/aanzfta/Documents/angkor-agenda.pdf>

By 2005, ASEAN's strategy was to pursue a series of region-wide FTAs, including negotiations with China, India, Japan and the Republic of Korea. ASEAN's FTA strategy was prompted, in part, by the active bilateral FTA agendas of Singapore and Thailand, including with Australia (the Singapore-Australia FTA (SAFTA) entered into force in 2003 and the Thailand-Australia FTA (TAFTA) in 2005).

Negotiating and Implementing AANZFTA

The initial phase of AANZFTA negotiations concentrated on organisational and procedural issues, but also information exchange and capacity building. The information varied in its detail, but it provided a basis for engagement and understanding of each other's policies, policy development and approaches to various issues. Capacity building activities included workshops and seminars conducted by Australia and New Zealand. These workshops helped to enhance ASEAN members' capacity to participate in the negotiations and helped to narrow differences and develop understandings.

As part of these understandings, the negotiations recognised the different stages of development of individual negotiating parties. Differentiation was achieved through different timeframes for implementing commitments; Australia and New Zealand having the shortest timeframes, followed by ASEAN's six more developed members (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand), with Vietnam having additional time, and the three Least Developed Country members (Cambodia, Lao PDR and Myanmar) the longest timeframes.

Negotiating rounds took place regularly – sixteen rounds in four years. In between, Australian advocacy continued through its network of overseas posts, the annual AEM-CER Consultations, as well as separate ministerial engagement in other bilateral and small group meetings held throughout the negotiations. In addition, domestic non-government stakeholders met with senior ASEAN negotiators at the negotiating rounds in Perth (July 2007) and Brisbane (April 2008).

AANZFTA was substantially concluded at the AEM-CER meeting in Singapore in August 2008. Australian negotiations continued with Indonesia, Malaysia and Thailand and concluded in November 2008. It was formally signed on 27 February 2009, as the largest FTA Australia had concluded and the most comprehensive deal ASEAN had negotiated at that time. AANZFTA entered into force for Australia and seven other parties on 1 January 2010. Thailand followed in March 2010, with Cambodia and Lao PDR in January 2011 and Indonesia in January 2012.

AANZFTA provides:

- extensive tariff reduction and elimination commitments
- support to the development of more efficient and competitive industries: by tapping into regional supply chains through regional rules of origin (ROO)
- a framework to strengthen services and investment outcomes over time
- commercially meaningful improvements to existing WTO commitments

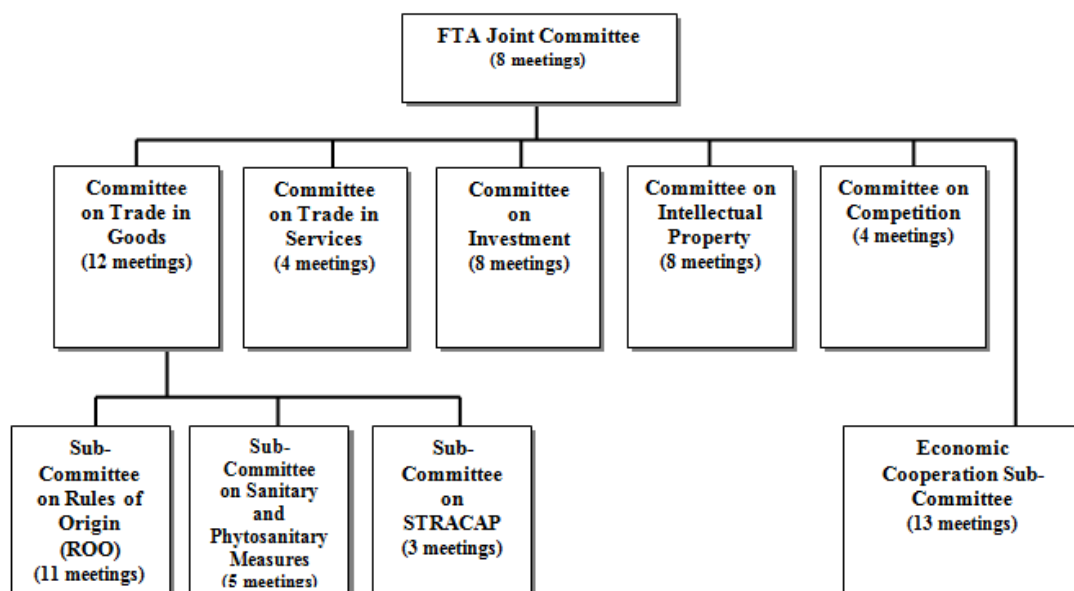
- a significant regime of investment protections, promoting greater certainty for Australian service suppliers and investors
- a framework to support FTA-related economic cooperation
- periodic general reviews.

