governments want to tailor an Australian free trade agreement so that it largely confines access for agricultural goods to current levels, it will be exceedingly difficult for Canberra to hold to its new post-AUSFTA orthodoxy of sectoral comprehensiveness.

The end result may well be no agreement at all with Japan – accompanied, in the worst of all worlds, by festering resentment about the unresolved NARA issue. And if something like that comes to pass, then Australia will stand accused of standing on the wrong side of a distinction that Downer once used to lecture Asian leaders – of playing ‘emotional regionalism’ in the AUSFTA, and ‘practical regionalism’ in Asia. In short, the theory of competitive liberalisation has placed Canberra between the proverbial rock and hard place. Since it was always just a cheap American import, a very small part of any solution to current Australian dilemmas should consist of its public junking.

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Australia and ASEAN: Old Problems, New Opportunities

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Abstract

Since ASEAN was formed in 1967 it has been a relatively ineffective organization, understandably so given the diversity of its membership along social, political and economic lines. In recent years, however, there has been a reinvigoration of the organisation for trade purposes, especially reacting to the growth in China’s exports, and in this respect it has the potential to become much more important to Australia.

In the absence of significant progress in the larger regional agreements, such as APEC, regional economies are moving to more circumscribed trading relationships. AFTA and ASEAN Plus Three are two examples, as are numerous bilateral FTAs in the region. Australia is also following the latter trend, having negotiated Free Trade Agreements with Singapore, Thailand and
the US, and is investigating the possibility of such agreements with Malaysia and China.

Australia-ASEAN two-way trade and investment is worth approximately US$40 billion annually, and ASEAN countries purchase approximately 11% of Australia’s exports. Therefore an FTA with ASEAN would be an important step for Australia. Trade complementarity is also high between Australia and ASEAN. Moreover, AFTA could freeze out Australian exporters, so an FTA is particularly relevant.

There are problems, however, not only in terms of the mechanics of the FTA but with respect to Australia’s defense linkages with the USA. As is the case with the possible FTA between Australia and China, political impacts must be considered when developing economic ties. The Australian government’s initial refusal to sign ASEAN’s Treaty of Amity and Cooperation during the ASEAN Summit in Vientiane in November, 2004, is one such example. Nevertheless, an agreement was reached during the Vientiane meeting to start a two year negotiation process next year, with a view to an FTA between Australia, New Zealand and ASEAN by 2017.

This paper outlines the international context within which Australia’s trade takes place, explores the trade patterns between ASEAN member countries and Australia, and examines the dynamics affecting this trade relationship

Introduction

Given Australia’s geographical location and its trading structure, its economy is inexorably linked to those of Asia. For the past half century it has been a key provider of raw materials for growing Asian markets, first Japan, followed by the NIEs, and now China.

It is crucial to Australia, therefore, that it is included in regional trade networks. With the rise of the EU on the one hand and NAFTA on the other, it is understandable that APEC was an Australian initiative of the late 1980s. Moreover, Australia runs substantial trade deficits with the EU and the US but, generally speaking, an overall surplus with Asia. Australia cannot, therefore, afford to be left out of regional trading systems.

Today, with the lack of progress on APEC, member countries have resorted to a raft of bilateral free trade agreements. For Australia this has meant FTAs with Singapore, Thailand and

the USA, and is in various stages of FTA negotiations with Malaysia and China. At the same time, Australia is supportive of trade liberation under the auspices of the World Trade Organisation. As in the case of APEC, however, given the slow progress of these negotiations Australia is moving to bilateral agreements.

Within this fluctuating state of affairs, this paper proposes to examine Australia-ASEAN trade, and to look at the present dynamics affecting this trade relationship.

**Context of Australia’s trading relationships**

Given the high level of interconnectivity between the Asian economies and the complexity of regional trade, it is necessary to first sketch the contemporary circumstances within which Australia-ASEAN trade takes place.

