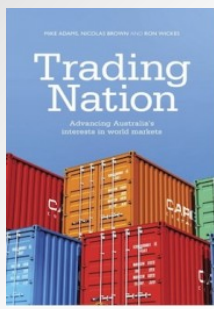


# Advancing Australia's interests in world markets

Domestic and international policy  
dimensions

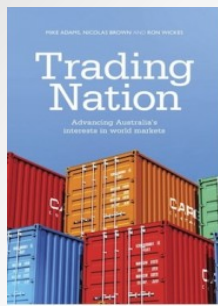
Presentation to Productivity Commission staff

25 February 2014



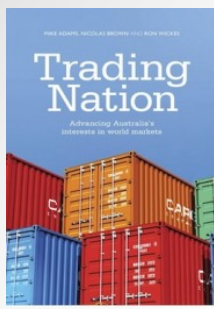
# Trade policy ...

- On the international side
  - Policies aimed at reducing distortions and impediments affecting Australia's trade, and at lowering barriers faced by Australian-based enterprises in other markets
- On the domestic side
  - Policies which affect tariffs or other barriers to trade, other policies that directly affect trade (e.g. by improving productivity and efficiency) and trade promotion
- Aspects of foreign investment that affect trade
  - In particular, inward and outward foreign direct investment (FDI).
  - Investment is now an important aspect of many FTAs



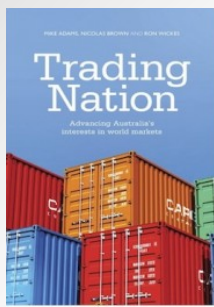
# The challenges

- Uncertain international outlook, more so than usual
  - The EU is struggling to escape an economic mire; the US recovery is a work in progress; uncertainty about Japan's will to push on with reforms; China's changing economic structure; India's economic fragility
- Uncertainties in policy frameworks for global trade
  - An increasingly multipolar world
  - Whither multilateralism?
  - Competing regional frameworks for trade
- Structural and technological changes for businesses
  - Finer global value chains
  - Advances in IT&T, transport and materials technologies
- Urgency of domestic reform
  - Without terms of trade increases, productivity (and greater allocative efficiency) must drive increases in real incomes and living standards



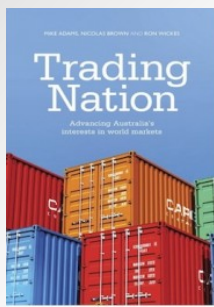
# Five basic trends to 2025

- Emerging economies, especially in East and South Asia become more important
  - Though low growth in advanced economies could retard growth in emerging economies and developing economies, and stoke protectionism
- More unbundling of supply chains in manufacturing and services and greater interdependence of economies
- Trade becomes more volatile as economies become more interconnected and production across countries becomes more fragmented in finer value chains
- More bilateral and regional FTAs
  - 'Mega' FTAs could well set global rules for trade & investment
  - Raising questions about the future place of the WTO
- Trade policy will become more complex - more prominent countries, more issues and more politics



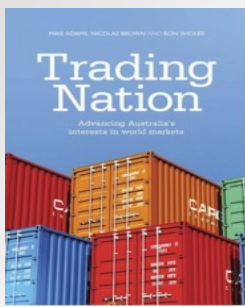
# Australia's luck to hold?

- Good prospects for exports, in particular for resources
- Promising prospects for rural exports
  - Demand will rise most rapidly in emerging economies
  - But opportunities could depend on winding back existing high protection in key markets and at least binding existing rates in developing markets
  - And Australia's capacity to take advantage of opportunities will depend on its capacity to increase rural productivity
- Australia's manufacturers are very vulnerable to a high exchange rate
  - They are not closely linked to international supply chains
- The services sector is internationalising, including in Asia
  - Key drivers are technology and foreign investment (inward and outward)
  - But behind-the border barriers, if maintained, will hold back trade growth
- Australia's must make its luck – through reforms



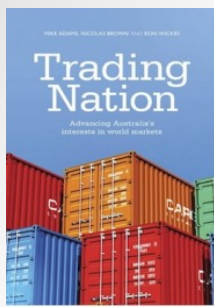
# The essentials

- Trade and international perspectives
  - Must link smoothly with the priorities and strategies for domestic economic and social reform
  - And manage the uncertainties of a multipolar world
- Domestic perspectives
  - Must focus on building a 21<sup>st</sup> century economy – and the increasing internationalisation of Australian businesses
  - Protectionism will not go away and has to be managed in the context of social as well as economic imperatives
- Reconciling perspectives
  - ‘No policy area is more domestic than international trade policy’ (Schultz)
  - The greatest trade policy gains come from unilateral reforms, complemented by international agreements based on shared acknowledgement and commitment to open markets.