AANZFTA is a major platform for Australia's engagement with our ASEAN partners, through:

- working with New Zealand to implement AANZFTA commitments over time, including built-in agendas and economic cooperation activities
- supporting ASEAN's own economic integration efforts
- progressing bilateral FTAs with 'AANZFTA-plus' outcomes
- enhancing Australia's participation in broader regional economic architecture.

Below is the AANZFTA Committee structure. The overarching FTA Joint Committee (FJC) reports, through a meeting of Senior Economic Officials, to the annual AEM-CER consultations. The FJC meets annually and together with its subsidiary bodies is responsible for AANZFTA implementation. The AANZFTA Agreement established a mechanism for the FJC to establish further subsidiary bodies as necessary.³ These bodies are the main institutional platform for Australia's engagement on implementation issues, and play a critical role in sustaining AANZFTA's position as a benchmark for a regional FTA.

AANZFTA's Institutional Arrangements (as at October 2016)



Through the above institutional arrangements, Australia has actively pressed for effective implementation of AANZFTA. This has focused on responding to practical business concerns in resolving implementation problems associated with Certificates

³ The Economic Cooperation Sub-Committee was created in 2010 and the Committee on Competition was created in 2013.

of Origin and ROO, which has resulted in the First Protocol to Amend AANZFTA entering into force on 1 October 2015.⁴

A related strand of our engagement with ASEAN, the ASEAN-CER Integration Partnership Forum was inaugurated in Kuala Lumpur in 2011. The Forum provides the opportunity for frank and informal sharing of experiences relating to CER and Australia-New Zealand economic integration. Covering issues as diverse as services trade, competition policy and standards, technical regulations and conformity assessment procedures (STRACAP), the five forums so far have brought together government officials, academics and practitioners to relate successes, difficulties and 'lessons learned.'

The next phase: Australia and ASEAN's Economic Integration Agenda

Australia has pressed for progressing work on non-tariff measures, ROO, services, investment and economic cooperation activities to support AANZFTA implementation. Economic cooperation activities have been pursued through the AANZFTA Economic Cooperation Support Program (AECSP), which formed part of the AANZFTA outcome concluded in 2008. The AECSP supports the implementation of AANZFTA through economic cooperation activities in areas mutually agreed by the Parties. This program has been very well received to the point that the program has been extended beyond its original timeframe to June 2018.

The AEM-CER in August 2016 endorsed the Terms of Reference (TOR) for an AANZFTA General Review to be undertaken in 2017-18. The TOR provide for a wide ranging assessment of the benefits of AANZFTA and its operation to date, and for recommendations on ways to update or improve the Agreement's implementation and value to business.

Australian support for ASEAN's economic integration extends to the ASEAN Economic Community (AEC), which was established in late 2015. Like CER, it is not a customs union. Australia has supported the AEC through the ASEAN-Australian Development Cooperation Program (Phase II). Focused on building intra-ASEAN capacity, it has been praised as a model for other ASEAN dialogue partners to follow.

Thus, Australia-ASEAN relations are not based on mere quantitative criteria – what must be stressed is the quality of the engagement. In the AANZFTA era, Australia has sought not only to support implementation, but to establish synergies and support ASEAN's own internal agenda of economic integration. Initially focused on the establishment of the AEC in 2015, Australia is also providing support for the AEC Blueprint 2025. Australia has institutionalised its relationship with ASEAN; by doing so, Australia has not only become part of ASEAN's policy engagement, but embedded within ASEAN structures both formally and informally. It is a story driven by the reasoning that a stronger, more prosperous ASEAN is in Australia's interest.

⁴ It entered into force for Cambodia in January 2016 and has not yet entered into force for Indonesia.

Australia's Bilateral FTAs with Individual ASEAN Member States

Two of Australia's three existing bilateral FTAs with individual ASEAN Member States pre-date AANZFTA: SAFTA and TAFTA. Post-AANZFTA, Australia's FTA with Malaysia (MAFTA) entered into force in January 2013 and improved upon both countries' AANZFTA commitments. Australia remains engaged in ongoing bilateral FTA negotiations with Indonesia (IA-CEPA).