**The US and China**

It is clear that the economies of the US and China are becoming increasingly interconnected. The US is a major export destination for China’s goods while China is both a market and a low cost producer for American products. The balance of trade, however, is so markedly in China’s favour (with a surplus of $162 billion in 2004)⁴ that frictions are inevitable.⁵ Reminiscent of the US-Japan relationship from the 1970s onwards, China is purchasing US debt through treasury bonds, and is now the largest buyer of these bonds after Japan. Also reminiscent are the American calls for China to upvalue its currency to help reduce the American deficit.⁶ A healthy American economy is in the general interest, though massive and growing US debt remains a critical issue.⁷ Given this imbalance, some observers are predicting a major adjustment ahead.⁸

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⁵ The counter-argument is that American companies make substantial profits from the China trade – some $60 billion in 2004 – and there are jobs created through this trade to offset those lost in manufacturing. See Guan Jinyong, “Who will benefit from US trade deficit with China?”, China Economic Net, 26 April, 2005. [http://en-1.cc.cn/Insight/200504/26/120050426_3699093.shtml]
⁷ The US balance of payments deficit was approximately $617 billion in 2004, more than double the figure of five years previously. Moreover, though the US ran a surplus in services, at

³ Investment is not a focus of this paper, though it is referred to.
China’s significance is not limited to the US, however. Its rapid expansion in both production and consumption has helped to drive regional and indeed global growth, particularly given that the economies of the EU and Japan have not performed well in recent years. For example, global trade increased approximately 40% between 2001 and 2004, while China’s total trade more than doubled.  

The US and Japan

While the American trade deficit with China grows at an alarming pace, its deficit with Japan remains significant, at $75.2 billion in 2004.  


10 “China’s trade policies are modeled on Japan’s in many ways. Government ownership and control of the majority of economic resources, and an extensive network of government controls over banking, economic activity, trade and foreign exchange flows have combined to create the U.S.’ most unbalanced bi-lateral trading relationship. U.S. imports from China are five times as large as exports to that that country. Even at its most extreme, the U.S.-Japan trade imbalance never exceeded a three-to-one ratio”. Robert Scott, Economic Policy Institute, 22 July, 1999. [http://www.epinet.org/content.cfm/webfeatures_viewpoints_tradetestimony]
the United States was $197 billion, or 19 percent of total Japanese exports and imports.\footnote{Paul Blustein. “China Passes U.S. In Trade with Japan”, \textit{Washington Post}, 27 January, 2005, p. E01.}

Moreover, Japan was China’s top trading partner for the decade prior to 2003, when it fell to third place, behind the EU and the US. One would expect, given these significant economic connections that China and Japan would move closer in political terms. There are significant stumbling blocks, however, centering around competition for leadership in Asia in the future. Japan is also in a similar position to Australia (or South Korea or Taiwan) in having close economic connections with China, but strong political and strategic links to the US.

**China and ASEAN**

On the face of it the possibility of an FTA between China and ASEAN is enticing. It would account for 1.7 billion people, economic output of some US$2,000 billion and trade worth US$1,200 billion. “China and ASEAN signed a comprehensive economic cooperative framework agreement in 2002 that is expected to lead to the establishment of the world’s largest FTA by 2010”.\footnote{\textit{China Daily}, “Sino-ASEAN Trade Expanding Rapidly”, 4 November, 2004. , China Through A Lens [http://www.china.org.cn/english/2004/Nov/111192.htm]} Indeed, trade by the end of 2004 had exceeded US$100 billion.

While there is certainly competition between the two in terms of comparative advantage of production, various ASEAN member countries want to gain access to the Chinese market in terms of low cost production and a large consumer market. ASEAN also wants to attract Chinese investment and Chinese tourists.\footnote{ASEAN Secretariat, “China Sees Trade with ASEAN Reaching 200 Billion Dollars by 2010”, 26 April, 2005. [http://www.aseansec.org/afp/109.htm]} China has also benefited from trade and investment from Southeast Asia, including that from overseas Chinese.