# Our approach

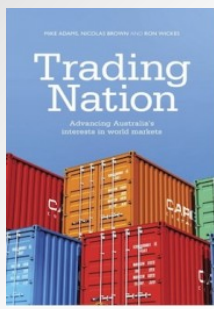
- Economic reform to achieve a more trade focused economy
- Communicate the trade story better
- Revitalise the ideas market
- Build regional relationships
- A negotiations agenda that complements and contributes to reform



# A more trade-focused economy

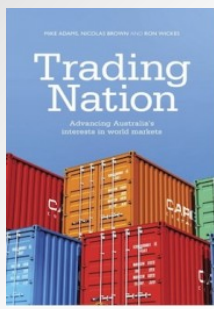
- Strengthen whole-of-government systems
  - trade and international perspectives need to connect more smoothly with the priorities and strategies for domestic reform
- Remove tariffs as soon as practical
- Avoid increased protection by anti-dumping measures
- Inject international perspectives more rigorously into reforming Australia's services sector
- Build community understanding of the benefits of inward and outward foreign direct investment
- Multilateralise the investment thresholds given to the United States and New Zealand





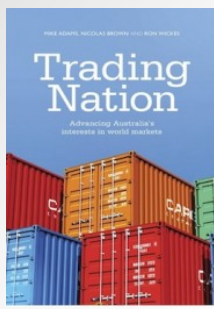
# Communicating the trade story

- More evidence-based analysis on what open markets mean for peoples' livelihoods and prosperity both as a government resource and tool for public diplomacy
- Articulate links between trade and wider international engagement
- Highlight the role of services in developing modern economies and trade



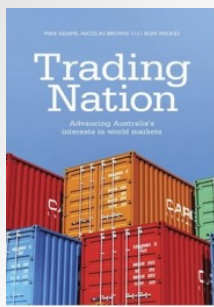
# Being serious with ideas

- Invest more in analytical and strategic capacity within government
  - to generate ideas and strategies for the fast-changing international environment
- Leverage assets across government, business, think tanks and relevant community groups to provide ideas, assessments and analytical support
  - Encourage short-term secondments of trade policy officers to think tanks and business groups working on trade issues, and for academics and business representatives to have comparable secondments within government



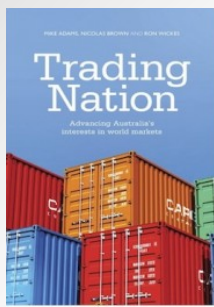
# Building regional relationships

- Continue to support APEC as a core component of regional economic architecture, including by maintaining an effective APEC Leaders' process that addresses major issues
- Become serious about education in foreign (especially Asian) cultures, society and economics, including through a strong commitment to training in foreign languages from primary school onwards
- Become serious about engaging Latin America



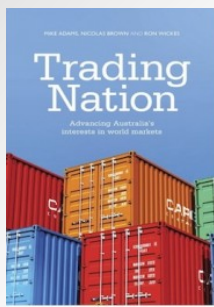
# The FTAs agenda

- FTA negotiations in Asia to focus on commercial potential, economic cooperation, and trade and investment facilitation
  - FTAs, in particular bilateral FTAs, are second-best from a trade and economic policy perspective. Hopefully in time there will be more effective multi-party FTAs that will benefit from stronger WTO rules on regional trade agreements
- Prevent RCEP and TPP from becoming competitors and be open to the possibility of China joining the TPP
- Include Australia–EU FTA negotiations among Australia's top trade negotiations priorities
- Look more seriously at sub-treaty-level arrangements to promote trade and investment, especially in South America, Africa and Central Asia



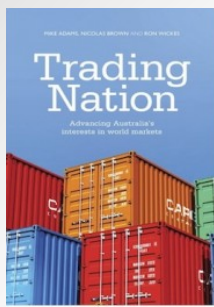
# The multilateral agenda

- Make the most of what can be salvaged from Doha
- Plurilateral negotiations that seek to engage emerging countries as much as possible, especially China
- Expand the G20's trade agenda as part of building political momentum to facilitate much-needed structural change in the global economy
- Canvass and pursue options for WTO reform
- Provide support to agencies around the world that could in time become strong advocates for economic and social reform



# Multilateralism & regionalism

- Regionalism does not have to be at the expense of multilateralism – nor should it be
  - Bilateral and regional trade agreements, especially ‘Mega-FTAs’, can set benchmarks for multilateral agreements – with WTO+ outcomes and by including issues outside the WTO (WTO-X) such as competition policy
  - But there remains the risk that the world could split into trading blocs
- It is very much in Australia’s interest to support the global trading system with the WTO at its centre
- We advocate, where possible
  - Multilateralise regionalism
  - Unilaterally multilateralise liberalising FTA outcomes
  - Strengthen WTO rules on trade agreements
  - Regular reviews of existing FTAs
  - Sub-treaty-level agreements



## In conclusion

- Economic reform the key to underwriting Australia's prosperity
- Successful economic reform requires the injection of international perspectives into domestic policy
- We have an interest in economic reform overseas
  - not just through the international forums but also through our economic cooperation with our trading partners
- Back to the 1980s?
  - This time, reform with a greater international dimension