Each of these bilateral FTA engagements has their own dynamic and has been impacted by a range of different economic, political and historical factors. These factors combine to provide the context for assessing what can be realistically achieved at the bilateral level in each of these relationships at particular points in time. For example, we have recently completed with Singapore a major intensive effort to update SAFTA.

Australian policy has been pragmatic in seeking to provide more commercial opportunities for Australian business. Bilateral FTAs add value by focusing more intensively on particular market access issues and other priorities than is possible in regional or plurilateral negotiations. The scope for Australia to engage intensively is dependent on the prevailing context and varies among ASEAN Member States. Therefore the emphasis given to bilateral and regional approaches tends to vary over time.

The relationship between Australia's WTO commitments, AANZFTA and Australia's bilateral FTAs is one of co-existence. Australian businesses are able to choose which agreement to operate under, on a shipment-by-shipment basis, with such decisions determined by commercial considerations.⁵ For example, in addition to common membership in the WTO, Australia currently has both AANZFTA and bilateral FTAs in force with New Zealand, Malaysia, Singapore and Thailand.

Co-existence between FTAs is a complementary, not conflictual, relationship. Chart 1 shows that since entering into force in 2010, the amount of goods imports from AANZFTA Parties entering Australia under an AANZFTA tariff preference has risen from 2.6 per cent to 10.6 per cent in 2015. The proportion of Australian imports entering from AANZFTA Parties under a bilateral FTA preference has risen to 25.5 per cent, meaning aggregate use of FTA preference on Australian imports from all AANZFTA Parties has almost doubled, from 18.1 per cent in 2009 (pre-AANZFTA) to 36.1 per cent in 2015. Chart 2 highlights how almost all imports from AANZFTA Parties now enter Australia duty free – whether under AANZFTA, our other FTAs, under MFN tariffs that are zero or under a tariff-free domestic concession arrangement. In 2015, only 2.9 per cent of goods imports from AANZFTA Parties paid MFN tariffs above zero.

⁵ For further reading, see the Submission by the Department of Foreign Affairs and Trade and Austrade to the Parliamentary Joint Select Committee on Trade and Investment Growth (Inquiry into the Business Experience in utilising Australia's Free Trade Agreements, Submission 28, available at: http://www.apf.gov.au/Parliamentary_Business/Committees/Joint/Trade_and_Investment_Growth/Free_Trade_Agreements/Submissions)