**Japan and ASEAN**

Japan has also moved to formalise an economic relationship with the ASEAN countries in the form of the Japan-ASEAN Comprehensive Economic Partnership (J-ACEP). This builds on an existing trade and investment framework that has been developed over the past thirty years. Indeed, Japan’s FDI in ASEAN is nearly three times that of Japan’s FDI in China. Furthermore, as Japan’s trade negotiators point out, while there
is often export competition between ASEAN and China, with Japan there is a high degree of trade complementarity.  

**Australia-US Trade**

The US remains a significant trading partner for Australia. In 2003 Australia exported approximately A$9.5 billion in goods to the USA, primarily machinery and transport equipment, food and live animals, alcohol and crude petroleum. On the other hand, Australia imported nearly A$20 billion in goods, principally aircraft and parts, road vehicles, machinery, computers and telecommunications equipment, leading to a deficit of A$10.5 billion.

While this places the US second in terms of total trade in merchandise exports with Australia, the connection is set to grow even further with the ratification of an FTA with Australia. Indeed, in spite of US debt, it remains the world’s largest importer – a wealthy market of some 300 million people.

Australia also runs a substantial deficit in its trade in services with the US, at more than A$1.7 billion. Overall these trade deficits with the US make trade with Asia crucial, where Australia mostly enjoys surpluses.

**Australia-East Asia Trade**

The countries of East and Northeast Asia remain vital to Australia’s trading interests. With respect to merchandise trade, Japan, China and South Korea stand out as major trading partners. Australia also runs a substantial trade surplus with India (A$3,861), Japan (A$3,687 million), South Korea (A$3,595), Hong Kong (A$1,549 million) and Taiwan (A$306 million).

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18 With the significant exception in East Asia of Hong Kong, at 306 million.
mill). On the other hand, trade with the PRC is in deficit, at
A$-5,427 million.

With respect to commodities, Australia’s exports to East
Asia show a concentration on raw materials. In this respect, 43%
of Australia’s coal was shipped to Japan, 12% to South Korea,
9% to India and 6% to Taiwan. In terms of non-monetary gold,
47% went to India and 13% to South Korea. Both Japan and
China are recipients of Australia’s iron ore, at 39% and 36%
respectively. South Korea accounts for 14% of this commodity.
Finally, in terms of crude petroleum, South Korea accounted for
22% of Australia’s exports, Singapore 21% and China 14%.

Regarding trade in services, Australia has a substantial
trade surplus with Japan, at more than A$1.3 billion, reflecting
Australia’s popularity as a tourist destination. The surplus with

South Korea is A$503 million, with the PRC A$305 million and
A$203 million for Taiwan. Clearly these countries remain very
important for Australia’s trade. 21

Australia-ASEAN Trade

It is difficult to make generalisations on Australia-ASEAN
trade given the very different economies of the ASEAN member
states. 22 Income levels range dramatically, as do economic
structures. There are also significant variations in political

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19 Australian Bureau of Statistics, “International accounts and
c25682000192af2/b7aa0d3ea1cae997ca256f7200833006!Open
document]
20 Japan is the largest source of tourists for Australia, at 526,000,
and is a not insignificant source of overseas students (20,400) in
Tourism’.
21 Australian Bureau of Statistics, “International Trade in
22 ASEAN, founded in 1967 in response to the political turmoil
caused by the Vietnam war, and the threat posed by communism
at the time, was originally comprised of Singapore, Malaysia,
Indonesia, Thailand and the Philippines. Brunei joined ASEAN
in 1984, Vietnam in 1995, Myanmar and Laos in 1997 and
finally Cambodia in 1999. For details see Curtis Andressen,
“Association of Southeast Asian Nations”, In Encyclopedia of
World History. Edited by William H. McNeill et al. Great
systems, religions, population sizes and land areas. This section, then, sketches the trade and investment relationship between Australia and ASEAN, but highlights only the key aspects of the trading relationship.

**Merchandise Trade**

Australia runs a significant deficit in its overall merchandise trade, at ~A$22.1 billion in 2003-2004, and a substantial part of this deficit is linked to trade with ASEAN. In 2003/2004 the deficits were as follows: Malaysia (A$2,480 million), Singapore (A$2,051 million), Thailand (A$1,210) and Indonesia (A$783 million). Of the original five members of ASEAN, Australia only maintained a surplus with the Philippines (A$169 million). With the newer members of ASEAN, the only country of note in merchandise trade statistics is Vietnam, with which Australia runs a deficit of A$1,512 million.  

With respect to the type of merchandise exports to ASEAN countries, food and live animals is the most significant category, including dairy products, live animals and vegetables and fruit. Non-ferrous metals, and iron and steel were the second largest groups, machinery the third and non-monetary gold the fourth. Imports from ASEAN were dominated by machinery and transport equipment, crude petroleum, office machines, telecommunications equipment, sound equipment and electrical machinery. In short, Australia’s exports center around low value-added agricultural products and mineral, and imports tend to high value-added machinery. From Australia’s perspective this is short-term economic gain versus long-term problems in its trade structure.

**Trade in Services**

In terms of trade in services, Indonesia remains important to Australia in that the latter has a substantial surplus (A$488 million), particularly in the area of travel, and Indonesians

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25 Australia’s natural resource wealth is no doubt a blessing, but it has tended to create an export structure dependent on primary products, and value-added manufacturing has been slow to develop.
studies in Australia. Indeed, this surplus is only exceeded by Japan and India in Asia, and New Zealand. Malaysia is also significant for Australia, with the latter enjoying a A$284 million surplus.\(^{26}\) In contrast, Australia has significant deficits in services with Singapore (A$-381 million), Thailand (A$-333 million) and the Philippines (A$-81 million). The only other ASEAN country that shows up significantly in statistics on trade and services is Vietnam, with which Australia runs a deficit of A$-166 million.\(^ {27}\) In total, ASEAN countries take about 15% of Australia’s services exports, the same proportion as the US, and more than Japan (10%) or China (3%).\(^ {28}\)

\(^{26}\) There were approximately 54,000 Indonesians who visited Australia in 2003 as well as 13,000 students. For Malaysia the figures are 114,000 and 14,000 respectively. See Australian Bureau of Statistics, “International Inbound Tourism”. [http://www.abs.gov.au/ausstats/abs@.nsf/94713ad445f1425ca25682000192af2/0a41c3d685211114ca256f7200832f02!OpenDocument]


**Discussion**

Given the high level of trade complementarity between the ASEAN countries and Australia, closer economic relations would be mutually beneficial. This is reflected in the Closer Economic Partnership (CEP) initiative of 2001, and in the 2004 “...communiqué proposing that they ‘upgrade economic relations’ with Australia and New Zealand”.\(^ {29}\) While these meetings are designed to facilitate trade, they also lay the foundation for an FTA, an advantage for Australia given its general decline in the market share of ASEAN trade.\(^ {30}\)

The larger the number of countries, the better for FTAs. Otherwise, if limited, inefficient practices can be protected. In the long term this will reinforce a lack of competitiveness and make it difficult for industries to survive when barriers eventually come down. Therefore, while the bilateral FTAs Australia has signed up for, or is in the process of negotiating, set the direction of trade they are insufficient. This is recognised.


by the ASEAN countries, as they move to an ASEAN Plus Three agreement. This initiative alone puts pressure on Australia to conclude an FTA with ASEAN.

Of course, an even better idea from an Australian point of view would be a successful conclusion to APEC, which would encompass many of these initiatives, but the complexity of negotiating through so many vested interests has proved difficult in the short term.

Australia, however, remains divided. While its economic interests are primarily with Asia, its political affiliation is primarily with the USA. A crucial balancing act for Australia’s leaders in particular is the relationship between the USA on the one hand and China on the other. Both relationships are important in economic terms, but the political connections between Australia and the USA makes closer trade linkages between Australia and China difficult.