Chart 1

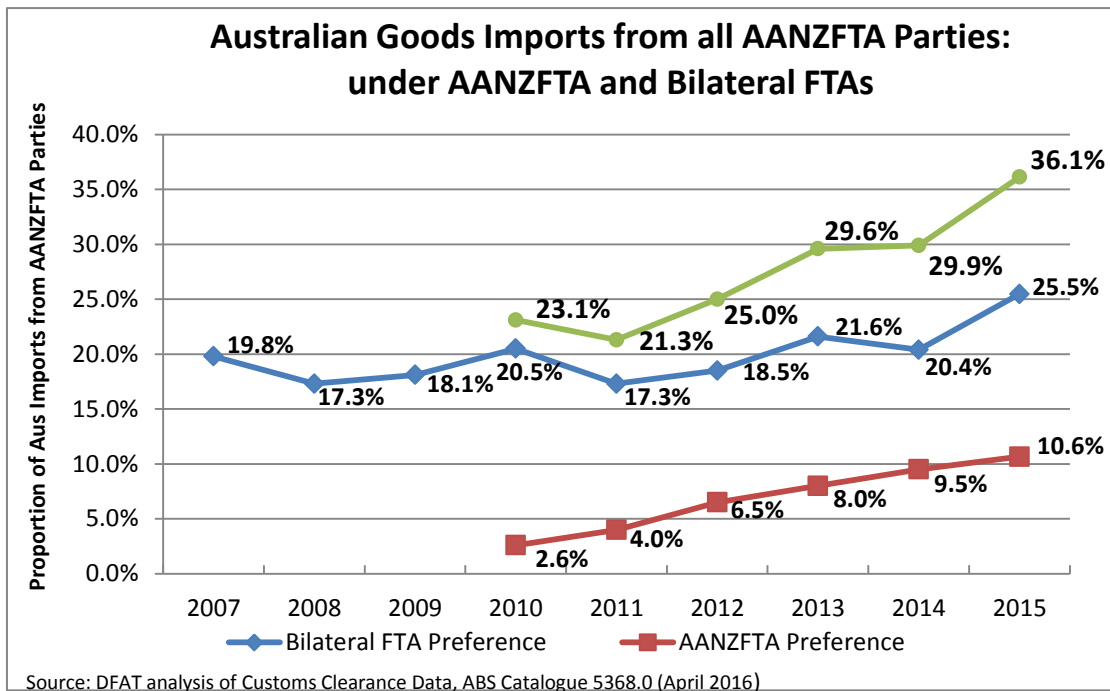


Chart 2

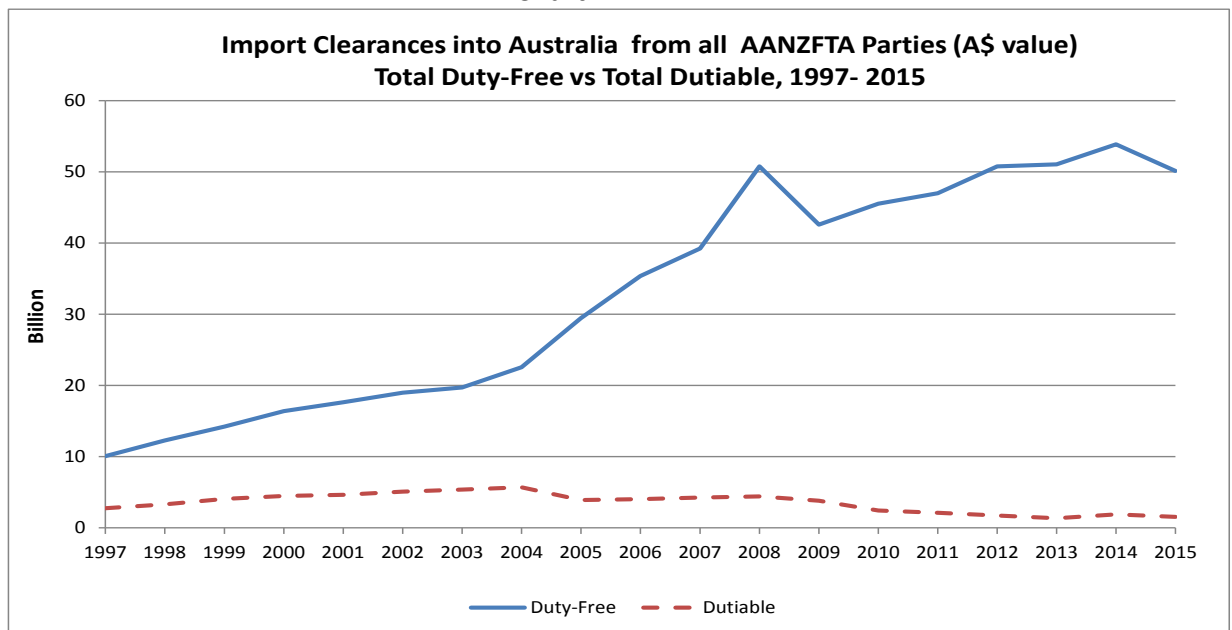
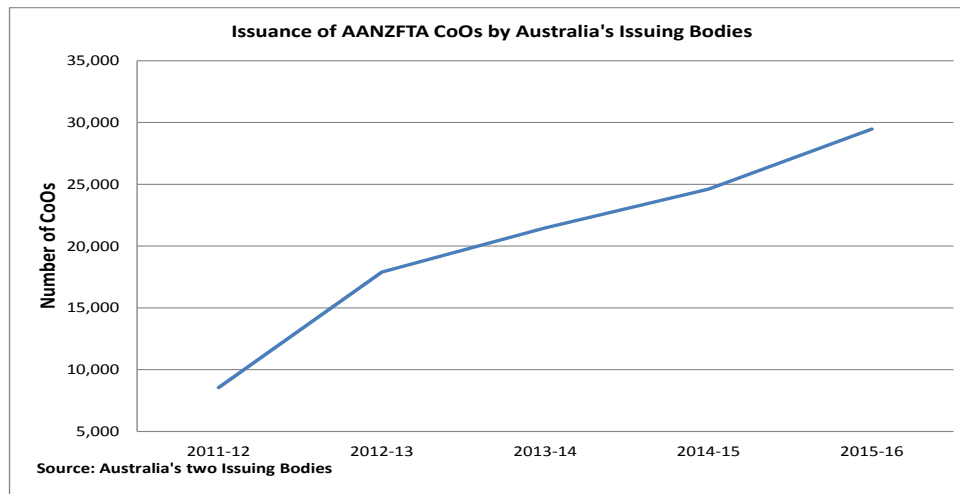