First, with respect to trade linkages there is the important and growing connection with China:

Australia’s relationship with China seeks to maximise shared economic interests, advance Australia’s political and strategic interests, and manage differences in a sensible and practical way. China’s importance to Australia has grown with China’s increasing economic, political and strategic engagement with the Asia-Pacific region and the global economy. Bilateral relations reached a new level of maturity with reciprocal visits by Prime Minister Howard and President Hu in 2003, and the signing of the Australia-China Trade and Economic Framework during President Hu’s visit. The Framework will provide a foundation for closer commercial relations between the two countries, including through a joint feasibility study for a bilateral free trade agreement, currently underway.31

On the other hand, a closer relationship with China comes at a price. China has demonstrated no reluctance to put political considerations over economic ones, and it can be anticipated that dependency on China would carry risks.32 Indeed, spreading Australia’s trade connections would seem to be sensible.

Second, politically speaking the US is Australia’s closest ally, an alliance which goes back to at least WWII. Since then Australia has remained linked to the US through ANZUS since

1951, joined the US in its coalition in Iraq and cooperates closely with the US on defence as well as anti-terrorism matters. This defence linkage puts the Australian government in a difficult situation when negotiating closer connections with Asian countries, a fact which became evident in the ASEAN Summit in Vientiane in November, 2004, when John Howard expressed reluctance to sign ASEAN’s Treaty of Amity and Cooperation.

This is not to say that all Australians favour this linkage. The close association with the US is questioned both at home and abroad. The anti-war demonstrations over Australian involvement in Iraq highlighted domestic discomfort. At the same time, for example, Singapore’s PM Lee Hsien Loong, has called on Australia to not forget its ties with Asia in pursuing its American interests. Moreover, ties to Southeast Asia are also important for Australia in combating terrorism, and ASEAN itself is developing an ASEAN Security Community for this purpose.

Where does this leave Australia in terms of its connections with ASEAN?

ASEAN countries are certainly becoming increasingly important in terms of export destinations. In the area of merchandise trade, between 1991-92 and 2000-01 growth in these markets were as follows: the Philippines (191%), Thailand (172%), Malaysia (127%), Indonesia (92%) and Singapore (88%). The change for Vietnam, at 898% was particularly high, but starting from a much smaller base than the others.

Naturally there are winners and losers with respect to an FTA with ASEAN. Australia is fortunate in dominating particular resource markets, though this does raise the question of the value of an FTA in these areas. On the other hand, freer trade does allow for broader economic development in Australia though it must be coupled by a willingness for structural change.

34 Comparatively, Japan did not increase substantially, at 61%, though the base amount was, of course, very high. South Korea increased 174% and Taiwan 133%. Of the major regional powers, trade with the USA increased 123% and China 370%. Given that the average increase over the decade was 117%, it is clear that trade with China is increasingly important for Australia.

Conclusion

The ASEAN countries are important trading partners for Australia. They account for about 500 million people and a GDP of US$676 billion. While Australia’s trade with ASEAN has been limited (2% of ASEAN’s merchandise imports and 15% of services imports), Australia does have significance in particular sectors. A closer trade association would enhance Australia’s access to these markets while ASEAN countries would also benefit through greater market access as well as improved technical training. Total ASEAN trade is worth about US$700 billion. This agreement would aim to double the Australia-ASEAN level of trade – currently at US$40 billion.

A closer relationship, along with improved trade associations between Australia and China, and ASEAN and China, would help to integrate the increasing economic power of China into regional trading systems. At the same time, ASEAN must pursue a freer trading system in order to compete with China as a destination for foreign investment.

Australia certainly has old problems to deal with, based in the contradiction between its culture and geography, its trading systems and its political loyalties, and its reliance on primary products for exports. Changing economic circumstances and trading frameworks in Asia will reinforce the latter but put increased pressure on the former.

In the changing trade dynamics of Asia, however, Australia will be provided with new possibilities for economic growth and development. Trade is critical for economic development and employment in Australia. The recent potential for closer linkages with ASEAN is one such new opportunity.

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