Chart 3 shows the number of AANZFTA certificates of origins (CoOs) issued by Australia's two issuing authorities – the Australian Chamber of Commerce and Industry (ACCI) and the Australian Industry Group (AiG) – for goods exported from Australia since 2011-12. These CoOs are necessary for importers in other AANZFTA Parties to claim AANZFTA tariff treatment on these goods.

Chart 3



Consideration of an ASEAN-centred Mega-Regional FTA

While ASEAN was negotiating its so-called +1 FTAs (with China, India, Japan, the Republic of Korea and Australia-New Zealand) consideration was also being given to negotiating a larger ASEAN-centred FTA. In 2004, an ASEAN-China/Japan/Korea (ASEAN +3) Economic Minister's meeting decided to conduct a feasibility study for an ASEAN +3 FTA. In 2007, the East Asia Summit (EAS) agreed to launch a study for an ASEAN +6 FTA.⁶ In 2009 EAS Leaders tasked officials to consider the recommendations of the ASEAN +3 and ASEAN +6 studies in parallel.

The launch of the Trans-Pacific Partnership Agreement (TPP) negotiations in 2010 impacted on ASEAN consideration of proceeding with a broader ASEAN-centred FTA, particularly as a number of ASEAN Member States were participating in TPP negotiations (initially Brunei, Singapore and Vietnam, and then Malaysia). In 2011 ASEAN ended the debate between ASEAN +3 and ASEAN +6, including on whether a sequential approach starting with ASEAN +3 should be adopted, by proposing its own initiative for an ASEAN-centred regional FTA – the Regional Comprehensive Economic Partnership (RCEP). ASEAN decided to limit participation in RCEP negotiations to those countries with which it already had an FTA. Its aim was to consolidate these agreements into a new single agreement and achieve consistency and coherence across the existing ASEAN +1 FTAs.

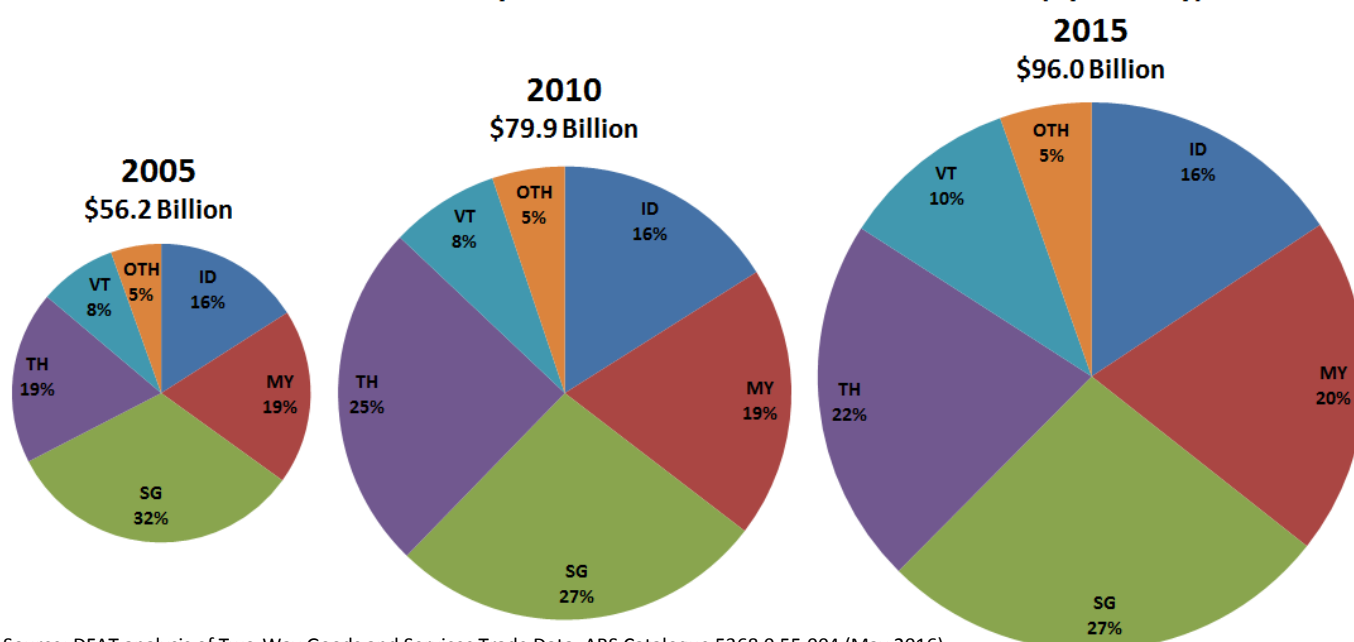
Guiding Principles and Objectives for Negotiating RCEP were negotiated by ASEAN and ASEAN's FTA Partners in 2012. The Guiding Principles and Objectives were endorsed by leaders when they launched RCEP negotiations in November 2012, with the aim of completing negotiations by the end of 2015. A key focus of the RCEP negotiations is to build on and add value to the existing ASEAN +1 FTAs. This has proved to be a major challenge as the existing ASEAN +1 FTAs are of varying scope, scale, depth and degree of comprehensiveness. However, RCEP Leaders reiterated the importance of advancing the negotiations in a statement issued on 8 September 2016 at the occasion of the ASEAN and Related Summits in Vientiane, Lao PDR.

⁶ The United States and Russia did not become members of the East Asia Summit until 2011.

II. Development of Trade and Investment Relations

Australia has a significant trade relationship with ASEAN. Australia's total two-way trade with ASEAN has increased by 70.9 per cent over the past decade, from A\$56.2 billion in 2005 to A\$96.0 billion in 2015 (see chart below). Collectively, ASEAN accounted for 14.3 per cent of Australia's total two-way goods and services trade in 2015; compared with 23.2 per cent for China (Australia's largest trading partner), followed by the European Union (13.4 per cent), the United States (10.5 per cent) and Japan (9.7 per cent). Australia's four largest trading partners in ASEAN (Singapore, Thailand, Malaysia and Indonesia) accounted for an average of 86 per cent of ASEAN's total trade with Australia over the past decade.

Australia: Total Two-Way Goods and Services Trade with ASEAN (by country)

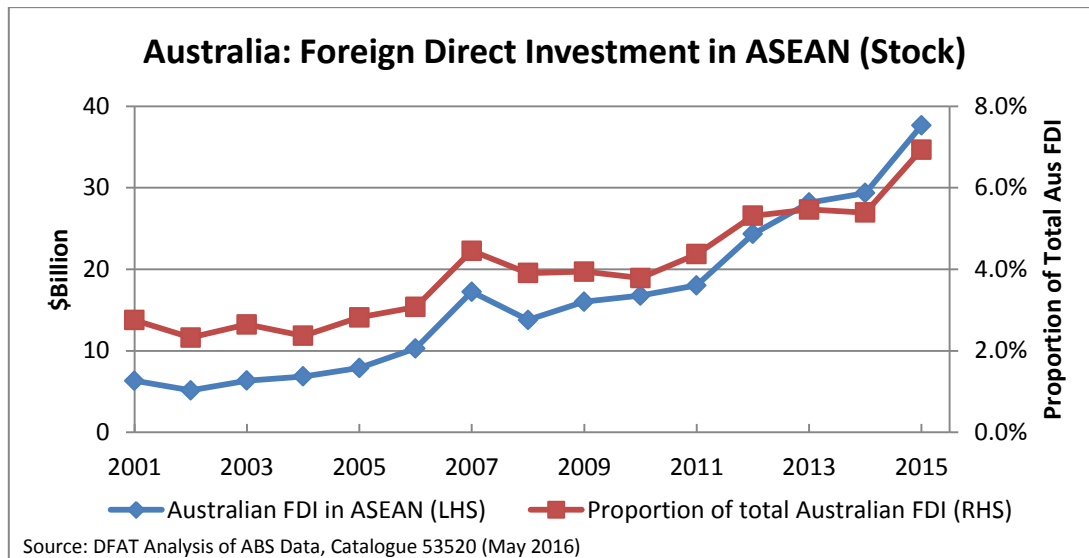


Source: DFAT analysis of Two-Way Goods and Services Trade Data, ABS Catalogue 5368.0.55.004 (May 2016)

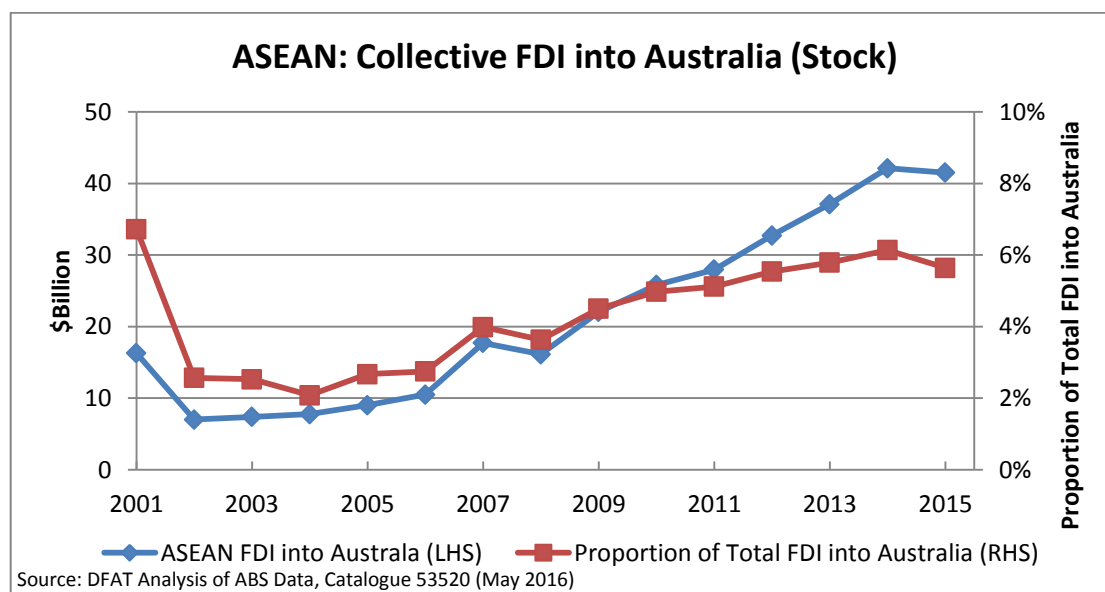
ASEAN accounted for 11.2 per cent of Australian goods exports in 2015, compared to 32.5 per cent for China and 16.1 per cent for Japan. ASEAN also accounted for 16.1 of Australian goods imports, compared to 22.4 per cent from China and 16.8 per cent from the European Union. The trading relationship is still strongly weighted (75.5 per cent in 2015) in favour of goods; even so, Australia exports more services to ASEAN than to any single country. There is considerable potential for continued growth in Australia-ASEAN trade in goods and services. The joint DFAT and Austrade publication 'Why ASEAN and Why Now?' (August 2015)⁷ lists "the growth of the services sector" as one of "six major growth drivers [to] ASEAN's growth trajectory over the next decade."

The stock of Australian foreign direct investment (FDI) in ASEAN grew to \$37.6 billion in 2015. ASEAN accounted for 6.9 per cent of total Australian FDI in 2015, compared to 2.8 per cent in 2005 (see chart below). More than half was invested in Singapore in 2015, Australia's fourth largest destination for FDI.

⁷ Available at: <http://dfat.gov.au/about-us/publications/Pages/why-asean-and-why-now.aspx>



ASEAN FDI into Australia is increasingly resurgent; from 2.7 per cent in 2005, ASEAN Member States accounted for 5.6 per cent of FDI into Australia in 2015. The stock of ASEAN FDI has increased from \$9.0 billion in 2005 to \$41.5 billion in 2015.



There is potential for continued growth in the Australia-ASEAN investment relationship. ‘Why ASEAN and Why Now?’ cites ASEAN’s “sophisticated services sectors, low-cost labour and significant consumer markets” as offering continued investment opportunities. As a collective, ASEAN’s combined population of almost 630 million is larger than that of either the European Union or North America; the working age population is projected to reach 500 million in 2020. The report also cites the development of the AEC, which provides scope for an “investment climate more liberal, transparent and competitive for foreign investors.”

Free Trade Agreement Division
Department of Foreign Affairs and Trade, 11 October 2016